



Centre for Local  
Economic Strategies

# briefing

## What does the economic downturn mean for local economic development and regeneration?

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### Introduction

The last few weeks of policy press have been littered with suggestions as to what the economic downturn and inevitable recession means for macroeconomics; that is, the national and global money markets and the productivity and output of our industry and particularly financial services. Indeed, the review presented by Professor Michael Parkinson at the Regeneration and Renewal Northern Conference in October was heavily focused upon continuing forward the regeneration and local economic development principles of the last ten years, ensuring macroeconomic stability through investment in the commercial economy and ensuring subsequent trickle down of funding to our most deprived towns and cities.

CLES would, however, argue that the economic downturn is having, and will continue to have, a wider impact upon micro-economies and in particular the regeneration, local economic development and wider local government sector than has been detailed to date. Specifically, economic downturn and recession renders many of the policies of central government, implemented at the local level, unfit for purpose as local challenges and priorities change. The classic example is worklessness and unemployment. In recent years, millions of pounds of public sector investment has focused upon brokering employment support and opportunity for those claiming incapacity related benefits, resulting in thousands of projects and programmes at the local level. Yet with the economic downturn bringing with it increasing unemployment, challenges with regard to employment support and brokerage change, to accommodate a new set of claimants. This has an impact upon not only the viability of worklessness projects, but also moves workless individuals further away from the labour market as other more skilled individuals enter it.

This challenge of accommodating worklessness projects in a new era of unemployment is just one of the many challenges facing officers working in the fields of regeneration, local economic development and local governance across the UK. This briefing firstly, seeks to provide commentary on some of the challenges facing our sector in the current economic climate and secondly, presents some suggestions as to what local authorities and, indeed, central government could do to respond.

## Challenges for local government

The economic downturn places significant pressure upon local government, particularly from a financial perspective. The 2008-2011 settlement for local government as announced in the 2007 Comprehensive Spending Review<sup>1</sup> has already been described as 'the worst in years', meaning that effectively local authorities have less money to deliver public services to their residents. Economic downturn intensifies the pressure of this poor settlement and as such presents local government with a number of challenges:

### ***Key Challenge 1 - lack of finance***

The economic downturn further stretches already diminishing town hall financial coffers. There is talk of potentially needing to revisit the 2007 Spending Review settlements and reduce funding for local government in order to balance up the national treasury. This could have key implications including job cuts in local authorities and reduced spending upon public services. This lack of finance has also been exacerbated by the collapse of the Icelandic banking system with many local authorities having investments and savings in this system. This will have impacts upon service delivery at the local level.

### ***Key Challenge 2 – a renewed efficiency drive***

Since the Gershon Review of 2004<sup>2</sup>, there has been a key drive in local government to cut costs and deliver efficiency savings. Over the last three years, local authorities in England have saved £3.45billion in efficiency terms. The economic downturn, however, puts increased pressure on public finances and thus, increased pressure to deliver more efficient public services. Over the next three years, local authorities are expected to save a further £4.9billion or 3% a year. The focus upon efficient public services has implications for delivery. Efficiency may well come at the expense of effectiveness and quality as costs are cut. Local authorities need to ensure that public services are both cost efficient and socially and economically effective.

Other potential challenges for local government as a result of economic downturn include:

- ❑ a greater need for cross authority service collaboration (shared services) in order to cut costs rather than it just being an option;
- ❑ more outsourcing of services as authorities seek to cut delivery costs.

Local authorities, therefore, will increasingly have to demonstrate their local and national economic value, detailing their value for money and efficiency. This questions the extent to which public services can be truly user led and personalised as suggested in the public service modernisation agenda.

## Challenges for public services

In addition to reductions in public spending, local authorities also face pressure from the rising cost of delivering services as a result of the economic downturn.

There are, therefore, key challenges facing those delivering public services:

### ***Key Challenge 3 – rising costs***

The rising cost of delivering public services as a result of economic downturn has a number of implications. Firstly, at the local level it may lead to service cut backs in key areas such as social services. This places the most vulnerable in society at risk. Secondly, the cost of delivering services by the private sector as part of outsourcing will also

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<sup>1</sup> HM Treasury (2007) Meeting the aspirations of the British people: 2007 Pre-Budget report and Comprehensive Spending Review. London: HMSO

<sup>2</sup> Gershon, P. (2004) Releasing resources to the front line: Independent Review of Public Sector Efficiency. London: HMSO

increase. Outsourced service deliverers may well require more investment from local government to efficiently and effectively deliver public services. Rising costs may also lead to the closure of privately owned care homes for example, increasing the demand for places at publicly run care homes.

Other potential challenges for public services as a result of the economic downturn include:

- ❑ questions over the sustainability of funding from the private sector for Private Finance Initiative projects and other public private partnerships;
- ❑ decline in public service funding as part of a potential review of spending settlements.

### **Challenges for local economic development**

Economic Development departments are likely to be amongst the busiest in the local authority as a result of the economic downturn. Local economies face a number of challenges as economies decline and subsequently begin the process of restructuring. These challenges relate primarily to unemployment, investment and the focus of strategy:

#### ***Key Challenge 4 – rise in local unemployment***

As mentioned at the outset of this briefing, unemployment is on the rise in virtually all local economies in the UK as a result of the economic downturn. This places a significant challenge in the hands of local economic development practitioners and other public, private and third sector jobs brokers in that the focus of contemporary policy is all about supporting those who are furthest from the labour market into employment and training. Jobs brokers and the welfare system will face renewed spending challenges as unemployment rises. This may well lead to workless individuals slipping further and further away from the labour market as they fall behind more skilled individuals in the jobs queue. One sector particularly hard hit by the economic downturn is construction. This is an area in which worklessness and skills development projects have been specifically targeted in recent years, meaning that up-skilling may not necessarily mean a job, in the current economic climate.

#### ***Key Challenge 5 – access to employment and skills for specific groups***

Workless individuals are not the only groups that will move further from the labour market as a result of the economic downturn. Younger people Not in Education, Employment or Training (NEET) will face a renewed challenge to get involved in the labour market. Additionally, with public spending tight as a result of downturn, there may be cutbacks in expenditure upon skills development programmes for example, as spending is focused upon output and the wider economy.

#### ***Key Challenge 6 – a new place challenge***

Early indications suggest that the sectors hardest hit by the economic downturn include financial services and construction. In the UK over the last thirty years as manufacturing has declined, financial services and knowledge based industries have come to the fore in many towns and cities, particularly in London and the wider South East. The decline in employment in financial services and the closure or restructuring of financial industries presents a significant challenge for the economic viability of some places. Indeed recent research undertaken by the Organisation for Economic Co-operation and Development (OECD) into the local authorities most at risk from economic downturn, suggests authorities such as the City of London, Tower Hamlets, Milton Keynes and Westminster; authorities which have based their economy upon inward investment and financial services or which benefit from the trickle-down effects of financial services.

#### ***Key Challenge 7 – revise strategies for economic growth***

Over the last ten years whether it be Barrow-in-Furness or Barnet, an important element of local economic development strategies has been based on securing inward investment

to boost local economic growth and local employment. With global economic downturn come reduced opportunities for new inward investment in the UK and into regional and local economies. Similarly, a great deal of local economic development has been focused on property led economic growth, which is also in jeopardy from downturn in the property market. Local authorities will need to revisit their strategies and come up with alternative ideas as to how they can continue to strengthen and develop their economies, even in a period of economic downturn.

***Key Challenge 8 – the sustainability of small business***

Small businesses offering bespoke products or services are also at threat from economic downturn as they struggle to raise capital and sell their products and services in a shrinking consumer economy. Small businesses exporting high value goods and components will also be hit by turmoil on the global financial market and reduced demand in other countries. They will also be doubly hit by increases in energy prices. In addition, reductions in public spending could lead to cuts in business support and development programmes at the local level.

Other potential challenges for local economic development as a result of economic downturn include:

- ❑ private sector led jobs brokerage schemes unable to cope with the increasing demand of unemployment;
- ❑ cuts in investment and large scale capital infrastructure projects in localities;
- ❑ uncertain future for local revenue raising schemes.

There is, therefore, a greater need for local authorities and local economic development departments to understand their local economies and respond quickly to ensure that their economies become, and remain, resilient. This will require understanding and consideration of both the commercial and public economies, as well as the social economy.

**Challenges for regeneration**

In July 2008, the government released consultation on a new Regeneration Framework<sup>3</sup>, which had economic issues and development at its heart. Whilst the emphasis upon the economy in regeneration is welcome, the episodic and narrow nature of the Framework is not. It takes no real account of the need to reshape regeneration as economic climates change; it fails to commit to new public funding for regeneration; and it continues to present the premise that regeneration should be investment led rather than public spend and public sector led. In short, it does not appear to recognise that approaches to regeneration and investment for regeneration will need to bend as the economic downturn deepens. With this new framework come a series of other challenges for regeneration:

***Key Challenge 9 – widening inequality gap***

Economic downturn presents a significant challenge to those already living in deprivation and poverty, particularly as public sector regeneration programmes are cut or scaled back. Reductions in public spending will also mean reductions in public services, probably hitting hardest at the most marginalised in society, with poor existing access to services. This will intensify the cycle of decline in many of our most deprived neighbourhoods.

***Key Challenge 10 – unravelling of physical regeneration projects***

The government has implemented a number of programmes and projects in recent years, which have had community regeneration impact and legacy at their heart. These have included the Building Schools for the Future programme and the London Olympic Games

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<sup>3</sup> Communities and Local Government (2008) Transforming places: changing lives – a framework for regeneration. London: HMSO

for 2012. However, as costs of delivering these projects increase as economic downturn bites, the extent to which legacy is ensured may well decrease. Indeed, Building Schools for the Future is already behind schedule in many localities as a result of the impact the economic downturn is having upon the cost of construction.

Other potential challenges for regeneration as a result of the economic downturn include:

- ❑ the undoing of social and community cohesion work;
- ❑ increased levels of homelessness as a result of repossessions.

### **Challenges for housing**

The housing market is one of the well-documented casualties of the economic downturn. The downturn has already led to increasing repossessions, falling prices but a lack of demand, and a decrease in building and construction. It also presents a number of significant challenges for strategic housing departments and housing associations including:

#### ***Key Challenge 11 – the supply and demand of housing***

The economic downturn provides a number of challenges for the supply and demand of housing, particularly in the social sector. The growing number of repossessions and unaffordability of private housing increases demand for social housing and increases the workload of housing associations. This demand, however, is not being matched with supply due to the significant slowdown in social house building programmes. Related to this is the crash of the city centre flat and apartment market as developers struggle to finish projects. There will be a potential need for housing associations to rescue city centre flats and put them to use for social housing purposes.

#### ***Key Challenge 12 – the viability of housing market renewal and growth programmes***

Since the 2003 Sustainable Communities Plan significant amounts of regeneration funding has been invested in the Housing Market Renewal and Housing Growth Programmes. These programmes have sought to increase demand for housing in the North and Midlands and increase supply of housing in four areas in the South of England. The economic downturn and the associated problems with the construction trade places the timeline and completion of some of these schemes in doubt, as is already happening in Corby, Northamptonshire. New build schemes will struggle to find demand for housing as financial markets waver and unemployment rises.

### **Challenges for the third sector**

The Government in recent years, through the formulation of the Office of the Third Sector and through several policy documents, has sought to highlight the value of the third sector as local service deliverers and as contributors to local monetary and social economies. The economic downturn places a significant number of challenges upon the vitality of third sector organisations:

#### ***Key Challenge 13 – cost to the third sector***

The economic downturn will have a number of cost implications for the third sector, particularly with regard to premises, running costs, staff costs and overheads. It may also mean for those organisations delivering public service contracts an increase in the cost of delivery against initial tendered costs, leading to a shortfall. The economic downturn will also mean reductions in donations made to third sector organisations from individuals and private sector companies, again threatening their cost vitality.

***Key Challenge 14 – demand for third sector services***

The economic downturn may well increase demand for bespoke and personalised third sector services such as health and care, and in particular mental health services. Also demand for third sector delivered employment projects may rise. This rise in demand is, however, unlikely to be matched with new grants for the third sector. Instead, the third sector will have to become more competitive in contracting and commissioning processes.

Other potential challenges for the third sector as a result of the economic downturn may include:

- ❑ greater demand for grants;
- ❑ increase in the number of mergers of third sector organisations;
- ❑ reductions in the viability of social enterprise type organisations.

**What can local government do to respond?**

The above commentary has suggested that there are a significant number of challenges that local government faces as a result of the economic downturn with regard to: public service delivery; local economic development; regeneration; housing; and third sector sustainability. There are however a number of activities that local government could, and should, begin to undertake to respond:

***Press ahead with economic assessment and restructuring of economic strategy***

Despite legislation for a statutory Economic Assessment Duty, as detailed in the Review of Sub-National Economic Development, not having yet passed through Parliament, local authorities should adopt the principles of this duty to understand and begin to assess the resilience of their economy to economic change. CLES believes that resilience should be looked at through the lenses of the public and social economy, as well as the traditional focus upon the commercial economy. They should look at the areas of the local economy that are particularly strong and areas of key vulnerability. They should use this assessment as a basis of restructuring the format of local economic strategies to respond to contemporary economic and environmental challenges rather than the current focus upon inward investment.

***Evaluate the physical aspects of your economy***

The economic downturn to date has hit hardest the physical aspects of local places particularly, as highlighted earlier, the housing and office building sectors. Repossessions and a stagnant housing market have led to a swathe of empty properties, particularly city centre apartments. In some areas, regeneration projects have been based on the development of property led regeneration, particularly retail and service sector. This strategy may not be viable in the future and will have to be revised. There is an opportunity for local government to be innovative in responding to this oversupply in partnership with stakeholders such as housing associations. Local authorities may wish to consider public financing options for city centre housing as has been the case in Edinburgh and in parts of Northern Ireland, where local authority mortgages have been offered and the stock has also been used for social purposes.

***Rethink inward investment as a priority***

Many local areas in the last ten years, in coordination with economic boom and globalisation, have utilised inward investment as a key aspect of local economic strategy and as a driver of local economic growth. However, in changing economic times, inward investment is in decline and local authorities should act accordingly to rethink investment strategies. They should look at revising target sectors for new investment and investigate new areas of economic development. A rethink may be required around centring economies upon the service sector, and rather upon specialist manufacturing and environmental businesses for example.

### ***Collaborate with the business and third sectors***

Local authorities should, through existing governance mechanisms such as Local Strategic Partnerships, Local Area Agreements, the Compact, and Business Forums, build up a renewed dialogue with the local small business and third sectors. This could be done through third sector infrastructure bodies and Chambers and Commerce, but must seek to determine concerns about the economic downturn and what stakeholders feel local authorities should be doing to provide support. Perhaps local authorities could provide a forum for discussing the issues and, at the same time, offering business support.

### ***Value the public economy***

In many localities in the United Kingdom, particularly those hardest hit by previous economic restructuring, the public economy is often the biggest source of employment and local economic investment. The public economy offers something of a bulwark for these local economies as a result of employment and supply chain patterns. Supporting local suppliers and local employees can have knock-on effects for local economies in terms of multipliers and the circulation of monies locally. Local authorities should look to undertake analysis of their supply chain and employee local economic impact and spend through use of models such as Local Multiplier 3 (LM3)<sup>4</sup>. This could enable them to more effectively shape procurement decisions and bend service delivery to respond to economic downturn.

## **Conclusion**

It is clear that local government, and in particular local economic development and regeneration, face a number of growing challenges when it comes to the economic downturn. They can respond to these challenges by beginning to implement some of the activities suggested above and through responding to, for example, the Communities Secretary Hazel Blears' letter<sup>5</sup> to local authorities encouraging them to take advantage of the powers of the Sustainable Communities Act (2007). In the letter, Blears calls for "assumptions about power" to be turned "upside down". Local authorities, in consultation with local partners and communities are being invited to present to central government what ideas they have and the powers they need to address issues in their areas such as climate change, strengthening the local economy, and increasing social inclusion.

CLES is particularly interested in how local authorities can use these types of opportunities to respond to the economic downturn. However, in order for local authorities to be able to respond effectively to the challenges of downturn, CLES believes that central government also need to detail what they are prepared to do to support local government and the powers they are prepared to give away in times of economic change. There are several areas in which CLES believes central government need to provide the real flexibility required to improve local economies and local places.

- ❑ central government needs to change the belief that it cannot give away tax raising powers to local authorities. There are opportunities from allowing local authorities to develop and implement their own fiscal policy as it helps to provide a strong framework of carrots and sticks with which to develop and deliver on policy. Why not enable greater spending upon transport infrastructure, for example, from revenues raised locally?
- ❑ welfare policy, welfare reform and welfare delivery remain extremely centralised or embedded in Jobcentre Plus. Why not give local government the power to develop their own localised systems of welfare, based on the general principles being espoused by government in the Welfare Green Paper?

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<sup>4</sup> Association for Public Service Excellence and Centre for Local Economic Strategies (2008) Creating resilient local economies: the economic footprint of public services. Manchester: APSE

<sup>5</sup> Communities and Local Government (2008) Secretary of State's formal invitation to local authorities to submit proposals under the Sustainable Communities Act 2007.

- ❑ central government should reduce the extent to which it micromanages the process of Local Area Agreements and Multi Area Agreements from Whitehall and give local authorities and areas the real freedom to develop the general principle of partnership and local delivery in a way that suits their area best. Why not further reduce the number of indicators local authorities and partners are required to report upon, thus enabling more locally reflective indicators?
- ❑ central government should also consider giving up on their belief in non-accountable local health where local health is isolated from democratically accountable council members. To enable effective and integrated regeneration and local economic development, health should be much more closely linked to local democratic process and delivery.
- ❑ central government should re-examine their belief that the market is the most effective way of directing investment and instead own up to the limitations of market economics in being able to make decisions about public service investment. Why not, as is the case in some European States, enable residents to make decisions about the spend of council taxation such as, for example, 1% of council tax, to be spent on supporting community organisations and assets? This would support the validity and sustainability of third sector organisations at the local level.
- ❑ central government should provide greater flexibility at the local level to respond to housing market stagnation. Why not enable greater local flexibility to tackle issues such as homelessness through enhanced negotiations with developers? For example, in some cities where there is oversupply of apartments/offices, the local authority or housing associations could consider renting/buying this property so that it can be re-rented back to people on social housing waiting lists or who have become homeless. This practice is already evident in Scotland, where Edinburgh Council is buying homes which developers are unable to sell and offering their own mortgage scheme.
- ❑ central government should through community benefit clauses re-examine the impact of the procurement process upon local economies. Why not investigate EU Procurement Law to ensure that we can allow local authorities greater flexibility in procurement to allow them to contract to local small businesses and social enterprise for local economic benefit?

**Briefing** 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, Bulletin and Rapid Research 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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