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Centre for Local Economic Strategies

bulletin

£6.2 billion Spending Cuts

Implications for Economic Development and Regeneration

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INTRODUCTION

The new coalition government is barely three weeks old, but already it feels as if the policy landscape is shifting. At this stage it is hard to know what the implications of these changes, and the government's £6.2 billion cuts, will be for economic development and regeneration. This Bulletin attempts to shed light on some of the early messages and what the implications might be for economic development and regeneration.

Spending Cuts

Spending cuts were announced by government on the 24th May. The messages from government, however, only provided part of the picture. The headline figures are clear but the detail on how the cuts would cascade down, by department, to initiatives and to local government is still uncertain and has led to a frenzy of uncertainty within the sector and the media about the implications. Over 20% of the budget for Communities and Local Government has been slashed, with local government shouldering much of the weight of these cuts, £1.165billion taken out of individual grants to local authorities. However, we do not yet know exactly which government grants to local authorities will be affected and how the cuts will cascade down to local councils and their services; presumably this will start to trickle out of Whitehall over the next few weeks and months. Meanwhile local councils are gearing themselves up to make some difficult decisions on how they will deliver these cuts and the decision making process which they should use to prioritise spend in their budgets this year and into the future. The Young Foundation has produced an interesting paper on this issue 'Innovation and Value New tools for local government in tough times'. The paper echoes CLES' view that what we need is cuts with a plan, with a clear decisions making process.

The Queen's Speech – future priorities

The Queen's Speech on the 25th May set out the Coalition's plans for the future and there were a number of key areas with particular importance for local economic development and regeneration over the coming months:

- **Airport Economic Regulation Bill** – exploring the competitiveness of UK airports;
- **Decentralisation and Localism Bill** – giving local councils greater powers over housing and planning policy and the dissolution of the Regional Spatial Strategy;
- **Energy and Green Economy Bill** – promotion of greater energy efficiency and low carbon energy production;
- **Public Bodies Bill** – exploring the future of non-departmental government bodies and deciding on which organisations should be abolished;
- **Welfare Reform Bill** – creation of a single welfare to work programme and greater conditionality of benefits to willingness to work.

For economic development, areas from the Queen's Speech to watch in particular over the coming months include the future of Regional Development Agencies and the formation of Local Enterprise Partnerships and the progress towards a single welfare to work benefit. The latter has particular implications for employment programmes and worklessness interventions and the way in which the government plans to use the opportunity of the green economy to generate new investment, jobs and economic growth.

Implications for economic development and regeneration?

At the moment, it is difficult to say with any certainty what the cuts will mean for the sector and opinions vary enormously about how cuts will impact on the ability of local authorities to tackle economic and regeneration challenges in their locality. In many ways, it could be argued that the coalition government's current plans speed up the general direction of policy travel which was being taken by the Labour government in relation to regeneration and economic development, particularly when you consider welfare reform.

Reduction in funding for economic development and regeneration

What we can say with some confidence is that the range of grants available to local councils for specific initiatives such as Working Neighbourhoods Fund and Future Jobs Fund will be cut even sooner than was originally envisaged. This means that economic development and regeneration departments will have to explore how they can continue tackle the challenges in their areas with less dedicated money from government. Local authorities are shouldering a large part of the cuts with £1.165billion to be removed from local government budgets through the individual grants given to local authorities, as opposed to the formula grant (the main grant from central government to local authorities). The government have also said that although councils will have less money, they will be given more flexibility to manage the funding they do have with the removal of ring-fences around grants. Regional Development Agencies (RDAs) are also having to make cuts, almost £270million on "lower value spend" is to be removed from RDA budgets in 2010/11. There have also been reports of funding reductions for the Homes and Communities Agency (HCA).

The implications of this for local government are significant. Firstly, reductions in specific grant programmes like Future Jobs Fund and Working Neighbourhoods Fund means that the ability of local government to tackle long term unemployment will be weakened and councils will have to think creatively about how they can solve these challenges by using the money that remains for other services. What will fill this support vacuum for the long term unemployed in our communities, particularly with the fresh impetus being given to welfare reform? Big Society or big business? Local government will also need to decide whether they use their new flexibility to support long term challenges like worklessness and poor health, originally funded through government grants.

Potential impacts of funding cuts on the private and third sectors

The media hype about these cuts and the misconception about the nature of public finance today, means that often it appears that this is just about the public sector feeling the pain. However, the nature of public finance in the UK today means that the destinies of the public and private sectors are much more interrelated than has hitherto been the case. The reduction in public spend in local government will have to come from, amongst other things, contracts held by private and third sector contractors. The multiplier impact of this on local employment, and loss of income to the local economy, will be significant. CLES research in Manchester showed just how significant public expenditure can be for local economies. Recent CLES analysis of the supply chain showed that for every £1 spent with suppliers to Manchester City Council, 25 pence was re-spent in the Manchester city economy upon suppliers and employees. You can read more about CLES' research on procurement in 'Making the most of public sector spend: Procurement as local economic activism'.

Increasing vulnerability of economic development and regeneration departments

Perhaps the most worrying aspect of the cuts for the sector is the increasing vulnerability for local authorities' economic development and regeneration departments, due to their 'non-statutory' status. As such, they may be on the hit list where councils are forced to make big cuts. This may be particularly the case in those authorities which consider themselves to have smaller concentrations of deprivation and higher economic output. However, in a post-recession climate, economic development and regeneration services are more important than ever in order to help boost economic growth and support the development of an effective and skilled labour force for the future. In addition, regeneration can play a crucial role in tackling widening levels of inequality which has come to represent one of the biggest challenges for the sector in the future. The vulnerability of services means that there is greater need than ever before to work creatively across sectors and borders in order to explore new ways of tackling the challenges our communities face.

Rising inequality in our communities

The cuts may also threaten to further acerbate spatial inequality in that the effect of cutting individual grants to local authorities could mean less resources for those communities who need most help at the current time. In addition, cuts to public services will disproportionately affect those areas with the highest number of public sector employees (including employees of private sector companies with contracts to deliver public services) pushing public sector employees, often on low wages, into unemployment with little other option for long term employment. Lessons from previous recessions tell us that making these types of cuts can condemn many communities to continued and worsening levels of poverty. The government are hoping that the idea of Big Society will go some way towards tackling inequality and perhaps therein lies an opportunity for local government to re-interpret Big Society for their locality. For example, in starting to consider how the key elements of the concept, social action and community responsibility, already resonate with their work in communities.

Renewed emphasis on skills and education for 16-19 year old agenda

The government has placed a welcome emphasis on education, skills and the Sure Start programme. The emphasis on Sure Start is an indication of the government's eagerness to support early interventions which can help to take children out of poverty and support parents back into work. Whilst the cut to Future Jobs Fund hints at a change of direction, with a refocusing away from the 18+ towards the 16-19 year olds agenda, perhaps to ensure that these young people are ready to enter the labour market when the recovery finally starts to take effect. This is a key issue for the government as research from the Prince's Trust and Sheffield University, 'The prospects of this year's school leavers', has illustrated the disproportionate way in which young people have suffered in the current recession This work has suggested that one in five of 2009's GCSE cohort will be claiming Job Seekers Allowance (JSA) by the time they are 21 years old.

Changes to the governance of economic development and regeneration

In addition to cuts in funds, we are also seeing a shakeup of governance structures and for our sector, the 'reshaping' of Regional Development Agencies to 'Local Enterprise Partnerships' is likely to reawaken the debate about the best level at which to do economic development . This could impact on attempts to support economic development and grow the demand for labour, particularly in those areas which have suffered disproportionately in the recession. However, greater powers for local authorities for planning and housing are welcome and suggest a definite step in the right direction in terms of devolving more powers and responsibility to local councils.

Further disruption to council departments and delivery

The re-juggling of council budgets in this current financial year will be a key challenge in itself for councils which is likely to cause widespread disruption and upheaval and it is difficult to see how it will be achieved without damage to front line services, no matter what your definition is of 'front line'.

In addition, what about the link between local government services and making progress on some of the key priorities for our communities? What do these cuts say about the Local Area Agreement, are we seeing the end of the national indicator programme and what will happen to the role of Local Strategic Partnerships? If this is the death knell for national indicators, we will still need some system for understanding the impact of regeneration and economic development. This is a question we have been considering at CLES for some time with our new work on place resilience, the results of which are beginning to bear fruit. You can read about CLES' research on resilience in 'Towards a new wave of local economic activism: the future for economic development strategies'. What this research tells us is that we need a much more effective, nuanced method of understanding the nature of resilient places and how they are impacted by private, public and social sectors.

How will central departments choose which grants to cut?

At the moment, these thoughts are still speculation but they start to indicate the types of impact that decisions at a national level can have for the health of local communities and economies. The big questions still remain as to the way in which central government departments cut the grants to local government and the decision making process they employ to make these decisions; and at the other end, how local government chooses to implement these cuts locally and the degree to which they stand by the priorities and challenges that individual areas will still face, whether the money is there to tackle them or not. CLES will be watching the current agenda with interest and will continue to work with our members and wider network to consider what these changes will mean for economic strategy and delivery.

The implications of the current changes for economic development and regeneration will be a key theme for discussion at our annual Summit *Resilient places: The future for local economic development* on the 13th and 14th July in Manchester. You can find full details on the summit on the CLES website www.cles.org.uk/summit2010

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