CLES
Centre for Local Economic Strategies

rapid research

# Local authority responses to economic downturn


***Rapid Research 14***
***Authors: Jessica Arnold, Senior Policy Researcher, and Jessica Smith, Policy Researcher, Centre for Local Economic Strategies (CLES), 0161 236 7036, jessicaarnold@cles.org.uk, jessicasmith@cles.org.uk***


---

## Introduction

International financial crises have created shock waves across the global economy, causing economic downturn, recession and high unemployment in the UK that commentators estimate will last throughout 2009 and beyond. This has massive implications at local level – as local businesses, local jobs, local communities and local people are all set to lose out – many are losing out already as the crises have had very real negative impacts to date, including business insolvencies, development freezes, job losses, and home repossessions. Local authorities therefore face a huge challenge in dealing with these negative outcomes and trying to support people and business through the very difficult times ahead.

This Rapid Research provides an insight into the effects of downturn on local authorities and local areas, and crucially, how authorities are responding to the problems that have arisen or worsened over the last year. This has included both primary research with local authority practitioners by telephone interviews and a focus group, concentrating on the North West as a regional case study, and secondary research through reviewing the ideas and comments of the Local Government Association and CLES' own work in this area. We have identified the key emerging issues for local government and concluded with our thoughts on what the economic downturn could and perhaps should mean for the way that economic development and regeneration is approached in the future, from local authorities right up to global institutions.

## Context

From late 2006, a series of crises have hit the world's financial systems, deeply affecting local, regional, national and global economies:

- the housing crisis, including the shortage of housing in the UK, proliferation of sub-prime mortgage lending and nationalisation of America's two largest mortgage lenders;

- the banking crisis, including nationalisation of Northern Rock in February 2008, recapitalisation of RBS and Lloyds / HBoS by the UK Government, collapse of the global investment bank, Lehman Brothers in September 2008, and collapse of the Icelandic banking system;
- the 'credit crunch', making fewer loans available and increasing the cost of lending due to higher interest rates.

The result of these interrelated crises has been a global economic downturn as growth rates have slowed, stagnated or become negative, leading to recession in some countries including the UK. Symptoms of the downturn have, and will continue to include rising energy and food prices, soaring unemployment figures, volatile inflation rates, growing national debt, increasing numbers of home repossessions, and bankruptcy of many Small and Medium sized Enterprises (SMEs). Other threats include an increase in national and global inequality and poverty levels, and neglect of the climate change agenda.

### *Impacts on the UK*

The economic downturn has been far more severe in the UK than anyone expected when problems first began. While estimates of its duration have been variable (the Treasury's Pre-Budget Report predicts recovery after the first half of 2009), a report by the Confederation of British Industry (CBI) released in mid-November predicts that recession will persist throughout 2009 with recovery beginning in 2010.[1] The report estimates that the economy will shrink by 0.8% between October and December 2008 followed by three subsequent quarters of negative growth until late 2009.

In addition, unemployment has boomed to 1.79 million people, with 164,000 people losing their jobs between June and August 2008, resulting in a 5.7% unemployment rate[2] - the highest since early 2000. The CBI report also predicts that due to the likely length and depth of recession, unemployment could peak at 2.9 million people by 2010, with 2 million people finding themselves out of work before this Christmas and the unemployment rate rising to 6.5%.[3]

National debt has increased greatly during the financial crises, now totalling nearly £600 billion – a sum that will take decades to pay back. In September 2008, public sector borrowing exceeded £8 billion, compared with £4.8 billion in the same period a year earlier, bringing the amount of money borrowed in this financial year to 37.6% of Britain's gross domestic product. While this figure is still lower than it was in 1997, when debt amounted to 44% of GDP, and lower compared to France (55.5%), Germany (56.1%) and Japan (94.3%), the figure is likely to grow as the Government has announced a Keynesian approach to tackling the downturn by 'pump priming' large infrastructure projects with public (borrowed) money.[4]

### *Impacts on the North West*

The impacts of the economic downturn on the North West region have increased the risk to many of our areas of persisting deprivation and negative economic and social outcomes. A recent report from the North West Regional Intelligence Unit (NWRIU) confirms that the recession in the North West is likely to be "*similar in scale to 1990-92*".[5] Rising unemployment in the North West has resulted in a total of 221,000 unemployed people – 14,000 of whom lost their jobs between June and August 2008. The total number of unemployed was 19,000 higher than a year earlier and has led to the rate of job losses in the region exceeding the national average rate.[6] Sectors that are particularly

---

[1] CBI revised economic forecast, 17th November 2008

[2] Note that this is unemployment rate, i.e. a measure of benefit claimancy by the registered unemployed, and does not reflect the growing numbers of economically inactive and workless people who do not claim employment related benefits.

[3] CBI revised economic forecast, 17th November 2008

[4] Keynesianism is based on the principle that the State can stimulate economic growth and improve stability by strategic public spending, reducing interest rates and altering the tax system. Far from being lip service, this Keynesian approach has manifested as the lowering of VAT from 17.5% to 15% for one year commencing 1st December 2008. Also the development of the A11 trunk road through Suffolk and Norfolk was named as the first large-scale project to be brought forward by the Department of Transport, announced on 18th November 2008.

[5] NWRIU Monthly Economic Update – November 2008, p.1

[6] Labour Force Survey, ONS, September 2008

vulnerable to job losses in the North West have been identified as manufacturing, finance, construction and retail, particularly automotive retail.

The property market also faces serious problems in the North West as a result of economic downturn. The average house price in the North West fell by 2.4% on the previous year to £158,913 (although this rose by 1.5% on the previous quarter).[7] This compares with a national average of £224,064. There is significant spatial variation across the region however; in Greater Manchester, the average house price was reported as £124,808; in Liverpool, the figure is £116,889; and in Blackpool, the average house costs £105,439. Additionally, levels of market confidence in the North West have declined, as the number of house sales dropped 37.5% since July 2007 and the value of residential land fell by 13.8% between January and July 2007 – the first decrease in land value in the region since 1996.[8]

Also symptomatic of the ongoing financial crisis, the number of repossession orders made in the North West rose by 11% since 2007 in the first two quarters of 2008, with some areas experiencing increases in repossessions of more than 50%.[9] The demand on social housing has rocketed across the UK due to the housing and credit crises, with over 500,000 people on social housing waiting registers in the North West alone.[10]

These problems have enforced a revision of property-led regeneration schemes; led to a loss of jobs in the building and construction sectors; and threatened employment and training programmes that aim to tackle worklessness through improving construction-related skills. As the downturn continues and deepens, as it is predicted to do so, the inequality gap is likely to grow and deprivation worsen in some of the regions poorest areas, with less funding being made available for regeneration schemes and the third sector experiencing considerable barriers to effective delivery and their own viability.

As a response to the downturn in the UK's regions, the Government has established a new Regional Economic Council to manage the crises regionally. From the inaugural meeting on 5th November 2008, and convening quarterly thereafter, the Council is comprised of the regional ministers, RDA chairpersons and representatives of businesses and trade unions. The Council supports the National Economic Council and is chaired by the Chancellor of the Exchequer and Secretary of State for BERR. The broad remit of the Regional Economic Council is to:

> "*Drive regional action on issues that impact upon the national economy and provide feedback on national policies and priorities; and galvanise coordinated action between central government and regional partners to address key issues*".[11]

### *Challenges to local authorities*

The economic downturn will be felt acutely by local government as well as at national and supra-national level. Local authorities are faced with a number of challenges to their ability to deliver services effectively and strengthen local communities and economies, not least the reduction in funding available to authorities. A recent estimate by Deloitte reported that councils will have a 6%-7% reduction in their funding for next year,[12] due to the combined impacts of:

- reduced income due to lower council tax receipts as more people become eligible for reprieve, lower business rate income as businesses fold or become VAT de-registered, less income from land sales and planning applications, less availability of grants from central government, and increased caution of senior officers to spend;
- expenditure pressures such as inflation, increased pension liabilities and PFI projects collapsing, threatening regeneration schemes that have been consulted on and promised;

[7] Land Registry of England and Wales, July – September 2008
[8] RFA1 Housing and Regeneration Evidence Paper, 4NW, November 2008
[9] Data from the Ministry of Justice, 2008
[10] Reported by the BBC, October 2008
[11] Cited from http://www.hm-treasury.gov.uk/press_116_08.htm
[12] Reported by Deloitte at the LGA Credit Crunch Summit, 17th November 2008

- increased demands on public services, such as council housing, housing benefits, debt advice and aid, and adult social care.

In addition to this,

- budgets for Regional Development Agencies and local authorities have already been cut significantly following the Comprehensive Spending Review (CSR) 2007 for the next three years from 2008/09;[13]
- the pressure to meet Gershon efficiency savings of 3% may result in some authorities losing up to 10% of their funding;
- 123 local authorities had a total of £919.6 million deposited in the Icelandic banking system prior to its collapse in September. This money is now officially 'at risk' and the likely rates of recovery are still largely uncertain.

Local government will find the impacts of economic downturn to be particularly severe on their regeneration and economic development departments and functions. A recent CLES typology[14] of the impacts of downturn on regeneration and economic development at local level named the following aspects as the key threats:

- an increase in unemployment, especially in property related sectors;
- a decrease in housing prices and stagnation of the housing market;
- an increase in indigenous business failure rate and shift of global businesses to outside the UK;
- a decrease in business start-up rates due to lack of available capital and investor confidence;
- a reduction in public spending leading to public service cuts and regeneration scheme abandonment;
- reduced disposable income and personal wealth due to inflation and increased commodity prices.

As a result, local authorities are going to have to rethink their regeneration master plans and local economic strategies to adapt to the new and intensifying challenges faced during recession throughout 2009.

Regarding impacts on localities themselves, a recent report to come from the Local Government Association (LGA) looks at how economies and employment have been affected by the economic crises since 2007.[15] The research focuses on projecting the likely local distribution of the overall impact of recession using data from the recessions of 1979-82 and 1990-92 and adding January 2007 data from 50 functional economic areas of England. The results found that it is very unlikely that employment would contract uniformly in every place because different sectors of the economy respond differently to a recession; sectors that remain internationally competitive like computing and R&D, or where demand is not cyclical, like health and education, will perform better while others sectors have become more 'high risk', most markedly financial services and the construction industry. Variable risk will therefore lead to local variation in the impact of recession, and hence local authorities' experiences. For example, Oxford Economics produced a list in July 2008 of the top ten local authorities most vulnerable to the effects of credit crunch. These were named as (in order), the City of London, Tower Hamlets, Chester, Bournemouth, the City of Westminster, Calderdale, Kensington and Chelsea, Blaby, Macclesfield and Milton Keynes.[16] The LGA report made the following conclusions:

- the projected local variations from the national average performance are very marked, both for over-performing areas and under-performing areas;
- very strong variations in performance are likely within individual regions;

---

[13] The CSR 2007 is available at http://www.hm-treasury.gov.uk/d/pbr_csr07_completereport_1546.pdf. CLES members can log in to our website to see our bulletin on what the CSR means for regeneration, economic development and governance, via http://www.cles.org.uk/information/102032/cb54/
[14] Credited to Sarah Longlands and Matthew Jackson, October 2008
[15] *From recession to recovery: the local dimension*, prepared by PACEC for the LGA, November 2008, and available at http://www.lga.gov.uk/lga/aio/1215871
[16] This report is available at http://www.oxfordeconomics.com/free/pdfs/ukregcc(july08).pdf

- wholly local factors are, in many places, more important than the sectoral structure of the economy, or recent performance, in predicting deviations from the national average;
- London is the region most likely to under-perform the national average in a recession, and the South-West the least;
- major cities outside London such as Newcastle, Leeds and Manchester are likely to do better than the capital.

However, while there is some debate about the geographical distribution of the worst outcomes, it is generally accepted that all local areas will suffer during the downturn, increasing inequality between the rich and poor, the more resilient and less resilient economies, the North and South. This poses a difficult challenge for local authorities as they face increased demands from local people and businesses while being less resourced to solve problems due to diminished levels of funding and income. Authorities will have to rethink their regeneration master plans and local economic strategies to adapt to the new and intensifying challenges faced during recession throughout 2009, and innovation and efficiency will prove vital ingredients for a successful local authority response to economic downturn.

## Methodology

The research methods[17] used for this publication include:

- telephone interviews with regeneration and economic development practitioners at four local authorities in the North West;
- a semi-structured focus group with six practitioners from various councils in the North, held on 25th November 2008;
- secondary research into similar work being done by other organisations, most notably the LGA.

## Research findings

### *The impacts of economic downturn on local authorities*

The most notable findings from our primary research into what the impact of economic downturn has been on local authorities, were:

A. Regeneration initiatives: A large number of regenerative development projects across the North West have been stopped, including housing, retail and business developments. This includes both ongoing projects being halted part way through and planned developments being delayed from implementation for the foreseeable future. This is indicative of a crisis of investor confidence and a nervousness to commit to large capital projects when costs are spiralling and likely returns on investment are uncertain.

   Related to this halt on construction, local authorities' income from planning and building control fees has been greatly reduced; one Council for example, reported a fall in their planning services income by 40% on last year – a drop of £1.2 million.

B. Unemployment: In line with national trends, unemployment has risen in all of the local authority areas we surveyed, as increasing numbers of people are being made redundant from struggling sectors that include manufacturing, construction and food production. A key concern raised by the participants of our focus group was how worklessness is to be tackled in areas that are not in receipt of the Working Neighbourhoods Fund (WNF), and the increased competition for local jobs between the newly unemployed and long term unemployed.

[17] In reporting our research findings, we have not named the local authorities who supplied information where it related to negative impacts suffered in the authority, but we have named examples of positive responses and good case studies.

Adding to the problem of unemployment, there is a growing threat to apprenticeship schemes which have traditionally offered apprenticeships in the areas of construction and tradesmanship, and relied on private companies to offer work placements and prospects of post-qualification employment. As these types of firms have fewer contracts, less available jobs and lower incomes in this period of credit crunch, the viability of apprenticeship programmes is seriously at risk and may result in a rise in youth unemployment (already occurring in some authorities) and increased difficulty in getting the long term unemployed re-skilled and into jobs (named as a particular concern by one respondent).

C. Small business viability: Threats to businesses were identified, such as problems with cash flow and increased competition from bigger companies for smaller contracts, in line with national issues.

D. Home repossessions: Increases in the number of home repossessions were reported by several of our interviewees, including one authority reporting a massive 98% increase in quarter 3 compared with the same quarter last year. Two other councils described increased demand for social housing as a result of repossessions and the rising cost of living, with one seeing 3,500 people added to the council housing waiting list since last year.

E. Some optimism! Despite the serious problems discussed above, economic downturn has not negatively affected all regeneration projects and development schemes! While a substantial number of schemes have been kyboshed, some large-scale developments are continuing unhindered. For example, Blackpool's large scale transport interchange and office development at Talbot Gateway is still going ahead, and the multi-million pound redevelopment of the Houndshill shopping centre has stimulated a threefold increase in footfall figures over the autumn half term compared with the same holiday last year, now reaching 300,000 visitors in one week. Similarly, the new John Lewis store at the Liverpool One development has been bucking national trends by reportedly exceeding their own sales targets.

### *How are local authorities responding to downturn?*

Local authorities' responses to the downturn varied in both in terms of their approach and also to what extent they had been put into action. The key responses that arose from the research were:

F. Business support: A number of local authorities identified business support techniques as a key way in which they were responding to the downturn. This included streamlining business support services and also widening business support services to established businesses, rather than just to new enterprises. Practical measures had also been implemented; for example, one local authority now has a policy whereby all invoices need to be signed off in ten days' time in an attempt to improve local businesses' cash flow. One respondent called for more funding in order to help local businesses, suggesting that at present most funding is designated for targeted groups, such as BME groups and women, and this needs to be readdressed in the current economic climate.

An innovative case study of business support by Blackpool Council during this time is that of the Rosebud Fund. Blackpool is working with Lancashire County Council to increase uptake of its Rosebud Fund – a Fund to provide financial support from £5,000 to £750,000 to businesses operating in almost all industries that are located in Lancashire. Where help has been refused by the banks, this local scheme of financial support can be made available to help cover a wide range of purposes including business start-ups, purchase of new equipment, introduction of a new product line, relocation to larger business premises, or day to day working capital needs.

G. Housing: Housing emerged as an important local authority response to economic downturn. Activities undertaken have ranged from providing housing advice and support services, to working directly with private landlords to improve private rented accommodation and with Registered Social Landlords to ensure their unfilled units are rapidly filled. More drastically, some authorities are exploring their options in terms of buying up the land and properties that are not being sold and developing these to ease pressure on local social housing.

H. Mortgages and financial support: Some councils are providing mortgages as the credit crunch has made these increasingly difficult to secure. For example, Chester City Council launched the Chester Homebuy Scheme in November 2008, allowing individuals, couples and families who cannot afford to buy homes on the open market to buy a property. Residents will be able to buy a property of their choice on the open market up to the value of £200,000 and the Council will fund up to 50% of the purchase price, with the buyer funding the remaining proportion through a mortgage from an approved lender such as a building society or bank. This will give the council a 50% stake in the property until it is sold and this stake is recovered. The project is being financed through the proceeds of the sale of former council housing stock.

Another local authority reported that in light of the downturn, they are prepared to 'ease off' on taking legal enforcement action such as repossession, against non-payers, both individuals and businesses, who are experiencing financial hardship in cases where there is real need.

A number of our respondents highlighted personal financial support as a significant way in which they were hoping to 'cushion the blow' of economic downturn. Measures included debt advice, advice with regard to council tax, helping people to access current accounts, and redundancy specific support services. Also, one respondent reported that they had taken measures to ensure that when residents contact the council for one such service, additional sources of support and information are clearly signposted to them by staff, should they need further support from other services.

I. Increasing household income: Councils are looking to increase people's household income through promoting uptake of the state benefits for which they are eligible. For example, the LGA report *Global slowdown: local solutions*[18] identified the example of Lancashire County Council's welfare rights service, who together with nine district councils, have engaged in a project to provide additional support to residents to claim their benefit entitlement. This resulted in an additional £800,000 being paid to residents in 2007/08. Also helping families who are struggling to make ends meet, some councils are moderating their approach to Council Tax collection.

J. Renegotiating LAAs: A number of local authorities highlighted that they were reconsidering their Local Area Agreement targets, some of which were unfeasible in the economic climate, for example business start-up rates. These were being negotiated with Government Office.

K. Emphasis on the public sector: One local authority we spoke to highlighted that, whilst they were continuing to maintain strong links the private sector, they were placing a greater emphasis on the public economy and therefore channelling funding and efforts into public sector employment. For example, improving the rail and road infrastructure, in an attempt to "*get areas ready for the upturn".*

L. Skills and worklessness agenda: A number of respondents commented that despite the current difficulties, they are keen to intensify the worklessness and skills agenda. Interestingly, one local authority commented that the economic downturn had prompted a significant change in approach in that there would be less reliance on the private sector to provide employment opportunities, and would instead be looking to develop public sector employment opportunities.

M. Setting up task groups and raising awareness: Local task groups have been set up to consider the impact of the downturn locally and to explore how local businesses and communities are being affected. These also serve to co-ordinate activity to tackle local issues within the local area. In addition, many local authorities are keen to provide a forum for discussing the potential and actual impacts on the local economy and to provide an opportunity to discuss and to explore solutions with partners from public, commercial and community sector.

---

[18] Available at http://www.lga.gov.uk/lga/aio/1192002

N. Internal responses: The local authorities we spoke to identified a number of ways in which the local authorities, as organisations, were responding to the economic downturn. Some were concerned about their own assets and property, and spoke of 'battening down the hatches' and keeping a closer eye on their finances, whilst one local authority mentioned specialist training for staff in order to deal with queries about the downturn from members of the public. Strengthening partnerships with the voluntary sector was also seen as a priority by one local authority.

## Emerging issues

Our research gleaned a number of noteworthy findings regarding how local authorities are responding to the economic downturn. These include:

- economic downturn is, in many but not all instances, having a negative impact on prospective and ongoing regeneration projects;
- local authorities have become increasingly aware of their own financial position, and are now 'battening down the hatches' in order to weather the financial storm;
- unsurprisingly, unemployment, home repossessions, council housing pressures and redundancies were all identified as significant impacts of the economic downturn;
- for some, the economic downturn has prompted a new approach to tackling worklessness, shifting away from partnerships with the private sector towards a greater emphasis on developing worklessness projects that engage with the public sector;
- there is significant concern amongst many local authorities that their LAA targets are inappropriate in the current climate and a lack of clarity about how these should be adapted accordingly.

Emerging key issues facing local authorities include:

O. Implications for Local Area Agreements: A key issue for a number of our respondents was if and how the LAA for the local authority should be adapted to reflect the new challenges brought by economic downturn. Several councils we spoke with were in discussions with Government Office North West (GONW) about how their LAAs should be altered, as they pre-date the global financial crises, but several respondents were not sure what will be done, if anything, to the LAA. While it is unlikely that the LAA performance indicators will change drastically, or even at all, as they often focus on issues such as worklessness, skills and business start-up anyway, a renegotiation of the targets and stretch targets will certainly be needed. This may be achieved through the LAA refresh process, but a firm steer is needed from the Government and the Government Offices regarding what local authorities need to be considering in terms of amendments to their LAAs. We found many councils to be anxious about the refresh process and uncertain about the future of their LAAs, with a keenness to work with GONW to establish what downturn will mean for their refresh.

P. Resources and smarter procurement: Local authorities also felt, as is often the case for many types of organisations, that their response to economic downturn could be improved if they had more resources to address the issues. This is particularly acutely felt as councils' revenues are being reduced through more council and business tax reprieves and lower capital receipts. The need to use resources wisely and invest in the projects and schemes that will have the greatest local benefit is imperative, and public pump priming and procurement need to be tailored to reduce leakage of investment and jobs from the local economy. For example, one council who have been proactively encouraging and skilling local people to take up jobs in their Arms Length Management Organisation (ALMO) have achieved rates of 80% of ALMO staff living within the local authority area.

   However, this is difficult because councils have to abide by EU procurement law and therefore are limited in their ability to give preference to local firms, and also, while local authorities can lead by example, they can only encourage but not guarantee that larger private sector firms do the same. Government therefore need to re-think the rules on local procurement flexibility and raising awareness amongst private firms of the benefits of local sub-contracting and supply chain use.

Q. Paying invoices within 10 days: Further to central government's pledge to pay invoices to trade suppliers within 10 days, there has been pressure from the Joint Economic Commission for the North West and the Minister for the Region, Beverley Hughes for other public bodies to follow suit. This policy aims to support smaller local firms by improving their cash flow, and needs to be adopted wholesale by all local authorities and public sector bodies at all spatial scales.

In addition, some form of good practice guidelines should be disseminated to private businesses about this to encourage them to pay invoices promptly too; currently there are concerns that on big projects, councils are paying large companies within 10 days but this is not being passed down to smaller sub-contracting firms as quickly. 'Sitting on' payments is therefore not preventing or alleviating the cash flow problems of smaller suppliers in some cases, and this is an issue that needs to be addressed.

R. Powers of well-being: There has been a variable reaction to the well-being powers introduced in the Local Government Act 2000; the uptake of these provisions nationally has been extremely limited and the North West is no exception. While several councils were aware of the powers and the possibilities they may present for new ways to respond to economic downturn, only one respondent said that their authority was actively following this up for use as a tool for coping with downturn. This was still in the early stages however, and no examples of actual implementation of the powers could be found.

S. Who has responsibility for driving local authorities' responses to economic downturn? Generally we found that there was a top-down approach to responding to downturn, with reactions generally being driven by the Chief Executive / Assistant Chief Executive. While this is to be expected, the level to which other departments, practitioners and deliverers have been engaged or even informed has been variable by authority.

Also, one participant in our research commented that sub-regional working had become so prevalent that some authorities were failing to focus efforts within their own boundaries. Where sub-regional partnership is very strong, such as across AGMA (Association of Greater Manchester Authorities), authorities may struggle to achieve the focus and legitimacy to vie with their sub-regional partners in securing investment, jobs, etc., within their specific authority. Therefore a powerful internal drive is needed for councils to maintain good sub-regional working while ensuring the interests of their own local residents are placed at the fore.

T. Measuring the impacts of, and success of responses to, downturn: None of the respondents that we spoke with had introduced additional performance indicators specifically to measure the impact of the economic downturn. Bury MBC reported that they were looking at the evidence base and carrying out additional analysis towards forecasting the impacts on different sectors and thus build up a likely picture of the future situation. Most Councils however, were waiting to see how their LAAs would be renegotiated and the potential within this to better measure performance and tailor this towards taking the most appropriate future actions, given the recession and its associated problems.

U. Regional Development Agency and Government Office support to councils: From investigating the ways and extent to which their RDA and GO were assisting local authorities to respond to the downturn, we found that there was a variation in terms of the level of support that local authorities felt was available. Some of the respondents said that they had a good working relationship with their RDA and GO, and one local authority mentioned that their RDA had set some money aside for business start ups and were offering workshops for companies, providing advice on how to respond to economic downturn. A number of local authorities mentioned that their GO had been in touch to enquire about any large infrastructure projects that are in the pipeline or in risk of incompletion, however no information about monies available for such projects had been made available to date. Some also stated that support from their RDA and GO had been minimal and that they hadn't really "seen or heard anything", whilst one respondent commented that RDAs in particular need to be thinking more creatively in this time of economic instability.

V. A lack of good practice case studies: Our research aimed to discover examples of good practice and innovative case studies; however, few of the respondents were able to offer any. There was certainly a feeling amongst the local authorities that we spoke to it was *"too early to say",* implying that perhaps there is a lack of swift responses or the worsening situation is making it difficult to find appropriate responses quickly. Indeed, some commented that their own response to the economic climate was at the formative stage and had not been translated to practical measures as yet. One local authority mentioned that they had not yet *"been bitten"* by the economic downturn, whilst another made the point that for many, the current economic climate is *"unfamiliar territories"* for many local authorities, many of whom don't have experience of downturn.

## LGA research and ideas

The LGA Credit Crunch Summit in mid-November 2008 saw discussion between key local authority figures of the possible actions for authorities to take in response to the downturn. Seeing local authorities as not only place-shapers but place-'shielders'[19] who act as trusted protectors, advisers and providers in times of last resort, ideas about potential ways to help local people and businesses through the recession included the following:

- do not increase council tax;
- be a prompt payer, ensuring payments are made within 10 days;
- promote the uptake of state benefits, debt advice and energy saving measures;
- consider providing mortgages[20] ;
- establish excellent, independent housing advice services;
- work in partnership with Registered Social Landlords to deliver a proportion of housing, including shared ownership schemes;
- purchase property to let, meeting social housing deficits;
- consider prudential borrowing for infrastructure as PFIs disappear;
- consider joint reserves, i.e. a number of councils share a reserve rather than each having their own and being forced to err on the cautious side;
- maintain or increase efforts on skills and local employment initiatives;
- support modern apprenticeship schemes;
- offer support to local small businesses;
- ask the Government to allow councils to balance their books over three years rather than every year;
- ask the Government for the opportunity to control business rates for the benefit of local businesses and economies.

The LGA intend to produce a think piece on the '100 best / most helpful local authority interventions' in the near future.[21]

[19] 'Place-shielders' is a phrase coined by Barry Quirk, Chief Executive of Lewisham Council, speaking at the LGA Credit Crunch Summit, 17th November 2008
[20] It was reported that 600,000 mortgages were financed by local authorities in the early 1980s and some councils have recommenced this today
[21] Pledged at the LGA Credit Crunch Summit, 17th November 2008

### *Global slowdown: local solutions*

The LGA have released two reports of relevance to the issue of economic downturn, both in November 2008. Firstly, *Global slowdown: local solutions*[22] is a composite of case studies from across the UK of actions that have been taken by local authorities in response to different aspects of the financial crises. Covering the topics of housing, mortgages, business support and comprehensive packages, this report emphasises the central theme that

> "*at a time of an economic downturn, localism and devolution become more, not less important. Local authorities are at the centre of helping people, businesses and other groups through tough economic times ahead.*" (p.3).

Examples of innovative responses from across the UK include:

Providing mortgages and other financial services

- Wakefield Council are providing interest-free loans for people who have missed mortgage payments and could lose their homes. The programme provides loans of up to £15,000 to pay off mortgage arrears and the expectation is that 2-3 loans will be supported every month, up to 25 during the current financial year.
- Leeds City Council are providing a range of anti-debt initiatives to promote financial inclusion including: financial literacy packages for young children; development of Leeds Money Advice Project; basic financial advice and debt counselling through children's centres; support for the Leeds City Council Credit Union.
- Monmouthshire County Council are supporting the expansion of the credit union movement by establishing the Gateway Credit Union as an alternative to doorstep lending.

Increasing household income through energy efficiency measures

- Durham County Council and Hillingdon Borough Council are both working to combat fuel poverty through both advice to households on energy efficiency and a system of grants of up to 100% for efficiency improvements (e.g. replacing old boilers, insulation, etc.).
- Westminster City Council have put a freeze on council tax until 2010 and introduced traffic-free days in the West End to boost income for the capital's premier shopping streets.

Local procurement and businesses

- Derbyshire County Council are working to encourage local procurement of council services, pioneering the use of an internet database designed to help strengthen the local economy. The database advertises the council's contracts and encourages local businesses to tender for them. This support for local businesses has been further reinforced by the Joint Economic Committee's (JEC) commitment to see prompt payments of invoices by local authorities across the region.

### *From recession to recovery: the local dimension*

Highlighting the importance of devolution, *From recession to recovery: the local dimension* is an LGA commissioned report by Public And Corporate Economic Consultants (PACEC) that closely examines geographical variation in the impacts of downturn across England, including assessments of vulnerability and sectoral performance.[23] The report asserts

> "*the appropriate policy response to a forthcoming national economic slowdown must include economic interventions made at the level of individual counties, functional economic areas, local governmental partnerships, and local authorities"* (p.22).

Specific recommendations for local policies to deal with the issues include:

- business advice can be delivered locally and tailored to at-risk sectors and industrial groups where jobs growth is possible;
- ensuring that training available to the local workforce matches the demands made by local industry should be a priority, no matter what the economic conditions are. While interventions

[22] Available at http://www.lga.gov.uk/lga/aio/1192002
[23] Available at http://www.lga.gov.uk/lga/aio/1215871

here can have a long response time, they can be critical for softening the blow of a recession and ensuring a rapid recovery;

- targeted investment in infrastructure can stimulate the local economy (in the short term for construction and engineering, as well as in the longer term) and ensure that high-priority employment locations are better placed to recover;
- strategic investments in infrastructure can reduce the barriers to entry for developers while ensuring that they are able to provide the necessary levels of affordable housing and facilities within their developments;
- investment into genuinely innovative development within tradable sectors is of maximal benefit to local, regional and national economies because of the minimal risk of displacement (local competition is small on new products and services).

## CLES' recommendations

CLES has engaged in considerable thinking around how the UK's many local authorities can respond to the global financial crises and expedite a recovery from 'bust' back to 'boom'. While there are no definitive answers – by definition, a local response will not be a 'one size fits all', top-down, prescriptive response but must be in accordance with local contexts, capacities and communities – CLES can contribute its thoughts on how councils can conduct economic development that delivers sustainable, resilient local economies.

1. Localisation. To support local businesses and jobs, local authorities need to ensure they strengthen local supply chains by fostering social enterprise, assisting local businesses to meet delivery demands, ensuring local people can access public jobs and maximising retention of public spending within the locality. A greater use of Keynesian economics[24] to amplify the footprint of public investment may provide a key lever to support local businesses and jobs. Smarter procurement might include:

   - councils working together more closely to identify where groups of authorities can achieve greater economies of scale by contracting or purchasing goods collaboratively;
   - increasing, through proactive communications and assisting capacity building within organisations, the ability of local businesses and social enterprises to take up local procurement opportunities;
   - unbundling large procurement contracts into several sub-contracts to enable smaller firms to bid for the parts of the contract that they have the resources and locally specific expertise to deliver;
   - specifying the use of local labour, skills and businesses in council tender proposals where possible, and also working with large local employers to encourage their use of small local businesses when outsourcing.

2. New methods of local finance and business support. Consider developing new financial systems of local credit agencies that people can understand and trust, empowering them to feel in control and preventing use of loan sharks / further commercial debt. Benefit advice agencies can bolster this by increasing the number of people helped and improving signposting to other sources of advice, such as debt counselling and information on utility bills. Also, providing support to local businesses in the form of raising the ceiling for business rate relief by increasing the eligible rateable value and maximising their use of business support packages, could prove vital for enabling many small companies to weather the economic storm.

3. Vulnerability analysis. Local authorities need to understand and accurately assess the strengths and weaknesses of their local economies, to inform proactive steps towards reducing vulnerability in weaker areas and industries. The introduction of the new Economic Assessment Duty as

[24] See footnote 4.

proposed in the *Sub-National Review of Economic Development and Regeneration,*[25] and confirmed to be a legislative requirement with statutory guidance in the Government's response to the SNR consultation[26], will be important to achieving this more vigorous understanding of local economies. Gathering and sharing intelligence within local authorities and between authorities and partners, including through MAAs and LSPs, will therefore be vital to fulfilling this Duty adequately. Once vulnerability analysis has been carried out robustly, this will provide a solid foundation for ensuring resources and efforts are channelled into the most needy areas to achieve the best outcomes from regeneration in deprived areas.

4. Revisit economic strategies. Reductions in council funding and income coupled with increased demands by the residential and business community mean local authorities will need to critically rethink their local economic strategies and their regeneration master plans. Attention now needs to be focused on how to best support businesses as well as enhancing employment schemes and skills training, to prevent people from being disadvantaged during downturn and increasing resilience of commerce and community alike. Ambitious programmes which espouse economic growth may have to become lesser priorities, as efforts need to focus on prevention of bankruptcies, job losses and repossessions. This process of 'review, revise and revamp' will include a re-thinking of performance monitoring and the indicators used within localities' LAAs to focus on say, unemployment and repossessions.

   Local authorities may wish to explore new ways of doing economic development in order to turn risks into opportunities, identifying and exploiting the benefits to be gained from potential new growth sectors. For example, harnessing the impetus to shift towards a low carbon economy may see creation of new green technologies, green industries and green jobs locally. This is likely to involve a reassessment of the characteristics of resilience and how to build capacity in the new economy. Also, health is anticipated to become a high-growth sector, with action of develop this within the local economy likely to prove a successful venture. To this end, authorities may wish to utilise the provisions of the Sustainable Communities Act 2007, which invites councils to apply to central government for the freedoms and tools they need to implement projects that improve local sustainability within their communities.[27]

5. Investment into the social economy. Communities are important for the success of local economies as they provide the workforce and consumers of goods and services. Hence supporting local people in times of hardship – lower employment, higher bills, less disposable income and increased threat of repossession – will be vital to economic recovery, as well as being socially just, of course. The social economy therefore, including social enterprises, housing associations, community schemes and improving local infrastructure, should therefore be a major focus of efforts by local authorities.

## Final thoughts

Following our recommendations about the considerations and measures that local authorities should have regard to in this period of recession and economic crises, we finish with some further 'food for thought' on this subject of adaptation and innovation in local economic development and regeneration.

CLES asks the question: how should government, at local and central level, be re-thinking the way we do economics and economic development? Rather than focusing all efforts with the singular mindset of dealing with the short-term problems and recovering to the former growth-driven economy in the medium term, government needs to consider what the vision for the long-term economy should be. Even before financial crises took hold of the global economy, it was generally accepted that

[25] Sub-National Review of Economic Development and Regeneration, HM Treasury, July 2007. Available at www.hm-treasury.gov.uk/media/9/5/subnational_econ_review170707.pdf
[26] Available at http://www.communities.gov.uk/documents/citiesandregions/pdf/1073344.pdf
[27] CLES members can obtain more information about the Sustainable Communities Act 2007 by application to Jessica Arnold, see p.1 for contact details

unrestrained economic growth was not a sustainable option, and therefore aiming to replicate the previous system should not be the wholesale goal of this Government.

Although a radical shift towards a highly interventionist, hard-line green, steady-state economy would be an extreme move and perhaps a step too far, there is a reasonable argument that we are in the wake of a new economy with new parameters of play, and yet must not lose sight of long term challenges such as inequality and poverty. We argue therefore that rather than a reproduction of the status quo, this era should offer opportunity to develop a system that is more economically equal, more socially just and more environmentally friendly. Examination of Keynesian principles at local level, low carbon economies and steady-state economics could all be promising starting points for this re-think.

To date, this opportunity to re-address how we do economic development has not yet been taken up in either Government guidance or local authority responses, which have (from our research), failed to consider alternative approaches to the current liberalised, unsustainable, growth-hungry economic milieu.

**Rapid Research** is one of a series of regular reports published 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 *Bulletin*, *Local Work* and policy publications 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.

**Centre for Local Economic Strategies & CLES Consulting**
Express Networks • 1 George Leigh Street • Manchester M4 5DL
Tel: 0161 236 7036 • Fax: 0161 236 1891 • info@cles.org.uk • www.cles.org.uk