

LOCAL AUTHORITIES AND THE RECESSION

Councils' response to the downturn

WHAT HAVE local authorities been able to do to soften the blow of this recession? The Department for Communities and Local Government asked a team of researchers from the Spatial Economics Research Centre to look back at the recessions of the early 1980s and early 1990s, and lay out the lessons for the present.

The LSE team led by Professor Ian Gordon distinguished five roles that local authorities could play: boosting national demand; targeting demand on areas in most need; mitigating major social impacts; addressing specific forms of market and government failure; and safeguarding strategic projects with clear longer-term value.

The researchers then examined how local authorities had played these roles in past recessions. They found that councils had unexpectedly little experience of fighting an economic recession.

The deep recession of the early 1980s, which was concentrated in industrial cities, was linked to a national government plan to promote restructuring by removing barriers to competitiveness. Coupled with a squeeze on local government spending, this produced polarised responses, including active resistance by a small number of councils with more interventionist agendas but little scope for action.

More strategic responses followed in the later stages of the 1980s recession. But although some Labour-run local authorities focused on investing in social housing, the situation encouraged over-politicised community responses, poorly judged business support and isolationism.

The bursting of the property bubble in the late 1980s led to negative equity and a sharp slowdown in house-building. But councils did not have the resources to act counter-cyclically. Housing associations were used to boost house-building and, in some cases, to buy up private property.

The 1990s recession was triggered by anti-inflationary policies and the busting of a previous speculative boom. The prime effects falling more in the south-east than the previous recession. Although councils had just acquired economic development powers, local tax reform and capping had the effect of limiting interventions. There was activity to lobby central government for support, leading to the creation of 'challenge' funding programmes for local regeneration.

The researchers found that the current recession was likely to be more similar to the experience of the 1990s than the 1980s, with less concentration on



areas undergoing structural decline, which might qualify as particular targets for boosting demand. The lack of funding for mortgages and small businesses was thought likely to cause unnecessary damage in many areas, both by inhibiting house-building and by threatening the security of responsible households and otherwise viable firms.

Looking at ways that local councils might respond to the recession, the authors examined whether they could boost demand more effectively than national fiscal and monetary measures. The key difficulty was timeliness: could councils increase

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their spending fast enough and then stop it when the economy started to grow again?

Councils could have a particular role in mitigating the social impacts of recession, for example, by supporting personal advisory services, earlier payment of bills and mortgage rescue schemes. These might require a redistribution of effort away from development activities where the recession had reduced the scope for real gains.

In making any response, the authors believed the government should be certain that councils would avoid 'protectionist' actions. And local authorities should only be encouraged to act where it was more appropriate than central government.

But it was recognised that there would be increasing limits on what councils had to spend in the next spending review, starting in 2011-12. There would be little room for authorities to increase capital expenditure during 2009-10 and 2010-11. Thereafter, it would fall. This would match

AT A GLANCE

The role and response of local authorities during economic downturn vary according to the circumstances of the recession. Ultimately, local councils have great potential to help the government at such times.



the pattern of previous recessions. Local councils might be able to use some of their investments and reserves to boost, or at least sustain, capital spending for a period. It was suggested that the government might consider reviewing some definitional limitations on local government or public-private action.

It was expected that the demands created by homelessness would rise sharply during the recession. The government was advised to ensure there was adequate information for households and that the planning and development control systems were flexible. Land supply for new developments could inhibit recovery, as might over-zealous negotiations about 'Section 106' deals, which demand infrastructure contributions from developers.

Looking ahead, the researchers saw a potentially enhanced role for councils in funding mortgages if there was limited market supply. Also, once the Housing Revenue Account had been reformed, it would be possible for local government to take part more easily in partnerships to ensure private developers can once again start building houses. As it has turned out, the government was able to bring forward some capital funding, in part through local authority programmes, for 2009-10. Councils did take a number of mitigation steps, affecting households and businesses.

The current recession is one where local government has been a stable and financially strong part of the overall financial system. This stability has probably assisted the government in sustaining the economy despite a sharp contraction in national output. ■

<http://www.spatial-economics.ac.uk>
http://www.lse.ac.uk/collections/LSELondon/events/New_Research_June_2009.htm

Illustration: Phil Biskin