

## **Regeneration Prospects:** The impact of spending cuts on regeneration in London

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**What does the Coalition Budget and spending cuts mean for regeneration in London? Chris Webber and Kieran Larkin from the Centre for Cities offer us their analysis of what the outlook for economic growth and regeneration is for the capital over the next five years.**

### **Introduction**

Public spending cuts and economic growth prospects are dominating all discussions in the policy world. What impact will spending cuts have on London? And what's the outlook for economic growth and regeneration in the capital over the next five years?

June's emergency budget explained how George Osborne intends to put the public finances back onto a sustainable footing. Everyone knows that spending is going to be cut significantly, but there's still a lack of awareness about just how tough the spending environment is going to be over the next five years. When you look at the figures closely, the scale of the cuts is truly eye-watering.

### **Headline figures and key sectors**

The headline stat is that by 2015/16, the Government will have made £99bn per year worth of cuts. People often struggle to put that kind of figure into perspective, so it's useful to have some comparisons. In 2009/10, public spending on healthcare was about £120bn, education about £88bn and defence about £38bn. By 2015/16, therefore, the Government will have made cuts to public spending per year equivalent to more than it was spending last year on the entire education system, and two and a half times as much as it was spending on defence.

These kind of cuts go way beyond what's achievable through efficiency savings, so the impact on public sector services and jobs will be real and painful. Despite London's undoubted economic success in recent years, its communities still suffer from some of the worst social and economic problems anywhere in the UK. That means cuts to the welfare budget (such as the £11bn worth of cuts announced in the budget) and other areas of social spending (e.g. social housing) are likely to hit some Londoners hard.

In terms of transport and regeneration, the Chancellor didn't announce any further significant cuts to the capital budget, but those already pencilled in by Labour were pretty drastic. In 2009/10, the Government spent £48bn on capital projects, after Labour brought forward some spend to help counteract the recession. By 2015/16 it will be spending £21bn per year. That means capital spending is falling from 3.5% of GDP in 2009/10 to 1.1% of GDP in 2015/16. Back when Gordon Brown was Chancellor that's a level that he claimed would leave the country 'run down and ill equipped for the future'. Whether that's the case or

not, it will certainly make finding investment for transport and regeneration projects considerably more difficult to access in the years ahead.

## What impact for urban regeneration and development in London?

How can London expect to perform when the spending cuts really start to bite from next year onwards? People often argue that London doesn't get its fair share in terms of public spending, but a review of spending by region shows that it actually gets quite a healthy chunk of total government spending in England. The capital gets about 17 percent of total spending, roughly in line with its share of the population. But it gets a lot more in some areas of spending. For example, in transport it gets 29 percent of all spending in England and in housing it gets 31 percent. Cuts to these kinds of budgets are therefore likely to hit London worse than other areas of the country.

If London's going to feel the impact of the spending cuts what kind of projects are likely to be under threat? The capital's two big projects are the Olympics and Crossrail, the £16bn train line across London. Work has already started on Crossrail and the new Secretary of State for Transport, Phillip Hammond, has been arguing very strongly in favour of completing it. However, discussions are on-going about reducing costs and limiting the line's length, so Crossrail may end up looking at least a little different to what had been planned originally. That shouldn't be a surprise given the scale of the cuts that are going to be made to the transport budget, and Londoners should probably be breathing a sigh of relief that there appears to be such strong support for Crossrail in Government.

Meanwhile, the Government's unlikely to take any risks with the delivery of the Olympics itself because of the overwhelming potential for embarrassment. In terms of the Olympic legacy work, an important agreement on debt was recently reached between the Mayor and the Treasury meaning that it will be easier to attract private sector investment to deliver the post-games plans for the Olympic park.

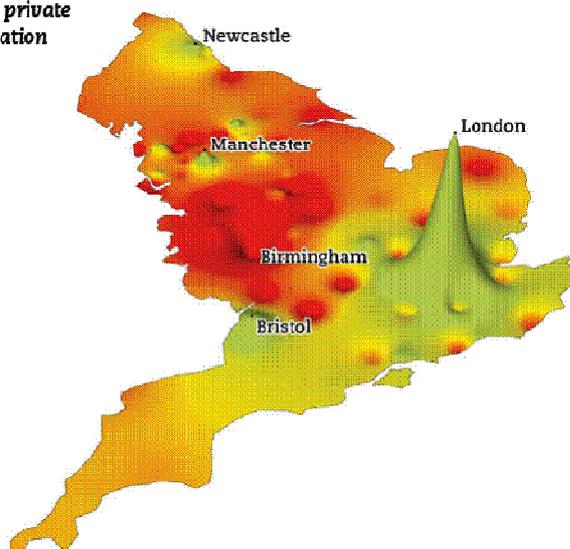
Private sector investment will be critical, because the prospects for further large scale public sector investment appear decidedly weak. It would obviously be a huge disappointment if the Olympic legacy plans were unable to be delivered because of a lack of public sector funding. However, given that money is so tight, and that Cameron, Clegg and co. have already expressed an interest in rebalancing the economy away from London and the South East, the public sector funding context for Olympic legacy projects looks even tougher than it might otherwise have been.

Overall then, the signals on public spending around transport and regeneration in London appear quite mixed. On the one hand, it seems like there's reasonably strong support for high profile projects like the Olympics and Crossrail, which is clearly very welcome news for the capital. On the other, the cuts have to come somewhere and if high profile schemes are protected that suggests there will be less money around for smaller projects.

## The power of London's Private Sector

Wherever the cuts end up falling, one very important plus point for London is its hugely dynamic private sector economy. The Centre for Cities released a report back in June, which showed that London accounted for nearly 40 percent of all new private sector jobs created in England between 1998 and 2008.

c. Map of net private sector job creation



Source: NOMIS 2010, Annual Business Inquiry, workplace analysis. Estimates based on jobs added between 1998-2005 and 2006-2008 to take into account changes in ABI methodology.

London's powerful private sector is one of the big reasons its property investment scene suffered less and appears to have bounced back so much more quickly than elsewhere in the country. But the potential for private sector investment in the built environment varies enormously across the capital, with the central London office market obviously very different from less prosperous parts of the city. That said, if there's any part of the UK that can hope to plug the gap left by a decline in public sector investment it's London. There will be opportunity, public sector actors may just have to be a little more inventive about how they go about taking advantage of it.

The strength of the capital's private sector gives it another huge advantage over other UK cities; it makes it less vulnerable to public sector job cuts. The Office of Budget Responsibility recently stated that we can expect to see over 600,000 job losses from the public sector across the UK by 2015/16.

Given that London is the centre of Government for the whole country, most would assume that makes it vulnerable to the job cuts. The truth, however, is that the public sector only accounts for about 22 percent of total employment in the city, way below the national average of 27 percent. In comparison, cities like Liverpool, Ipswich and Sheffield have much higher shares of employment in the public sector and less dynamic private sector economies, so are looking much more vulnerable to the cuts.

## Conclusion

Overall, while spending cuts and uncertain growth prospects suggest that the UK as whole is set for a rough ride over the next five years, London itself is better placed than most to weather the storm. Cuts in social spending will inevitably hurt some of the least well off Londoners and the drop in public sector investment and jobs could damage growth and regeneration prospects, particularly in the short term. However, the capital's private sector economy is such a dynamic growth driver, that the medium term prospects for both job creation and regeneration appear better than they are in many other areas of the country. The focus now for the Mayor and London's local authorities must be to do all that they can to nurture the private sector recovery.

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