bulletin

Autumn Statement 2011

Number: 88

Authors: Matthew Jackson, Head of Research, CLES and Matthew Todd, Intern, CLES
matthewjackson@cles.org.uk or matthewtodd@cles.org.uk , 0161 236 7036

Introduction

Twinning the Office for Budget Responsibility's (OBR's) financial projections for the UK economy and the Government's latest batch of economic levers, the Autumn Statement 2011[1] offers a turgid mix of future economic gloom and economic growth rhetoric.

Taking the projections first; there is an open admission in the Autumn Statement that the UK economy is not growing at the rate anticipated in the Coalition Government's first full Budget in 2010[2]. Indeed there are questions to be asked as to whether the economy is growing at all; and whether the raft of austerity measures and market stimulation packages introduced in the aforementioned budget as regards growth, are working.

The Autumn Statement commences with an admission of problems which seek to offset this lack of impact by apportioning blame: higher than expected inflation and increasing commodity prices; increasing instability and uncertainty in the Euro Zone; and a reappraisal of the severity of the 2008/09 financial crises. The projection of the OBR is stark with future economic growth set to be slower, economic output in productivity terms set to be lower, and borrowing set to be higher over the current Comprehensive Spending Review period.

Second, in terms of the economic levers, there is the continuation in the Autumn Statement of the mix of austerity measures, credit easing, infrastructure development, and demand side labour market interventions which have categorised the last eighteen months. So, amongst other things there are plans to continue to cut public sector budgets, to provide further investment in road and rail infrastructure, to stimulate business through rates relief, and to support young people into work experience.

All of the above projections and levers have been designed with economic growth and job creation in mind. Additionally, they offer a very centralist and top down approach to economic stimulus. For the Centre for Local Economic Strategies (CLES) the Autumn Statement misses a trick on several counts:

- It fails to recognise that the economic growth approach is simply not working in both stimulating the economy and in being fair. In fact, it is creating further marginalisation, deprivation, and poverty;

---

[1] HM Treasury (2011) *Autumn Statement 2011.* http://cdn.hm-treasury.gov.uk/autumn_statement.pdf
[2] HM Treasury (2010) *Budget 2010.* http://www.hm-treasury.gov.uk/d/junebudget_complete.pdf

- It fails to recognise that economic growth is not just about the top down centralist approach. Indeed there is a need for economic localisation and an enhanced role for the local public, commercial and social economies as stewards of place and economic deliverers;
- It fails to provide sufficient stimulus of the supply side of the labour market. The work experience activities suggested are not going to be sustainable in the longer term unless jobs are created;
- The Autumn Statement and economic stewardship generally needs to make greater connection with the Localism Act and economic localism more specifically.

This bulletin seeks to explore these critiques of the Autumn Statement 2011 in more detail and highlight how members of CLES should respond. To start however we summarise the key emerging interventions of the Autumn Statement.

The economic stimulation packages

The Autumn Statement is based around two core themes. First, it is about meeting fiscal targets around reduced debt, borrowing and spending. Second, it is about protecting the UK economy from global challenges and economic disruptions. It marries these two themes through an approach which seeks to save and which seeks to use this saving to fund vital infrastructure and stimulate business. The Autumn Statement sets out the actions Government will take across three areas:

Area 1 – protecting the economy

This section of the Autumn Statement sets out the Government's proposals to control inflation and maintain economic stability whilst also stimulating business demand. The proposals key to the local government, economic development and regeneration sector are:

- To run the current Comprehensive Spending Review plans for public spending for a further two years to encompass 2015/16 and 2016/17;
- To not go ahead with the planned increases in the child element of the Child Tax Credit and the couple and lone parent elements of the Working Tax Credit;
- To launch a package of £21billion of credit easing measures for smaller and midsized businesses (turnover of up to £50million) that do not have ready access to the capital markets.

Area 2 – building a stronger economy for the future

This section of the Autumn Statement outlines how the Government will utilise the savings instigated in Area 1 to accelerate its supply side reforms by investing in infrastructure, supporting enterprise and generally re-balancing the economy. The proposals key to the local government, economic development and regeneration sector are:

- To use savings from the current Comprehensive Spending Review period to fund £6.3billion of additional infrastructure investment. A further £5billion will be committed in the next Spending Review period as part of the National Infrastructure Plan[3];
- To use a Memorandum of Understanding with two UK pension funds to support an additional £20billion in infrastructure development;
- To increase the value of the Regional Growth Fund by a further £1billion and extend it into 2014/15;
- To develop £20billion of funding from a national loan guarantee scheme, which will lower the cost of lending to small businesses;
- To make 100 percent capital allowances available in the Black Country, Humber, Liverpool, North Eastern, Sheffield, and Tees Valley Enterprise Zones.

---

[3] Hm Treasury (2011) *National Infrastructure Plan 2011.* http://cdn.hm-treasury.gov.uk/national_infrastructure_plan291111.pdf

Area 3 – fairness

This section of the Autumn Statement outlines how the savings and economic stimulus packages outlined in Areas 1 and 2 will continue to be fair for businesses and families. The concept of fairness, as it is used in this statement, is based around three key principles. The first is that households and business continue to benefit from low rates of interest; the second is to ensure that the country is protected from the worst of the global crisis; and the third is to ensure that future generations are not burdened by debt. The proposals key to the local government, economic development and regeneration sector are:

- To introduce a Youth Contract worth a total of £940 million over the Comprehensive Spending Review period providing a myriad of support including:
  - Additional support from Jobcentre Plus for unemployed 18-24 year olds;
  - Careers interviews with the National careers service and an offer of sector based Work Academy places (250,000 people) after three months on JSA;
  - Fund 160,000 wage incentives of £2,775 to stimulate private sector employment of young people and 40,000 payments for small firms to employ young apprentices;
  - Provide £50million annually to support disadvantaged 16-17 year olds classed as NEET in entering education, apprenticeships or jobs with training.

CLES Critique

The Autumn Statement provides a number of opportunities for critique and a number of unanswered questions. The following section outlines some of CLES' key concerns and thoughts for our member base.

A continued re-shaping of the role of local government

The Autumn Statement 2011 reiterates the Government's austerity measures in relation to local government. With the reduction in public spending period extended to 2015/16 and 2016/17 local authorities will continue to experience significant reductions in their budgets and additionally their ability to provide services. Budget cuts should not necessarily be seen as a negative and indeed, local authorities should not wallow in the cuts but both recognise their role as a place steward and take advantage of, and maximise the funding resources they continue to have available. Specifically local authorities should:

- **Develop their partnership working and relationships with the commercial and social sectors** to ensure any new infrastructure, business and economic development activities are cognisant to place. There is a key strategic enabling role here in embedding priorities and maximising benefit;
- **Recognise the value of and foster their procurement spend to reap maximum local economic benefit**. Despite the cuts, local authorities still spend around £50billion each year upon procuring goods and services. There is a role here for local authorities in harnessing this spend and working with service deliverers to maximise the benefit of spend for the local economy;
- **Promote a diversity of service provision**. This means working with the commercial and social sectors to have service providers which add the greatest value in efficiency terms but are also effective in delivery, meet the needs of local communities and address inequality.
- **Commission on an outcomes basis**. Related to the diversity of provision, local authorities should look to ensure service provision is linked to key local priorities and delivers a depth and breadth of potential outcomes.
- **Understand the barriers to local business stimulation**. This means working with business representative bodies such as the Federation of Small Business to understand the impact of local government activities upon small business and the support required to stimulate enterprise.

Measures will lead to increased poverty and social exclusion
The Autumn Statement reverses previous Coalition Government spending commitments to child and working tax credits and inherently child poverty reduction targets. The decision not to press ahead with the £110 above inflation increase in the child element of working tax credit may well save the Government around £1billion each year; but it will push more families and more children into deprivation and poverty. With the upcoming shift of the welfare benefit system to Universal Credit in 2013, it may well actually disincentivise parents from working.

The reversal of the commitment will also have an impact on local government and the voluntary and community sector. Increased poverty will ultimately mean increased demand for services around: debt advice; housing; benefits; employment; and training. There is a key role here for local government in understanding the needs of families living in poverty, the causes of poverty, and how existing service provision can be joined up across departments and providers to tackle the issue.

Infrastructure investment must bring local economic, social and environmental benefit
The Autumn Statement gave the go-ahead for around £6billion of the £30billion of infrastructure investment to take place over this Comprehensive Spending Review period and the next. Investment will include on stretches of the M6 motorway between Birmingham and Manchester; electrification of the Leeds to Manchester TransPennine Express railway line; and investment in the rail link between Oxford and Bedford.

On paper, these investments look solid. However there are a number of worries. First, the £6billion figure is relatively small given the current economic times, representing only about 0.1% of GDP per annum. Is this sufficient investment to kick-start a flailing economy and create effective links between markets? Second, there appears to be an over-emphasis upon London and the Greater South East for the investment. A £4million investment in the Tyne and Wear Metro is insignificant when compared to the £270million investment in the Oxford and Bedford link. The question here is whether the Government is just committed to the already successful London market or whether it is truly committed to stimulating growth in the South West, Midlands and North of the country and UK.

The third is probably the most worrying in that the investment does not correlate with a reflection upon: what the involvement of local authorities will be, what benefits the investment will bring in economic and social terms, how environmental issues will be mitigated, how long it will take, and most importantly how it will create jobs. Nor, does it and the associated National Infrastructure Plan discuss the further 465 infrastructure projects to be developed in any detail.

CLES would argue that local authority economic development and highways departments need to be engaged in any infrastructure development on their 'patch' and ensure appropriate consideration is made of local employment, apprenticeships, and supply chains in developing and delivering new infrastructure.

Are business incentives sufficient?
The Autumn Statement provides a strong rhetoric of support for small business growth and entrepreneurship including: extension of the Regional Growth Fund; credit easing measures for SME's and aspiring entrepreneurs; and reduced bureaucracy around employment law. The loan schemes reduce a significant barrier to aspiring entrepreneurs in setting up in business which is access to finance, so that is positive. There are however a number of key concerns and questions around business incentives.

First there must be some draw backs to loan schemes involving banks, notably around terms and conditions; it may well be financially beneficial for small business in the short term, but how will the investment play out in the longer term in terms of repayments. Second the loans being offered are based on the assumption that there are aspiring entrepreneurs wishing to set up in business. The UK is notoriously un-entrepreneurial when compared to global competitors, so there is a question over whether there is sufficient demand to take advantage of the breaks.

Third, whilst the Regional Growth Fund has been through two funding cycles there is very little knowledge of the types of activity which has been funded and whether it has been effective in stimulating jobs and economic growth. Additionally there has been little rigorous evaluation. Fourth, there is question over who this new investment is for: whether it for the 'high-growth' companies which have been the mainstay of Government rhetoric up until now; or the wider SME base.

Will the youth contract tackle youth unemployment?

The youth contract is designed to tackle youth unemployment in the UK which has risen above the 1 million mark and also overcome some of the challenges Work Programme contractors are facing in engaging and supporting this particular target group. Whilst the Youth Contract is different from the Future Jobs Fund (FJF) in terms of its market being the private sector, it shares many of the same traits. Specifically it provides a six month subsidised work experience package. For CLES there are five key unanswered questions around the Youth Contract:

- **Will private sector firms be willing to invest in youth unemployment?** Employers are required to fund half of a young person's wages and may be reluctant to invest at a time of limited growth, jobs and employer confidence.
- **What mechanism will be put in place to ensure the 'youth contract' is not misused by employers?** The anticipated private sector job growth has failed to materialise and so there is a real danger the 'youth contract' could be used to substitute existing jobs, particularly those that are temporary in nature, due to the wage subsidies available.
- **Will on-going employability support be provided during the 6 month placements?** This was a central element of FJF and is much needed by young people if they are to have a better chance of finding or sustaining employment after the six month placement.
- **What is Government's strategy for job growth to stimulate opportunities for young people?** Subsidised six month vacancies for young people are clearly welcome but the Government also needs a strategy to stimulate job growth so opportunities exist for young people after their 'youth contract' has finished.
- **What is local government's role within the 'youth contract'**? It appears the 'youth contract' is bypassing local government and being administered by Work Programme providers. Councils are place stewards meaning they should be central to this scheme, utilising their experience of FJF and facilitating apprenticeships through their procurement spend.

Concluding thoughts

As anticipated, there is little in the Autumn Statement 2011 for local authorities and the wider public sector. There are no new funding sources, which is to expected; however the Statement further trims public sector budgets. There are no new identified direct roles for local authorities in emerging interventions and no join up with the Localism Act. And there is no evidence of an emerging and future relationship between the centre and local. What is evident is an orthodoxy to intervention; approaches focused upon utilising infrastructure and tax breaks to stimulate jobs and growth. There is a lack of new economic thinking; or indeed any optimism that the current period of austerity will be overcome.

We at CLES feel that the time is nigh to move away from this orthodox approach to economic renewal and hand powers and responsibility to the locality; effectively economic localism. The whole function of local economic development needs a boost and there is a case to be made for local authorities and Local Enterprise Partnerships to take control of the economic destiny of their localities in: developing their own investment models; developing their own reindustrialisation strategies; and harnessing their own wealth for investment purposes. We need to think about how top down intervention can be matched with economic localism effectively.

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