CLES
Centre for Local Economic Strategies

BULLETIN

The Autumn Statement 2014

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Context

Coming six months ahead of the 2015 General Election this year's Autumn Statement was always likely to be an even more political affair than normal, with the Government keen to point out successes and announce positive details, and the opposition keen to highlight weaknesses and failings. As with every political exchange the truth falls somewhere between the two sides of this divide.

In the days leading up to the Autumn Statement, the Government announced the projects that would benefit from its previously announced capital investment programme. These projects included: HS2 (£70bn), Hinkley Point (£25bn), HS3 (£7bn), Cross Rail Two (£20bn), Thames Tideway Sewer (£4bn), London Garden Bridge and a third London runway. They also included a £235m science centre in Manchester. This suggested an Autumn Statement that would continue to utilise infrastructure development to facilitate growth and jobs.

In fact this capital investment was nothing new, but a smokescreen for an Autumn Statement which was about further deficit reduction and cuts. The key contextual issue for the Autumn Statement was the condition of public finances. Despite significant public expenditure cuts since 2010, the financial position of the Government has not improved. The OBR (Office of Budget Responsibility) now expects government borrowing for 2014/15 to be £91.3bn, £4.9bn over its previous target. During 2015/16 borrowing is expected to be well above that outlined by the chancellor in his March budget - £75.9bn rather than £68.3bn.

Meanwhile, the OBR has said that it expects higher growth this year at 3 percent and next year at 2.5 percent, but lower than expected growth from 2016. Underlying this growth forecast are much lower levels of productivity than expected, of the G7 countries only Italy has lower productivity than the UK.

This bulletin seeks to explore this debate of infrastructure development versus cuts in more detail and highlight what was in the Autumn Statement for those in local government and those working in local economic development.

The content of the Autumn Statement

Public spending deficit reduction was the core element of the Autumn Statement. Previously the Government had announced that by this year the deficit would have been cut to £35bn, instead the Autumn Statement confirmed that the deficit this year would be £100bn. Due to the weaknesses in the UK economy, with lower tax receipts than forecasted, leading to an increase in the deficit by

£25bn during the next Parliament, and £7bn of tax cuts announced in the Autumn Statement, further spending cuts are necessary if the Government is to meet its targets. As a result, the cuts announced in the Autumn Statement will reduce public spending to 35.2 percent of GDP by 2020, its lowest level in 80 years.

These further reductions are likely to require cuts to non-protected activities such as local government, police and justice amounting to a further £60bn by 2019-2020. By May 2015, funding to local authorities will also be 40 percent lower than it was in 2010. It should also be noted that adult social care does not form part of the protected spend on health and social care. So far the UK has seen 40 percent of the necessary cuts since 2010, with the next 60 percent to fall following the 2015 General Election. The OBR has said that spending in non-protected departments will fall from £147bn this year, to £86bn in 2019/20. As more money is taken out of the economy the consequence will be lower growth from 2016. The 2014/15 year will actually see the smallest reduction in the deficit since 2009/10, despite that year seeing the largest percentage GDP increase during that period. This exposes the underlying weakness in the UK economy, with real wages having fallen by 4 percent since 2010, tax receipts have not risen.

Key points from the Statement

The above emphasis upon deficit reduction and cuts begs the question of what exactly was in the Autumn Statement for local government and local economic development. The below details some of the tenuous activities which could have implications for local government and local economic development practitioners over the coming years. We split them down into key themes.

Transport

- Plans for how the £15bn capital fund announced last June will be spent have been finalised and published as part of the Roads Investment Strategy;
- Funding for highways maintenance, totalling £5.8bn over the next six years;
- Government funding for driverless car trials in Greenwich, Coventry and Milton Keynes, and Bristol, of up to £19m.

Housing

- Government will consult on ways to increase the borrowing capacity of housing associations;
- Affordable Housing capital investment programme will be extended to 2020;
- Government will release land with capacity for 150,000 homes between 2015 -2020;
- A series of large scale housing developments will go ahead. This includes development at Northstowe, which will trial the potential for central government to directly commission housing development.

Planning

- Government to bring forward proposals for compulsory purchase reforms for consultation at the Budget 2015;
- Government to speed up Section 106 negotiations;
- Government intends to raise the planning performance threshold of major decisions to 50 percent as performance improves, and will publish new data on local authority performance in processing smaller planning applications within eight weeks;
- Measures to ensure that the principle of development only needs to be established once.

Devolution

- Northern Ireland to set its own corporation tax;
- Full devolution of non-domestic (business) rates to Welsh Government by April 2015;
- Local authorities in England and clinical commissioning groups to have indicative multi-year budgets as soon as possible after the next Spending Review.

Local Growth

- The Super Connected Cities SME connection voucher scheme will be extended to March 2016 and to more cities;
- The allocation of £1bn from the £12bn Local Growth Fund for a second wave of Growth Deals announced in the previous spending round. LEPs will be allowed to bid for local projects.

Business Rates

- The doubling of small business rate relief will be continued for a further year from 1st April 2015;
- The transition arrangements for properties with a rateable value of £50k and below will be extended from 1st April 2015 to 31st March 2017;
- Promised review of the future structure of business rates in a way that would be fiscally neutral to local authorities;
- A single online application process for businesses to apply for license.

Critique of the Autumn Statement

There has been a fairly broad consensus that the scale of the Public Sector Borrowing Requirement, the deficit, needs to be cut. The 2010 political battle lines were drawn up on this point, and they look be drawn up on exactly the same point in the approach to the 2015 General Election. Despite making it a major objective, the Government is no further ahead than the last Labour Chancellor, Alistair Darling, was projecting in 2010 that a Labour Government would have been by now.

If the Government is going to meet its revised deficit targets set out in this Autumn Statement, then it is going to need to make an additional £60bn of cuts during the next Parliament, assuming it is re-elected. The impact of these additional cuts will mean the UK has the smallest public sector since 1930s. Reducing public spending to 35 percent of GDP will also mean a loss of a further one million public sector jobs by 2020, on top of the 300,000 already lost since 2010, and a further public sector pay squeeze. The OBR has said that if the Government's planned cuts in day-to-day departmental spending would pose a significant challenge if they were to actually happen.

The central problem contained within the Autumn Statement is that although there has been growth, productivity has not grown. Real wages have also not grown, and as a consequence in-work poverty has increased, and despite benefit reforms more people are being forced into claiming benefits. This means that the Government is not realising the higher tax revenues it was anticipating and is paying more out to people who are working but do not earn enough, which exposes the underlying weakness of the UK economy.

Whilst the reform of Stamp Duty illustrates that housing is clearly seen as the centre of the Government's growth strategy, private sector investment in housing (both new build and maintenance) is actually expected to fall from 13 percent this year, to just 2.4 percent by 2019. Perversely, Stamp Duty reforms are likely to lead to an increase in property values, since the saving made in the stamp duty will likely lead to sellers demanding higher sale prices, making it more difficult for first time buyers. The result is likely to be a short-term increase in the housing market over the next six months.

Meanwhile, the Chancellor did not lift the Housing Revenue Account borrowing cap and take council housing out of the Public Sector Borrowing Requirement, which would have meant that local authorities could have borrowed against their assets.

The announcement by the Government in the days leading up to the Autumn Statement of a raft of capital funding commitments, money which it should be noted had already been announced, growth in government investment will actually fall from 3.3 percent this year, to 1.6 percent in 2016 and will then stay below 2.3 percent for the rest of the next Parliament. It must also be noted that of the capital schemes announced, the majority of the funding is for projects that are either in London or designed to make London more connected. This does little to balance investment across the UK.

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Nor has the Government used tge Autumn Statement to increase devolution to England's cities or regions. The UK Core Cities Group has welcomed the announcement of a sovereign wealth fund linked to shale gas and the infrastructure funding, but they have been disappointed that the increased fiscal freedoms promised to Northern Ireland and Wales (the Government has promised the full devolution of business rates to the Welsh Government in March 2015) would not be extended to England's cities.

Towards a new approach to Economic Development

The fundamental flaw in current UK economic policy is that the type of growth and jobs is based on fairly low skill, low wage and precarious employment. The pattern of economic growth in not balanced across the UK, with still too much emphasis being placed on the economy of London and the South East, which is witnessed in where the majority of government capital funding projects are located. The Government also seems to want to increase activity in the housing market with the reform of Stamp Duty. As we have said, however, although this may lead to a short-term increase in activity in the housing market, prices are likely to rise in line with the reduced Stamp Duty, benefiting sellers but making it more difficult for first time buyers.

The continued reduction of local government spending power over the next five years will further reduce the ability of local authorities to provide quality public services and help boost local economies, just at a time when both of these are critical. For CLES, there needs to be a much stronger emphasis on local economies across the UK, with a key role played by the public sector and local government in particular. CLES CEO Neil McInroy wrote about the 2011 Autumn Statement (http://newstartmag.co.uk/your-blogs/autumn-statement-a-rabbit-caught-in-the-headlights), and the comments he made then are still valid now – in the absence of a creditable economic policy from the UK Government, local government needs to take an active lead in developing its own local economies. The UK Government, however, is reducing local government's ability to respond.

The UK Government and local government across the UK may wish to consider the work CLES has done around our Economic Resilience Model (http://www.cles.org.uk/research/resillience/). The model's principal assumption is that through improving the quality of the multitude of relationships within activity, synergies and innovative responses to the key challenges can be tackled. It rejects the Government's received wisdom that in some way the public sector is bad and the private sector is good, and sees balanced and sustainable local economies where resilient places are those that have strong relationships between the commercial, public and social economies.

Only with much more responsive, better resourced and autonomous local and regional government will the UK achieve more balanced and sustainable growth.

At CLES, we also believe that there needs to be much greater devolution to English regions and cities, however this must be twinned with proper fiscal decentralisation and with a double dividend to communities. The Autumn Statement was an opportunity to up the ante on such debate and failed. Only with much more responsive, better resourced and autonomous local and regional government, providing quality public services and supporting local growth, will the UK achieve more balanced and sustainable growth.