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Autumn Statement 2012: Was it a good deal for cities?

Joe Sarling, December 2012

Against the backdrop of a faltering economy, the Autumn Statement was an opportunity for the Government to set out clear growth objectives. While there were some headline-grabbing initiatives which could improve people's lives, the statement focused more on supply side measures rather than demand-stimulating policies.

Althought the Government's attention is focused on cities, more needs to be done to support private sector expansion in order to stimulate local economic growth.

The focus and key policies set out in the Autumn Statement for cities can be broadly grouped into three sections: infrastructure, cuts to Government expenditure and an emphasis on a place-based approach.

Infrastructure

The key announcements included:

- An extra investment of £5 billion in infrastructure over the next two years to be funded by like-for-like cuts in Whitehall department budgets.
- A £1 billion investment into roads will impact on local economies as various projects have been identified:
    - Investing £378 million to upgrade key sections of the A1 (Lobley Hill and Leeming to Barton) in the North East.
    - Investing £157 million to expand capacity on a new link between the A5 and M1 in the East of England and dualling the A30 Temple to Carblake in the South West.
- Furthermore, rail investment, such as the extension of the Northern Line in London, improvements to flood defences and rolling out ultra-fast broadband in 12 smaller cities (Brighton and Hove, Cambridge, Coventry, Derby, Oxford, Portsmouth, Salford, York, Newport, Aberdeen, Perth and Derry-Londonderry) are all measures that could deliver jobs and training in the short term and help boost growth in the longer term.

Announcements designed to encourage investment in infrastructure over the longer term were also relevant for cities.

- Tackling the supply issue of housing was high on the agenda as an additional £300 million was pledged to the Affordable Homes Programme which the Government hopes will deliver 15,000 affordable homes and bring 5,000 empty homes back into use.
- A new £200 million fund was announced to support the building of private rented sector homes.
- Overall funding and reforms to the housing sector were announced with the aim of assisting construction of up to 120,000 new homes.

Other initiatives for infrastructure included:

- An independent infrastructure investment platform for pension funds.
- Increasing the Annual Investment Allowances in plant and machinery from £25,000 to £250,000 per annum.
- Plans to take High Speed 2 to the North West and West Yorkshire.
- Offering empty property rates relief to speculative new developments.

But these policies are likely to only have a small impact and are unlikely to give the economy the kick-start it needs. More still needs to be done, particularly on:

- Supporting house-building – we need 232,000 homes a year just to keep up with demand according to the Department for Communities and Local Government.
- Developing new investment models for infrastructure that cities around the country can use to share risks and rewards with the private sector and get developments moving (PF2, the updated version of PFI could be significant in this regard).
- Ensuring that infrastructure delivery is brought forward quickly rather than taking decades to deliver.

Spending cuts

Many policies focused on the supply side, but it is important to note that spending cuts matter to cities because of the potential impact on economic demand. Key measures to assist those on low incomes included:

- Increasing the basic tax threshold to £9,440.
- Freezing or reducing council tax for another year.
- Cancelling the three per cent rise in fuel duty.

However, there were also a range of measures designed to reduce public spending, most significantly including below-inflation increases in working-age benefits.

All of these measures may affect local economic demand as they impact on how much disposable income people have. Importantly, cities could be particularly affected by these reforms because they contain the highest concentrations of people on various incomes and various forms of benefit and certain cities may be hit harder than others. HM Treasury's charts[1] show that those on the lowest three income deciles will suffer the biggest proportional impact (although the wealthy will lose the most in cash terms).

Spending cuts to Government departments have varying effects across cities. Some cities are more reliant on public sector jobs, such as Hull, Stoke and Middlesbrough, while buoyant economies such as Milton Keynes, Crawley and Reading are less reliant on public sector jobs relative to their overall employment base.

The impact on welfare payments is likely to differ across cities too. Cities such as Birkenhead, Liverpool and Dundee have a welfare per capita bill of over £3,000 while cities such as Oxford, Reading and Cambridge have a bill of under £2000.[2]

Cuts could affect the local economy, not just in terms of jobs and welfare but in terms of consumer spending. Cities such as Birkenhead, Rochdale and Liverpool could have the highest decrease to consumer spending (over £190 per capita) while Oxford and York has the lowest (under £100 per capita).

Emphasis on a place-based approach

The reallocation of spending along place-based lines is a positive measure for cities. There was an emphasis in Lord Heseltine's report[3] endorsing greater local devolution of powers, responsibilities and budgets, in particular to Local Enterprise Partnerships (LEPs).

- The Government will provide £10 million per year for capacity building within LEPs .
- Allow LEPs to apply for up to £250,000 additional funding per year to support the development and delivery of their strategic plan.

1. http://www.hm-treasury.gov.uk/d/as2012_distributional_analysis_impact_on_households(1).pdf
2. Centre for Cities (2011) *Cities Outlook 2011* London: Centre for Cities
3. http://www.bis.gov.uk/heseltine-review

- LEPs will also play a role in shaping skills policy that fits for the demographic, university and private sector profile.

One of the most important announcements for cities and LEPs was around the idea of a single capital pot. The 2015-2016 Spending Review (due in the first half of next year) will include a single pot of pooled funding that LEPs can bid for drawn from current departmental budgets, such as transport, housing and skills.

However, the Autumn Statement spared neither national nor local government from cuts. Whitehall departments will continue to feel the squeeze and be encouraged to follow the Department for Education model of reducing spending on administration, while local government are being given a reprieve from next year's 1 per cent cut but expected to deliver a 2 per cent cut in spending the year after (worth £445 million). With a move towards a place-based approach it will be interesting to see how cuts to this department will impact.

What's next for cities?

Over the next year, the Centre for Cities will be investigating how more funding in areas that affect local economies can be allocated to 'city regions', many of which approximate to Local Enterprise Partnership (LEP) areas. The devil, however, will be in the detail of this announcement, and it will be particularly important to understand the implications of having a competition between LEPs for the money.

However, it is hopeful that the Government will be using the one year Spending Review to pilot this kind of place-focused approach, allowing areas to allocate money that supports a better functioning labour market to the priorities of that local area, whether that's transport, childcare, skills, housing or a mix of all of the above.

We will also be following developments to the housing sector, infrastructure and local government finance extremely closely as central and local Government look to drive economic growth.

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