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Autumn Statement 2013 Briefing

December 2013

For the first time this Parliament, Chancellor George Osborne has been able to deliver an Autumn Statement against the backdrop of a recovering economy. Despite this, his message was clear: "the plan is working", but there is more to be done and "difficult decisions" still to be made. Despite Office for Budgetary Responsibility (OBR) figures showing that the economy is growing faster than predicted and performing well against other major economies, the budget will not be balanced until 2019. It therefore needs to be a "responsible recovery", argues the Chancellor, with austerity set to continue well into the next Parliament.

Whilst much of the Autumn Statement was focused on the national economy, there were several announcements that directly related to cities. This briefing explores some of the main implications of these announcements for cities.

1. Economic performance

- GDP growth projections raised from 0.6 per cent to 1.4 per cent for 2013
- Unemployment to fall to 7 per cent by 2015 and below six per cent by the end of 2017
- Employment expected to reach 31.2 million by 2018

The Statement contained good news on jobs. Three new private sector jobs have been created for every public sector job lost, with 400,000 new jobs created in 2013 and the rate of new job creation higher in Carlisle and Wirral than in London. Yet as always economic recovery will be uneven across the country. Some cities have almost certainly not yet emerged from the recession of 2008 and many others are facing challenges not just in trying to support new jobs but trying to improve the quality and sustainability of those jobs.

Understanding how a "responsible recovery" will play out differently across cities, taking into account not only variation in economic performance but also the differential impact of public spending cuts, is vital for policymakers charged with improving living standards, reducing the deficit and ensuring sustainable prosperity.

2. Local Government

- Local Growth Fund maintained at £2 billion till 2015-16
- A City Deal for Greater Cambridge and commitment to develop a Glasgow City Deal
- Continued grant equivalent to a 1 per cent increase for local authorities who freeze or reduce council tax in 2014-15 and 2015-16

A new City Deal for Greater Cambridge was announced, with a proposed Gain Share – a payment by results mechanism whereby the area will keep a larger proportion of the proceeds of economic growth generated in the locality (in essence a Tax Increment Finance deal in one of the cities best placed to make this work). The Government also announced a commitment to work with Glasgow City Council on a City Deal and to work with the Devolved Administrations to explore whether aspects of the City Deal model could be applied across the UK.

There was some good news for Local Enterprise Partnerships (LEPs) in the Autumn Statement. The Government is maintaining the £2 billion Local Growth Fund, despite taking New Homes Bonus out of it (see below) and it is explicitly encouraging LEPs to use Growth Deals to set out how the connections between the public services reform and economic growth agendas could be strengthened. The Government has also announced that nearly £800 million of borrowing at the Public Works Loans Board project rate will be available to LEPs in partnership with local authorities in 2014-15 and 2015-16. This will be allocated on a competitive basis alongside the Local Growth Fund as part of Growth Deals.

3. Housing

- New Homes Bonus pooling to be scrapped except in London
- Housing Revenue Account spending cap increased by £150 million each in 2015-16 and 2016-17
- £1 million investment to unlock housing sites
- Support to regenerate the 'worst' housing estates
- Review into the role local authorities play in supporting overall housing supply

Announcements that focused on increasing the supply of housing and reviewing the role of local authorities in financing house-building were welcome. The commitment to support the regeneration of the 'worst' housing estates is also positive, as long as support is targeted and does not replace or displace regeneration activities that would have taken place anyway.

Restricting the pooling of the New Homes Bonus (NHB) to London is the right thing to do, as we set out in our recent briefing.[1] Pooling the NHB nationally and devolving responsibility for spending to LEPs would have reduced incentives for local authorities to build more, as well as making the LEP relationships very challenging in some parts of the country, undermining the desired impact of increasing the supply of homes. In London, pooling makes more sense because the institutional framework is well-established and it will facilitate making decisions at scale to improve much constrained supply of housing (although not all London partners agree).[2]

However, for policies focused on boosting supply to be really effective will require it to be a political priority that matches the political and financial emphasis given to underpinning demand via Help to Buy

1 http://www.centreforcities.org/research/2013/09/16/new-homes-bonus-pooling/
2 http://www.insidehousing.co.uk/regulation/councils-slam-pooling-of-new-homes-bonus/6529870.article

4. Business and the high street

- Business rates increase capped at 2 per cent (rather than 3.2 per cent) for 2015-16
- Doubling of the small business rate relief extended till 2015
- £1,000 discount for food and drink retail premises with rateable value below £50,000
- 50% cut in business rates for 18 months for businesses that move into premises empty for a year or more

Supporting businesses, especially SMEs, is important – SMEs account for almost half of private sector turnover in the UK and are a key component of economic wellbeing in cities.[3] It is also right that the Treasury continues to fund these cuts and does not put additional pressure on strained local government budgets, although clarity on when councils will receive the funding is critical.

Business rates are, however, relatively blunt tools and capping them will have greater effects in some areas than others. Business rates relief supports weaker economies more than stronger ones, and as such is a positive way of reducing the tax burden in some areas but should not be seen as a benefit to most city centre businesses. Many of the measures will also only help the smallest of businesses – only premises valued at less than £12,000 are eligible for small business relief, for example. Finally, the announcement of a review in 2017 will add uncertainty for local authorities about the business rates retention scheme as a whole.

Overall, it is good to see the focus on city centres as an important locus for economic renewal. However, the Government also needs to look Beyond the High Street and beyond retail to the broader contribution that city centres make to the economy by attracting high-value and high-paid jobs, which in turn sustain thriving high streets and retail centres. Rather than focus on retail in isolation, policy makers need to start looking at the role of city centres and the contribution they make to local, regional and national economies.[4]

5. Skills, education and employment

- A new pilot for JSA claimants aged 18-21:
  - Mandatory English and Maths courses for claimants without basic skills from day 1 of claim
  - After 6 months, claimants to participate in work experience, traineeships or community work placements
- £10 million Jobcentre Plus support for 16 and 17 year olds who want help to find apprenticeships and traineeships, to be delivered in partnership with local authorities
- £40 million to deliver 20,000 additional higher apprenticeships
- 30,000 additional further education places in 2014-15 and removal of the cap by 2015-16

There is a strong relationship between Maths and English attainment and youth unemployment and so the decision to focus on these skills in improving employment chances for young people is the right one.[5] Similarly, the increase in higher apprenticeships is a positive move towards providing more opportunities for raising educational attainment levels and employability skills.

While we recognize that education and skills policy are primarily about people, a place-based approach is necessary to address the disparities in skills attainments at all ages across the country. Weaker economies, for example, have the most need for, and the most to gain from, investment in basic Maths and English skills.[6] The funding for Jobcentre Plus to deliver support in partnership with local authorities is good news but exactly how this partnership evolves and links to skills initiatives being run by LEPs, FE colleges and the Work Programme in particular places needs to be clarified.

3 *Small Business Outlook,* (2013), London: Centre for Cities
4 Swinney P and Sivaev D, *Beyond the High Street*, (2013), London: Centre for Cities
5 Looking at GCSE attainments across UK cities. Clayton N, *Top Marks?*, (2012), London: Centre for Cities
6 Swinney P, *Learning Curve*, (2011), London: Centre for Cities

6. Infrastructure

- £25 billion investment by the insurance industry into UK infrastructure
- Commitment to Northern Hub and HS2
- London to get new stretch of Northern Line, garden bridge and improved transport links to Gatwick airport

Referencing the update of the National Infrastructure Plan, delivered the day before, the Chancellor emphasised the contributions of HS2 and the Northern Hub to the economy. As we argued in our briefing,[7] investment in HS2 is welcome but cannot be thought of as a silver bullet to solve Britain's transport infrastructure in isolation. HS2 has the potential to deliver significant benefits to economies situated along the line, but without proper investment in local and regional rail connections that enable people to access the HS2 stations, it will not benefit – and may even harm – places that are not connected. Stations also need to be situated in the centre for city economies to reap the benefits, while overall costs need to be managed.

Investment in the Northern Hub, providing better connections between cities in a functional economic area, will indisputably deliver real benefits sooner and to a larger number of northern cities, so it's good to see continued commitment to its delivery.

Conclusion

Overall the Autumn Statement had some welcome policies for cities, including measures to reduce the burden on small businesses, boosting housing supply, encouraging local growth and improving jobs and skills. But ensuring a widely felt recovery across the UK requires a greater focus on how these policies play out in different cities across the UK. The housing challenges in Liverpool are very different from those in London; the skills challenges in Brighton are very different from those in Burnley; and the business growth challenges in Southampton are different from those in Sunderland. If we want a sustainable "responsible" recovery then the recognition that our cities drive the national economy needs to be brought to the heart of the debate.

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7 http://www.centreforcities.org/research/2013/10/30/hs2-policy-briefing/