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Briefing: Autumn Statement 2014

Key points for UK cities

December 2014

In his last Autumn Statement before the General Election, the Chancellor painted the picture of an economy on the mend, with higher growth and lower unemployment than expected, falling inflation and a deficit halved during his time in office.

New statistical standards have boosted growth projections since the Budget this year. Growth in 2014 is predicted at 3 per cent and total growth since 2010 has been revised up to 8.1 per cent. On the jobs front, the Chancellor claimed positive results with youth unemployment down by half, more people in work than ever before and earnings growth the fastest in a while – 4 per cent for those in work for over twelve months.

However, it is worth remembering that these national figures mask the variation experienced in different cities; while London, Cambridge and Reading are growing, other cities such as Blackpool, Hastings and Hull are still struggling to create the jobs and growth required for long-term prosperity. Whilst the Chancellor challenged the claim of an unsustainable recovery based on low pay and insecure jobs, the data is clear that the labour market is changing (and not just in the UK) with more low pay jobs than before, which is having very different implications in different cities.

The rest of this briefing looks at some of the key funding and policy commitments made by the Chancellor and their implications and likely impact on UK city economies.

Devolution and cities in the Autumn Statement

Given the prominence of devolution on the national political and news agendas and the Chancellor's commitment to building a 'Northern Powerhouse', it is not surprising that this pre-election Autumn Statement featured general policy and funding announcements with a focus on moving more power away from Whitehall.

Devolution

Key points:

- **Scotland** – Commitment to implement the proposals in the Smith Commission including, amongst other proposals, partial devolution of income tax and VAT and certain powers over transport, housing and welfare.
- **Wales** – Cross-party agreement on full devolution of business rates.
- **Northern Ireland** – Corporation tax devolved providing the NI Executive can demonstrate financial capability.
- **England –** No new commitments, but an open door for cities who, like Greater Manchester, can demonstrate effective city-region working to discuss similar devolution deals.

The commitment to implement the proposals made in the Smith Commission is a welcome and strong signal that Westminster is willing to give up some control over the UK's funding and governance. Interestingly, Lord Smith also recommended (although not formally) that any devolution to Holyrood should be accompanied by devolution beyond Holyrood to Scotland's major cities. It remains to be seen whether the implementation of the Smith Commission recommendations will pave the way for this to happen.

The Chancellor also confirmed the deal recently made for Greater Manchester to receive more powers and a directly elected city-region mayor and said his door was open for similar deals with other city-regions. More concrete plans for anticipated deals with Leeds and Sheffield would have been welcome, although we do expect to hear more on this soon. We would also have liked to hear a clear commitment from the Chancellor that further devolution of fiscal powers is on the table, not only to build on and enhance the Greater Manchester deal, as well as for other cities.

The 'Northern Powerhouse'

Key points:

- Science and innovation investment including £235 million for a 'Crick' of the North, the Sir Henry Royce advanced materials institute in Manchester (with branches in Sheffield, Leeds and Liverpool), and £20 million for a research centre in Newcastle.
- £78 million funding for a new theatre and exhibition space in Manchester.
- Commitment to produce a comprehensive transport strategy with Transport for the North, including options, costs and a delivery timetable for an East-West rail connection (i.e. HS3)
- Tender for new TransPennine franchises to improve quality of rolling stock between Leeds and Manchester
- £6 billion investment in the northern road network
- A long-term shale gas investment fund for the North

'Northern Powerhouse' encapsulates the Chancellor's commitment, first made in June, to create a more balanced economy by making more of the major cities in the North of England, as counter-weight to London. The devolution of more powers to Greater Manchester through a metro mayor deal comes under this umbrella, for example. And it is also about prioritising national funding more heavily in the North. On this score, northern cities, primarily Manchester, benefitted from major funding for science and culture projects.

Connectivity between cities is vital, and much of the infrastructure that links northern cities is not fit for purpose. Any investment in this area, including the £6 billion portion of the national road improvement (first announced in the National Infrastructure Plan) allocated to northern roads, is welcome. And the commitment to developing a plan for 'HS3' across the North of England is a positive step – although more certainty on timings would allow cities to plan around this as they develop their own city-region transport strategies. The only firm commitment on rail in the North in the Autumn Statement was for renewed tenders to improve the quality of trains on the existing TransPennine line.

Local growth

Key point:

- £1 billion from the Local Growth Fund to be allocated in a new round of Growth Deals

Making more money available to cities (via Local Enterprise Partnerships) for interventions that benefit the local economy is welcome. However we hope that this next round of Growth Deals is more strategic and does not repeat the overly project-based approach of the first round.

Housing, transport, skills and small business: how does the rest of the Autumn Statement affect cities?

The Autumn Statement also contained a number of national measures across different policy areas that will play out differently across cities.

Housing

Key points:

- Stamp Duty Land Tax reformed, removing the cliff-edges between bands.
- Commitment to release public land – enough for up to 150,000 homes between 2015 and 2020.
- A new garden city in Bicester, Oxfordshire - up to 13,000 new homes.
- New development model to be trialled at Northstowe with the Homes and Community Agency taking the lead on delivery – 10,000 new homes.
- The government will extend affordable housing capital investment to 2018-19 and 2019-20, to ensure that on average 55,000 new affordable homes per year continue to be delivered.

This Autumn Statement contained a number of announcements that relate to housing delivery across UK cities. But the most significant mention of housing in the Autumn Statement was the Stamp Duty (SDLT) changes. These will go some way to improving an inefficient tax, which skewed the market considerably at arbitrary price points: but as a tax on housing transactions, the SDLT remains inherently flawed compared with one based on usage (like the council tax). It is a demand side change which will further fuel house price rises in already expensive cities such as London, Oxford and Cambridge. However with little prospect or political appetite of this being comprehensively re-evaluated, 'smoothing out' the SDLT is welcome.

The commitment to releasing public sector land is also useful. However, consideration for how public land is used and where it is located (as public land can be sold with specific usage covenants) is important. It is therefore encouraging that the two examples of innovative housing delivery – Bicester garden city and the direct commission of housing at Northstowe – are close to two of the UK's least affordable cities: Oxford and Cambridge. But it is worth remembering that we would need to build the equivalent of 15 Bicester garden cities each year to match the lowest annual targets for housing need.

There were also some interesting but lower key planning announcements, such as steps to speed up section 106 negotiations and planning applications, and a commitment to evaluate compulsory purchase orders. These are all useful and reflect calls from our previous work to improve the ability of the planning system to support more homes to be built.

The most disappointing omission was any announcement on increasing land supply for housing. We would have liked to see – but did not expect – fundamental re-evaluation of green belt restrictions and where they apply. This is needed to address the scale of the undersupply of housing in our least affordable cities.

Transport and infrastructure

Key points:

- £15 billion for improvements to the national road network.
- £2 million to support the development of a business case for Crossrail 2 ahead of Spending Review 2015.
- Commitment of up to £40 million to extend broadband vouchers until March 2016 – with a focus on doubling the number of northern cities in the scheme.

The Chancellor's big ticket transport announcement, included in the National Infrastructure Plan the day before, was for a major programme of investment in the national road network. Investment in the infrastructure that links UK cities is important and welcome.

We would have liked to see a stronger signal from the Chancellor about the importance of city-region transport, with a clear indication that other major city regions outside London should be considered for the regulatory powers and funding control they need to deliver more effective public transport to link people and jobs.

Skills, employment and earnings

Key points:

- National Insurance contributions abolished for apprentices under 25.
- Post-graduate loans of up to £10,000 to be made available from 2016-17.

There were few major policy announcements on skills and training this year. The key policy was support for employers to take on more apprentices through tax incentives. This is a positive move towards providing more entry routes into employment. It is important that measures to increase the number of apprenticeships are accompanied by reforms to improve the quality of apprenticeships and the number of higher apprenticeships. Reform is also required to ensure that young people are able to make informed choices about future education and career plans.

Small businesses

Key points

- Review of the future structure of business rates promised and due to report by Budget 2016.
- Doubling of Small Business Rate Relief and 2 per cent cap on the RPI increase in the business rates multiplier extended to April 2016.
- £400 million support for venture capital investment in small firms with growth potential through the British Business Bank Enterprise Capital Funds programme.
- Continued support for small businesses to access finance through the Enterprise Finance Guarantee Scheme with up to £500 million of new lending in 2015-16.
- Extension of the Funding for Lending scheme till January 2016.

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. But capping business rates will have greater effects in some cities than others. In many cities across the UK, firms are paying rates that do not reflect property prices or rents which have fallen in many places since the recession, while they have increased in other cities. 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.

And while a review of the flawed business rates system is welcome, any review should include revaluation as a first priority, because the Government did not revalue the system in 2013. While there is broad consensus that the business rates system needs reform, the changes that any reform should bring about is much less clear.

Conclusion

Looking ahead to the next Parliament: cities in the fiscal and public spending context

Overall the Autumn Statement had some positive policies for cities, including measures to support small businesses, improve transport and connectivity and build more homes. But given the fiscal context and pressures on public spending yet to come, it was also a missed opportunity to give cities more funding certainty and flexibility as well as more control over local taxation in order for them to respond to varying economic conditions and priorities across the country.

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