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## **Economy Update**

### **Purpose of report**

For discussion.

### **Summary**

The LGA Executive has received a bi-monthly economic update on the economic situation and the implications for councils.

The report is the first update on the economy for the Economy and Transport Programme Board. We would welcome members' views on the value of this as a regular update to future meetings.

### **Recommendation(s)**

- Members are asked to note the update.

### **Action**

- Officers to take forward members' suggestions.

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## **Economy Update**

### **Background**

#### **The economic situation**

1. The economic situation is fragile - with concerns amongst commentators about the strength of the recovery and inflation. Modest growth has returned – 1.2% in the quarter to June 2010.
2. Indicators for the economy are mixed:
  - Unemployment has been falling slowly since the start of the year – the claimant count, basically the number of people claiming Job Seekers Allowance, has fallen from 5% to 4.5%. But there is an obvious risk that falling public sector employment adds to unemployment as the government's fiscal consolidation bites;
  - The pound is weak against the dollar but strong against the euro as a result of the eurozone debt problems. This is the wrong exchange rate combination for the current pattern of Britain's trading relationships;
  - inflation as measured by the Consumer Price Index is at 3.1%, down from 3.7% in April, but still well above the Bank of England's 2% target, and the Retail Price Index is at 5.0%;
  - The rate of inflation suggests interest rates need to rise. But the Monetary Policy Committee has shown itself reluctant to depart from an extremely loose monetary policy – holding the Bank Rate at 0.5% throughout the year to date;
  - Youth unemployment is still extremely high, at over a fifth of all young people.
3. The public finances are the government's principal source of concern with debt at 11% of GDP. The figures are well rehearsed – a commitment to tighten public finances by £113bn by 2014-15, which includes £61bn reductions in departmental spending.

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**Issues for councils**

4. There are a number of issues for councils:
- the government's deficit reduction plan will of course impact on councils themselves as an important part of their local economies;
  - there will be particular risks in those places with high concentrations of public sector employment or where the public sector is a large part of the local economy;
  - the debate about the functions and funding of council-led local enterprise partnerships, and how to promote private sector growth, will quickly gather pace.
  - the government is developing a new Work Programme which will help people back into work regardless of whether they receive Job Seekers Allowance or Employment Support Allowance/Incapacity Benefit – this means many of the people on the programme will not be job ready having received Incapacity Benefit for some time but having been re-assessed as work ready. The funding and design of the programme will impact on the work councils do to help people back to work.
  - The economic prospects for young people remain a source of concern. The government is committed to expanding the number of apprenticeships. Many councils have already introduced their own schemes, worked with their supply chain or supported apprenticeships in the local economy.

**LGA Group response**

5. In line with the Group business plan, we are providing lobbying and other support for councils in a number of ways. In particular, consistent with the stance developed in our work on place based budgets, we are:
- lobbying for Local Enterprise Partnerships to have as broad an economic remit as councils wish to give them, potentially encompassing infrastructure, regeneration, employment support and skills;
  - Lobbying for a council role in commissioning providers of the new Work Programme so that provision fits the needs of local people and local employers. The LGA has a seminar with employment support providers and councils on 8 September to explore these issues;

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- continuing to promote better ways of tackling youth unemployment, particularly through our Hidden Talents work – we are building on our engagement with the voluntary sector and we are now talking to business;
  - lobbying for a new approach to financing capital spending on regeneration, housing and infrastructure;
  - Our proposals would involve significant new roles for councils in strategic planning and partnership working and building on the group's existing support will require a package of support to ensure they have the skills, capacity and leadership ability required.
6. As everyone knows, the main economic event on the horizon is the Spending Review announcement on 20 October and the lead up to it will be an intense period for all lobbying organisations.