

Item 5

Economy Update

Purpose of report

The report updates the board on the economic outlook, the implications for local government, and the LG Group's response.

Summary

The economy is growing but the economic outlook is uncertain. Deficit reduction now makes the UK look a safer home for investment than most developed economies but raises questions about the drivers of future private sector growth.

Recommendation(s)

Members to comment on the update.

Action

Officers to take forward lobbying and support for councils in line with members' guidance.

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The economic situation

1. The government's deficit reduction plan has seen credit agencies raise the outlook for the UK's triple-A credit rating from "negative" to "stable" at a time when other developed economies still face a crisis of investor confidence. British bonds are trading closer to the German benchmark than any other EU country's bonds. On the other hand, consumer and business confidence¹ is fragile - with concerns amongst some commentators about the impact of the fiscal consolidation on the recovery and continuing concern about inflation. And there is uncertainty about the prospects for the US and euro area².
2. Growth continues, at 0.8% in the quarter to September 2010³. But forecasters expect the path of recovery to be modest. The Office for Budget Responsibility expects growth to be 1.2% in 2010 and not to exceed 2.9% over the next five years. The IMF sees growth no higher than 2.5% over the next few years.
3. Other indicators for the economy show that:
 - 3.1 Unemployment has been falling slowly since the start of the year – the claimant count, basically people claiming Job Seekers Allowance, has fallen from 5% at the start of the year to 4.5% in September. But there is an obvious risk that falling public sector employment adds to unemployment as the government's fiscal consolidation bites (the Office for Budget Responsibility estimates public sector job losses at 490,000);
 - 3.2 In June, there were 30.8 million jobs in the UK economy. Although that is a rise of 0.1 million on the previous quarter, it is still below the December 2008 peak of 31.5 million;
 - 3.3 The pound has depreciated significantly during the downturn. But this has not, so far, resulted in a parallel increase in exports;
 - 3.4 Inflation as measured by the Consumer Price Index is at 3.1%, where it has been since July, down from 3.7% in April, but still well above the Bank

¹ See for example the Federation of Small Business "Voice of Small Business Index"

² See for example, the Bank of England's latest Inflation Report
<http://www.bankofengland.co.uk/publications/inflationreport/irlatest.htm>

³ Figures from HM Treasury

of England's 2% target. The Retail Price Index is at 4.6%, down from a 5.3% peak in April;

- 3.5 The rate of inflation, above the target, would otherwise suggest that interest rates need to rise. But the Monetary Policy Committee has shown itself reluctant to depart from an extremely loose monetary policy – on 4 November holding the Bank Rate at 0.5% now for 20 months in a row⁴. The Bank however did decide not to pump further money into the economy through more quantitative easing;
- 3.6 The public finances are the government's principal source of concern, with the deficit at 11% of GDP and debt at 85%. This is a structural problem. The figures are well rehearsed – in the 20 years to 2006-07 public spending averaged around 40% of GDP – it rose to 48% in 2009-10. At the same time, public sector receipts fell from 40% to 37%. The SR announced cuts of £81 billion to reduce overall spending to 2006-07 levels by 2014-15.

Issues for councils

4. There are a number of issues for councils:
 - 4.1 The government's deficit reduction plan and Spending Review will of course impact on councils themselves as an important part of their local economies - it is estimated that London will lose 122,000 public sector jobs (because of the high concentrations of civil servants in the capital). In the North East, the estimated public and private sector employment effects of public spending cuts are estimated at a loss of 43,000 jobs (or 4.1% of the total jobs in the region);
 - 4.2 In some places it is much less likely that the private sector will create jobs. Between 1998 and 2008, private sector jobs in Brighton and Milton Keynes grew by 25% - in Wakefield they grew by 13%. In other places they fell – for example by 16% in Stoke, 12% in Blackburn and 6% in Blackpool⁵;
 - 4.3 The Local Growth White Paper provides more information on the functions and funding of council-led local enterprise partnerships. These are bodies that will not have large budgets to spend but will need to work through local partners and raise their own finance;
 - 4.4 The government's welfare reforms will allow councils to determine how they pay council tax benefit in line with certain parameters (as yet unset) – a localising measure that carries financial and reputational risk but also offers an opportunity to tune the tax to local economic conditions; have impacts on local housing markets; and require more people to look for work as a condition for receiving benefit (the work capability assessments

⁴ <http://www.bankofengland.co.uk/publications/news/2010/084.htm>

⁵ Private Sector Cities, Centre for Cities, 2010

are classifying around 70% of Incapacity Benefit claimants as fit for work, although there are large numbers of appeals);

- 4.5 The economic prospects for young people remain a source of concern. The government has invested a further £250 million in apprenticeships.

LG 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, we are:
- 5.1 Discussing the details with government departments of the roles set out for local enterprise partnerships in the Local Growth White Paper, seeking a clear strategic decision making role on the key economic interventions and a clear process of local consultation on the handling of RDA assets and liabilities;
 - 5.2 Lobbying for the contractual geography of the new Work Programme to be based on the geography of local enterprise partnerships so that the demand and supply side interventions in local labour markets can be better co-ordinated;
 - 5.3 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 holding an event on volunteering, with Volunteering England and other voluntary sector organisations, on 30 November and working with British Chambers of Commerce and the 157 Group on how councils, business and colleges can work together to ensure the skills system is responsive to the needs of local businesses and local people;
 - 5.4 Lobbying on the details of Tax Increment Financing and other growth incentives proposed by the government;
 - 5.5 Exploring the implications of the introduction of the universal credit – replacing working age benefits and credits – for councils.

Financial Implications

- 6 None.

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