



Public sector and local government cuts

Number 75

Author: Nicola Headlam, Knowledge Transfer Post Doctoral Research Fellow, CLES and the University of Manchester

This bulletin is occasioned by the first round of cuts to the Communities and Local Government (CLG) budget on 10 June 2010 and the 'emergency' budget of 22 June 2010 with its promise of a Comprehensive Spending Review on 20 October 2010 (designed to find 25% cuts across all government departments, with the exception of health and international development). As our specific bulletin suggests CLG, under the stewardship of Secretary of State Eric Pickles, is particularly vulnerable to further cuts or even more substantive machinery of government changes.

This bulletin is designed to explore the rationale for these cuts, present a typology for exploring alternate fiscal models, and conduct a regional sensitivity analysis¹ on this first tranche of cuts, exploring claims made about their fairness and progressiveness.

Introduction

In the programme of the Coalition Government, it is clear that reduction of the deficit is the primary objective of their administration.

The deficit reduction programme takes precedence over any of the other measures in this agreement. The speed of implementation of any measures that have a cost to the public finances will depend upon decisions made in the Comprehensive Spending Review.²

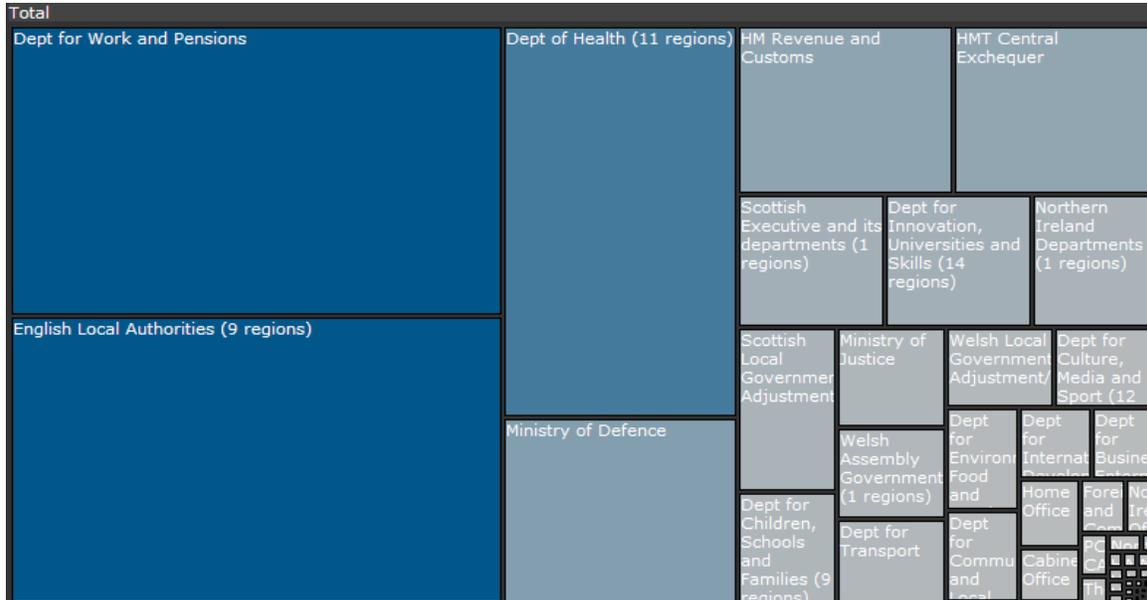
The first wave of cuts to local government to be made in this financial year, the last of the current three year settlement for local government, will be negotiated subject to the promised review of local government finance, for which details are not forthcoming at this time. From the

¹ Sensitivity analysis is laid out by the Audit Commission report *'Surviving the crunch: Local finances in the recession and beyond'*, March 2010

² The Coalition: Our programme for government, HMSO (2010)

graphic illustration below, it is easy to see why the issue of local government finance is a burning one for the Coalition Government.

Figure 1: Government expenditure by department³



The large rectangle on the left for English Local Authorities and the smaller CLG portion (at the bottom of the 5th column) amount to £36.8 billion of government expenditure.

The first wave of cuts

CLG announced £1.6 billion of cuts on 10 June 2010⁴. Secretary of State, Eric Pickles, explained that the cuts were to be coupled with a freeze in council tax:

*'Steps have been taken to limit the impact on local authorities and make savings proportionally. Councils have been given the flexibility they need to determine where they make savings. We are clear that no extra burden must fall on local taxpayers. We are committed to freezing council tax in England for at least one year, and seek to freeze it for a further year in partnership with local authorities.'*⁵

Local government is to have the responsibility for apportioning cuts; the cuts have a ceiling of no more than 2% of total spending within each local authority. However, whilst painful, the natural resilience of local government suggests that it will be able to absorb the cuts which are of a lower magnitude than had been trialled in advance.

'It will be for individual local authorities to make decisions about where savings are found to ensure that councils have maximum flexibility to deliver efficiencies and focus their budgets on the services that their residents value the most. The Government have retained formula grant funding at the level approved by parliament for 2010/11 (£29 billion). It has also lifted

³ <http://assets.dharmafly.com/widgets/coins/fullscreen.html>

⁴ <http://www.communities.gov.uk/documents/localgovernment/xls/1611273.xls>

⁵ Eric Pickles, CLG press release, 10 June 2010 <http://www.communities.gov.uk/news/newsroom/1611369>

*restrictions on how local government spends its money by de-ringfencing £1.7 billion of central government revenue and capital grants in 2010/11.*⁶

This flexibility does not extend to retention of specific funding streams for special purposes which have lost their hypothecated protected status.

Specific regeneration and economic development funding streams

Despite local government having responsibility for apportioning 2% of cuts, specific funding streams designed to target the most deprived places are no longer protected. In fact, the Working Neighbourhoods Fund was the last residual funding stream from the 2001 National Strategy for Neighbourhood Renewal, following the changes from Neighbourhood Renewal Fund to Working Neighbourhoods Fund in 2007/08. There is the suggestion that this first wave of local government cuts has been designed to reverse the perceived largesse of the social initiatives of the Labour years.

Underlying vulnerabilities

Whilst there exists a body of critique of the effectiveness of area based interventions, the National Strategy for Neighbourhood Renewal did seek to narrow the gap and reduce these inequalities. The introduction of the 2% ceiling for any one authority appears fair, but in the sense that a flat system for taxation is fair. Such a ceiling serves to amplify pre-existing inequalities, and to emphasise and amplify the underlying conditions of areas.

Resilience

CLES has carried out work on the strength and diversity of local economies, looking at notions of:

- dependence on public sector employment and its relationship to the supply chain;
- commercial employment;
- levels of poverty/worklessness;
- deprivation;
- connectedness to labour markets.

CLES has also developed a model of local economic resilience⁷, emphasising the relationships between the public, commercial and social economies.

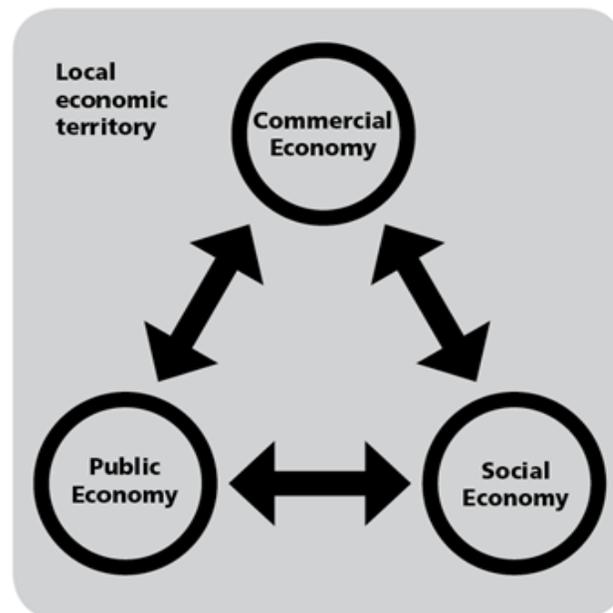
This work, in combination with research on public procurement services, emphasises connections between the different spheres of the local economy⁸ and belies the notion that the public sector can be treated discretely and differently. See figure 2 overleaf.

⁶ <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm100602/text/100602w0007.htm>

⁷ <http://www.lgcplus.com/blogs/snuggle-cities/5009873.blog>

⁸ http://www.cles.org.uk/information/102869/pp22_exec_summary_footprints/

Figure 2: CLES resilience model⁹



Parliamentary exchanges

Defending the proposed programme of cuts in the House of Commons on 10 June 2010, Minister Bob Neil made the following assertion:

*'Those in greatest need ultimately bear the burden of paying off the debt this country has been left.'*¹⁰

Amidst what the speaker described as *'high octane exchanges'*; ex-ministers challenged the assertion of fairness and the distorting effects of the 2% ceiling on specific places.

*'If the Government cut external funding based specifically on local authorities' levels of deprivation (external funding available to Witney in Oxfordshire at 1.7% but to the City of Sheffield at 18.5%) is it not inevitable that those in greatest need will take the biggest cuts?'*¹¹

*'May I ask the Minister, why what he has proposed today is so unfair? Why is it that the impoverished northern mill towns, the ex-coalfields and the struggling seaside towns will take the largest share of the cuts? Why is it that the big cities of Manchester, Liverpool, Leeds and Birmingham, will take the largest cuts? Why is impoverished Newham to have a cut of £4.6 million and wealthy Richmond one of just £900,000?'*¹²

Kneejerk opposition to all cuts on grounds of fairness is not supported by the simple use of headline figures because of the key issue of relative size of local government operation; local authorities with bigger budgets are facing bigger cuts. The party political positions are rooted in divergent ideological positions regarding the role and use of public sector (and local government) employment.

⁹ http://www.cles.org.uk/information/104168/pp26_economic_activism/

¹⁰ Hansard Official Report, 10 June 2010

<http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm100610/debtext/100610-0002.htm#10061031000803>

¹¹ David Blunkett (Labour, Sheffield Brightside and Hillsborough), *ibid*

¹² John Denham (Labour, Southampton Itchen), *ibid*

The processes by which taxation is recycled through local government are arcane and complex. Recent research carried out by Gerry Stoker at the University of Southampton concluded that central/local government financing *'is redistributive... but only just.'*¹³

In order to be able to develop credible strategies to respond to cuts, there is work to be done to explore the effect on both local government services and local government employment.

Effects of public sector cuts: Models for cuts versus spending

Having said that public, commercial and social economies are intrinsically connected, Table 1 expresses four possible positions for altering the balance between public spending and economic growth. Here, 'P' relates to public spending and 'E' relates to the expansion/contraction of the economy. The relationship between the two (denoted by ratio) is critical to framing the need for cuts.

Table 1: Public spending and the economy

1	+P	:	+E	=	Growth of both public spending and economy
2	+P	:	-E	=	After the crash
3	-P	:	+E	=	Private sector growth makes markets from public withdrawal
4	-P	:	-E	=	'Doom loop' – double dip

- Position 1 was arguably the approach of the Labour Government in the UK from 1997 up until the recession began in 2008 – public spending expansion is connected with economic growth in the 'good times'.
- Position 2 was arguably the approach of New Labour during the recession and the position of the Obama administration in the US – this reflects the need for public stimulus as a corrective in the recession.
- Position 3 is arguably the position of the Coalition Government – public sector cuts designed to stimulate private sector growth.
- Position 4 would represent a failure of this strategy – public sector cuts would contribute to an overall contraction of both sectors.

The first two approaches are broadly neo-Keynesian approaches whilst the second two are neo-monetarist. There is no agreement between the broad camps of 'hawks and doves', both of which contain implicit assumptions about the scope and scale of the state referent to the economy. The Observer newspaper reports the high stakes being deployed with the third approach:

*'Confidence and demand are high enough to withstand the abrupt withdrawal of public money. The hope is that private sector activity will thrive in compensation for the shrinking public sector.'*¹⁴

This economic gamble is connected to a political gamble, in that the electorate agree with the strategy deployed. It is interesting to note that the IPSOS MORI monthly political monitor for June 2010 shows that public opinion is broadly in support of the cuts, believing that they will have the desired outcomes. Asked about the need for spending cuts, 58% agreed that there is a real need to cut spending on public services in order to pay off the very high national debt. This compares to 49% when MORI asked the same question in March and 40% when asked a year ago.¹⁵

¹³ http://www.instituteofideas.com/newsletters/the_battle_for_poliitcs_2010.html

¹⁴ Observer leader column *'Austerity agenda must not go unchallenged'*, 20 June 2010

¹⁵ <http://www.ipsos-mori.com/researchpublications/researcharchive/poll.aspx?oltemld=2628>

A further challenge for local economies is that it is very difficult to imagine these alternate strategies at lower spatial scales due to the lack of financial autonomy for local government which is why the macro economic decisions define the scale of the cuts for localities.

Sensitivity to local government cuts

The Audit Commission report '*Surviving the crunch*'¹⁶ features a shorter list of variables than CLES on vulnerability but focuses on the underlying conditions within an area, affecting their sensitivity to cuts. According to this approach areas most at risk are:

- relatively few private sector jobs;
- high levels of unemployment;
- poor transport links;
- vulnerability to national public sector job losses.

Using this framework, we have worked through the effects of the cuts at a regional scale within the two UK regions most vulnerable to the effects of public sector cuts using recent data.

Sensitivity analysis: North West/Yorkshire and the Humber regions

We are using our own analysis on the regional variations within the programme of cuts. By exploring the regional effects, it can be seen that there are wide variations between regions.

Table 2: Regional cuts¹⁷

Region	%
North East	7.70%
North West	17.90%
Yorkshire and the Humber	11.90%
East Midlands	7.30%
West Midlands	10.50%
East of England	7.00%
London	16.70%
South East	11.70%
South West	9.40%
Total	100.00%

This data shows that the largest cuts in regional terms befall the North West, closely followed by London, where there are cuts in the first wave to both the individual boroughs and the Greater London Authority (GLA).

To an extent, this can be explained by the raw size and scale effects of the public sector within these areas; however as we go on to explore the public sector, it is often larger due to structural inequalities and has grown despite private sector contraction within periods of growth. In short, growth has been highly spatially segregated. As already discussed, the specific funding streams being cut has the effect of inflating the regional percentages; many area based and regeneration initiatives targeted specifically on deprived dependence on the public sector alone, is the result of

¹⁶ Audit Commission '*Surviving the crunch: Local finances in the recession and beyond*', March 2010

¹⁷ CLES analysis of <http://www.communities.gov.uk/documents/localgovernment/xls/1611273.xls>

the way in which public money has been used to bolster these areas, a rationale which has not been followed in the way in which the cuts have been designed and apportioned.

Arguably, a regional percentage ceiling would have the kind of outcome fairness that we have described. Examining these statistics and then applying sensitivity criteria demonstrates that the region may suffer disproportionately to cuts due to these underlying conditions.

North West context

The Treasury helpfully provided analysis of the salient variables to support the Budget¹⁸ in the latest reported full year (2008):

- the average economic output per person was £17,555, below the UK average of £20,520;
- 27,650 new businesses were started, accounting for 10.2% of new businesses started in the UK;
- the public sector employed 663,000 people, accounting for 20.8% of total employment;
- the private sector employed 2.53 million people, accounting for 79.2% of total employment;
- the North West contributed £120.7 billion to UK economic output, accounting for 9.6% of the UK's total economic output.

Table 3: North West sensitivity analysis

Relatively few private sector jobs	High sensitivity: GVA = 38% against UK average of 65%
High levels of unemployment	High sensitivity: 8.7% above UK average of 8%
Poor transport links	Good external to region – requires investment
Vulnerability to national public sector job losses	High proportion of public sector jobs (2 nd highest in UK at £699,000) – serious vulnerability

Yorkshire and Humber context

Again, using Treasury data from the latest reported full year (2008)¹⁹:

- Yorkshire and the Humber contributed £89.1 billion to UK economic output, accounting for 7.1% of the UK's total economic output;
- the average economic output per person was £17,096, below the UK average of £20,520;
- 18,810 new businesses were started, accounting for 7.0% of new businesses started in the UK;
- the public sector employed 508,000 people, accounting for 20.6% of total employment;
- the private sector employed 1.96 million people, accounting for 79.4% of total employment.

Table 4: Yorkshire and Humber sensitivity analysis

Relatively few private sector jobs	High sensitivity: GVA = 48% against UK average of 65%
High levels of unemployment	High sensitivity: 9.7% – most in UK
Poor transport links	Across the region
Vulnerability to national public sector job losses	Medium sensitivity: public sector jobs - 4 th in the UK (£538,000 – but growing, up £34,000 since last year)

¹⁸ http://www.hm-treasury.gov.uk/junebudget_north_west.htm

¹⁹ http://www.hm-treasury.gov.uk/junebudget_yorkshire_and_the_humber.htm

This data suggests even more sensitivity to cuts due to the weak underlying private sector, high unemployment rate and the rising number of public sector jobs.

Conclusions and summary

Fair/progressive cuts?

- Fairness as an outcome is best pursued by calibrating cuts according to vulnerability and sensitivity to wider criteria and not applying a 2% locality ceiling. Regions provide a useful lens for analysis of this kind and regional sensitivity to cuts demonstrate unfairness of outcome and exacerbate uneven spatial development.
- Application of regional and local sensitivity criteria as proposed by the Audit Commission offers analytical perspective on cuts.
- Cuts have disproportionate effect on areas with weakest private sector, most workless and highest reliance on public sector employment. The cuts should have apportioned and recognised this if it was to create higher levels of fairness.
- Local Enterprise Partnerships, as they form, must respond to this agenda as a matter of urgency, scoping the role and interconnections between the public sector and its supply chain through consideration of public sector employment and procurement as key to economic development, particularly in areas dependent on the sector and strategic approaches to inward investment.

Ongoing work for CLES

- Exploring local economic resilience, the difference between vulnerability and sensitivity in the context of public sector contraction.
- Involvement in locality specific work on sensitivity analysis and looking at how Local Economic Assessment processes can be used/modified by Local Enterprise Partnerships.
- Notions of areas suffering from public sector dependency need to be explored and further work carried out on precise blend between sectors of the economy and supported offered for local economic activism.

Key questions for local government

- How to respond to cuts in areas of high dependency on public sector?
- How to stimulate private sector investment in under-invested areas?
- How to mitigate the effects of cuts by considering underlying sensitivities and vulnerabilities?

Please contact us:

Nicola Headlam nicolaheadlam@cles.org.uk

Sarah Longlands sarahlonglands@cles.org.uk

Bulletin is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is a not-for-profit think-doing organisation, consultancy and network of subscribing organisations specialising in regeneration, economic development and local governance. CLES also publishes Local Work, Rapid Research and Briefing on a range of issues. All publications are available as part of CLES membership services. To find out more about membership visit the CLES website or contact CLES to request a membership leaflet.

Centre for Local Economic Strategies & CLES Consulting

Express Networks • 1 George Leigh Street • Manchester M4 5DL • tel 0161 236 7036 • fax 0161 236 1891 • info@cles.org.uk • www.cles.org.uk