



BRIEFING

# Well North of Fair

The implications of the Spending Review  
for the North of England

Ed Cox and Katie Schmuecker

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ippr north, 20 Collingwood Street, Newcastle Upon Tyne NE1 1JF  
+44 (0)19 1233 9050 • [info@ippr.org](mailto:info@ippr.org) • [www.ippr.org/north](http://www.ippr.org/north)  
Registered charity no. 800065

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## About the authors

Ed Cox is director of ippr north.

Katie Schmuecker is a senior research fellow at ippr north.



# Well North of Fair: The implications of the Spending Review for the North of England

Ed Cox & Katie Schmuecker

## 1. Introduction

Much immediate analysis of the Spending Review has focused on its impact department by department and sector by sector. There has also been a lively debate about its impact on different sections of society and in particular on those who depend on the welfare state. This short analysis explores the impact of the Spending Review from a geographical perspective and asks the question: is it fair on the North of England?

The Spending Review can be seen in the context of a political narrative which makes the case for 'rebalancing the economy'. Such rebalancing has multiple dimensions: rebalancing between public and private sectors, rebalancing between the City, business and professional services and new industrial sectors and rebalancing between regions and nations. Given the apparent importance of this narrative, it is surprising that while much attention has been devoted to the public-private dimension, far less concern has been seen to be shown about whether the Spending Review contributes to a geographical rebalancing.

England is an economically divided country. The North-South divide has become part of the political lexicon, although in reality the divide could be more accurately described as the Greater South East and the rest. The economies of the North grew substantially in the period leading up to the recession, but they suffered disproportionately the effects of the recession and rising unemployment, as research by ippr north has shown (Dolphin 2009).

This report explores the extent to which the Spending Review will ameliorate or exacerbate the North-South divide. In considering jobs, welfare, capital investment and public services it draws a stark conclusion: things look set to become significantly worse. It argues that the fundamental problem with the Spending Review – and the economic policy of the Coalition Government to date – is that it lacks an equally rigorous and challenging strategy for economic growth. In the absence of such a strategy it is argued that the North of England needs to seize the initiative itself and drive forward an economic agenda that liberates regional economic prosperity from the limitations of a Whitehall agenda tied to the demands of agglomeration in the Greater South East.

## 2. Job losses and their multiplier effect

The public sector is a key employer in the North of England, and while it is still not yet clear exactly where the job losses that will result from the Spending Review will fall, research has suggested heavier job losses in the North compared to other parts of the country.

Beyond this, it is well established that job losses in the public sector will have knock on consequences for private sector businesses supplying goods and services that are consumed by public sector employees, as well as companies that deliver goods and services to the public sector itself.

A recently published study by PricewaterhouseCoopers estimated the jobs that will be lost in the public and private sectors as a result of projected spending cuts. As Table 1 shows, within England, the number of jobs lost is expected to be highest in London and the South East, but as a proportion of the total number of jobs, the impact will be much greater outside of these areas.

**Table 1: Estimated lost jobs in public and private sector as a result of spending cuts, as % of total jobs by nation and region**

	<i>Number</i>	<i>%</i>
Northern Ireland	36,000	5.2
Wales	52,000	4.3
Scotland	95,000	4.1
North East	43,000	4.1
North West	108,000	3.7
Yorkshire & Humberside	82,000	3.7
West Midlands	80,000	3.6
South West	81,000	3.5
East Midlands	58,000	3.2
East	74,000	3.2
South East	112,000	3.1
London	122,000	3.1

Source: PwC 2010

Table 2 shows these figures aggregated for different parts of the country, demonstrating the larger proportionate impact on the North and the Celtic fringe compared to the South of England.

**Table 2: Estimated lost jobs in public and private sector as a result of spending cuts, as % of total jobs, in different areas of the UK**

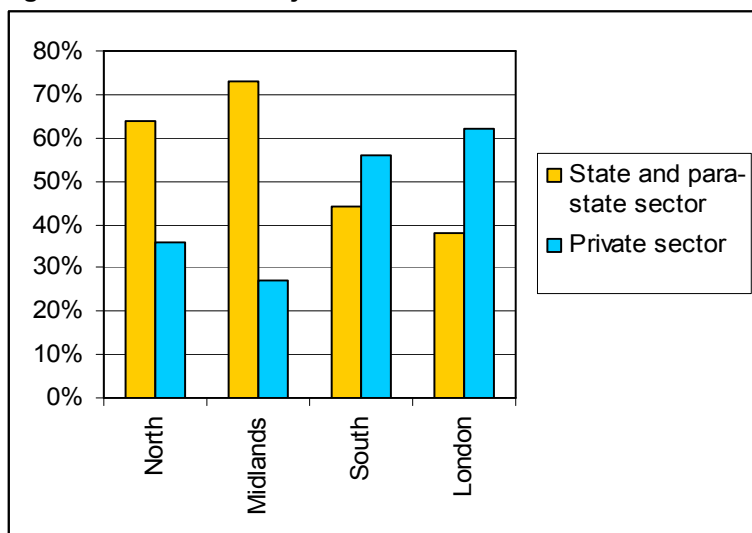
	<i>Number</i>	<i>%</i>
North	233,000	3.8
Midlands	138,000	3.4
South	389,000	3.2
Celtic Fringe	183,000	4.5

The PwC report reaches the same conclusion as research carried out earlier in 2009 by Buchanan *et al* (2009), which estimated the growth in public sector and what they called 'para-state' employment between 1998 and 2007. Using an analysis of 4-digit SIC codes, para-state employment was defined as those employed in companies that rely on income from the public sector as a key part of their business model.

Figure 1 shows this data as a proportion of the new jobs created over the period. It demonstrates that much of the jobs growth in the Midlands and North of England was either the result of direct public sector employment or companies in some way reliant on

the public sector. Although it is difficult to calculate whether a contraction in public sector spending and jobs will lead to a similar contraction in para state employment on the same scale, it seems likely that this will be the case.

**Figure 1: Share of new job creation between 1998 and 2007**



Source: Buchanan et al 2009

These two studies highlight the vulnerability of private sector organisations, as well as the public sector, to cuts in public spending. Furthermore, they demonstrate the small size of the private sector in the North and the Midlands, making the prospect of the private sector taking up the slack of newly unemployed public sector workers seem unlikely.

A key question therefore is what can be done to stimulate private sector growth, but the context is not favourable. As PwC note:

*“Based on the experience of the 1993-98 recovery period, private sector job gains in an upturn might be expected to offset public sector job cuts by a significant margin, although the more severe fiscal squeeze this time around, and the weaker state of our key export markets in the US and Europe, may make this conclusion less clear in the current economic cycle.” (PwC 2010, p9)*

Other commentators have highlighted the scale of the challenge involved in achieving the aspiration of a rebalanced economy (Hutton 2010).

### **3. The additional impact on unemployment and welfare**

These difficulties are further exacerbated by the North already having higher numbers of people out of work, as Table 3 shows. If unemployment increases as estimated above, the newly unemployed will be joining an already sizable proportion of the population out of work. This could mean adding an additional 233,000 people to the already existing 398,964 people seeking work in the North in September 2010.

And if we look at the ratio of job seekers to advertised vacancies, it already shows stiffer competition for jobs in the North of England compared to other areas. While London has by far the greatest number of job seekers to each job, the next highest ratios are found in the North East and Yorkshire and the Humber, where there are more than five job seekers to each vacancy. The North West fares a little better with 4.3 jobs seekers per vacancy. Nonetheless, generally speaking, there is something of a North South divide in the

availability of jobs. This means the newly unemployed will be entering a context of higher competition for jobs.

**Table 3: Ratio of job seekers to job centre advertised vacancies in 2009/10**

	Average number vacancies Sept 2009-Aug 2010	Average number of job seekers Sept 2009-Aug 2010	Ratio
London	30,859	221,756	7.2
Scotland	23,558	137,151	5.8
North East	15,185	83,783	5.5
Yorkshire and the Humber	28,925	153,461	5.3
West Midlands	34,650	172,426	5.0
Wales	17,323	76,485	4.4
North West	44,628	192,071	4.3
East	28,087	116,056	4.1
East Midlands	26,342	107,469	4.1
South East	38,978	149,195	3.8
South West	28,001	88,778	3.2
<b>GB average</b>	<b>316,536</b>	<b>1,553,956</b>	<b>4.9</b>

*Note: these data only provide details of people claiming job seekers allowance, and not those claiming other sorts of out of work benefits who may also be looking for work. The vacancies data only provides details for jobs advertised in job centres. Academic studies estimate have this to be about 1/3 of vacancies.*

*Source: nomis*

Furthermore, the number of jobseekers is already set to swell further as welfare reforms are implemented. This will see some people currently claiming Employment Support Allowance and lone parent benefits move onto Job Seekers Allowance, where they will be expected to actively seek work. As Table 4 below shows, the North of England has a larger proportion of Incapacity Benefit / Employment Support Allowance claimants and lone parent claimants compared to the south.

**Table 4: Proportion of the working age population claiming out of work benefits by claimant group and region (Feb 2010)**

	Total claiming out of work benefits	JSA	Employment Support Allowance / Incapacity Benefit	Lone Parent	Carer	Disabled
North East	20.4	5.3	9.4	2.2	1.5	1.1
Wales	20.3	4.4	10.3	2.0	1.5	1.4
North West	19.3	4.6	9.3	2.1	1.4	1.2
West Midlands	18.0	5.3	7.2	2.1	1.4	1.2
Scotland	17.9	4.4	8.7	1.7	1.2	1.1
Yorkshire and The Humber	16.7	4.7	7.1	1.8	1.3	1.1
East Midlands	15.2	4.0	6.5	1.6	1.2	1.1
London	15.1	4.2	6.0	2.5	0.8	0.8
South West	13.3	3.0	6.2	1.4	1.0	1.0
East of England	12.6	3.4	5.2	1.5	1.0	0.9
South East	11.6	3.0	4.8	1.4	0.9	0.9
<b>Total</b>	<b>15.9</b>	<b>4.1</b>	<b>7.0</b>	<b>1.9</b>	<b>1.1</b>	<b>1.0</b>

*Source: DWP Tabulation Tool*

Not only does this suggest a widening in the proportions of those claiming benefits between North and South, the Spending Review has also signalled a less generous benefits system. Changes to welfare were one of the key features of the Spending Review, adding a further £7bn to the £11bn of welfare cuts identified in the June 2010 Budget. This suggests a significant fall in living standards for those on benefits.

And the impact will not end with the implications of the welfare changes. Poorer people are more likely to be more reliant on public services, meaning the wider reductions in service provision - for example in council services – will be disproportionately more likely to affect them.

In sum, the North of England is likely to face:

- Greater public sector job losses, and greater consequent private sector job losses
- In a context where there is already higher unemployment, and a large group of people moving from claiming Incapacity Benefit, Employment Support Allowance or lone parent benefits, to claiming job seekers allowance and actively looking for employment.

The government's intention to rebalance the economy and grow the private sector must succeed if we are to avoid a deepening of the gulf that is – crudely put – the North-South divide.

#### **4. Investment in future growth**

New investment is essential for driving economic growth. The Spending Review recognised this and there were some welcome announcements including science and transport investment and also more generous capital spending than had been projected in the emergency budget. However, to achieve a genuine rebalancing of the economy, what investment there is must be carefully targeted not only to support growth industries, but also lagging areas. In this regard, the Spending Review again raises some significant concerns for Northern interests.

#### **Regional Growth Fund**

The government's Regional Growth Fund (RGF) will have a key role to play in invigorating economic growth, and the addition of a third year's funding is welcome in this respect. This brings the budget of the RGF to £1.4billion over the three years. However the straitened times we live in show in this budget, as the Regional Development Agencies collectively had approximately £1.4billion to spend in 2010/11 alone, while the RGF must spread the same amount over three years. Furthermore, it is likely that the costs of running and supporting as many as 50 different Local Enterprise Partnerships (LEPs) will be considerably higher than 9 RDAs.

Clearly how the RGF is distributed and how LEPs are supported are crucial issues for succeeding in rebalancing the economy. Given the limited envelope available, it is essential that the fund is tightly targeted. The Spending Review states the RGF will:

*“Support projects with significant potential for private sector economic growth and employment, supporting in particular those areas and communities that are currently too dependent on the public sector” (HMT 2010a p47)*

Areas with stronger economies will be better positioned to put forward projects with potential for economic growth and employment. In recognition of this, the fund should not only favour areas where the public sector is a large employer, but also where unemployment is higher. Otherwise relatively prosperous places with large public sector employment, for example some university towns, will be well positioned to benefit when other areas have greater need.

### **Science and technology**

The Spending Review also highlighted science spending as a driver of economic growth, committing £4.6billion over the Spending Review period. This will be vital to growing the so-called knowledge economy. As with most areas, further details of the spending plans will emerge in the coming weeks, but all the projects highlighted as receiving continued support were in the Greater South East. In his speech the Chancellor highlighted four major investments, which were in London, Oxford, Cambridge and Surrey.

If this is indicative of spending decisions to come, it risks continuing a pattern of investment whereby public spending on science and technology is higher in the Greater South East compared to other regions. Table 5 below shows an index of public spending per head on science and technology by region. This shows London, the South East and East regions consistently in receipt of above average spending on science and technology, while the rest of England consistently received less.

**Table 5: Index of spending per head on technology and science (UK=100)**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
North East	75	85	87	86	82	86
North West	78	79	78	76	77	77
Yorkshire and the Humber	85	89	87	86	83	84
East Midlands	79	81	81	81	79	80
West Midlands	63	65	65	68	64	68
East	142	144	125	107	124	122
London	142	133	144	139	147	155
South East	109	102	107	105	105	102
South West	63	69	76	72	63	66
<b>England</b>	<b>97</b>	<b>97</b>	<b>98</b>	<b>94</b>	<b>95</b>	<b>97</b>

Source: HMT (2010)

### **Capital expenditure**

Investment in capital projects can help to create the conditions for economic growth. Throughout the course of the recession capital spending helped to support jobs in the economy, and going forward, capital investment can help to create the conditions for future growth. Transport infrastructure in particular has a key role to play in underpinning economic growth.

The Spending Review recognised this, identifying a number of capital projects that will go ahead. In the North of England this included improvements to the East Coast Mainline, upgrading the Tyne and Wear Metro, a new bridge over the river Mersey, widening the M62 in Yorkshire and rail network improvements around Manchester.



However, these projects pale somewhat in comparison to London's success in securing a £6 billion tube upgrade and £14.5 billion for the Crossrail project (although the timetable will be delayed, with the line now expected to open in 2018, one year later than previously planned). Together these major commitments in the South of England will take up nearly half of the £30 billion allocated to spending on transport capital up to 2014/15<sup>1</sup>.

This should not be surprising given the decision about which projects to go ahead with was judged on the basis of which projects would bring the greatest economic dividend. This is easier to achieve in areas that are economically more buoyant and remains the reason why the North of England is stuck in a Catch-22 situation.

Furthermore, the relative advantage of London continues a general pattern, whereby the city has been the recipient of substantially greater public spending on transport over years. Table 6 below provides a breakdown of transport spending by region between 2004/05 and 2009/10. The figures are presented as an index of spending per head, whereby the UK average is 100. Some regions, including the North East and Yorkshire and the Humber, have consistently received funding far below the UK average.

**Table 6: Index of spending per head on transport (capital and current) (UK=100)**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
North East	69	70	69	67	70	72
North West	95	90	86	86	86	90
Yorkshire and the Humber	67	68	73	67	74	77
East Midlands	75	72	69	72	67	70
West Midlands	87	82	79	78	78	78
East	68	69	70	73	73	76
London	204	213	199	196	192	188
South East	91	84	85	83	86	86
South West	71	72	74	70	71	68
<b>England</b>	<b>98</b>	<b>98</b>	<b>95</b>	<b>94</b>	<b>94</b>	<b>95</b>

Source: HMT (2010)

However this protection of the transport capital budget was not extended to housing. The capital budget for the Department of Communities and Local Government will be drastically cut by 74 per cent, with implications not only for the provision of affordable housing but for the construction and regeneration industries too. This is a particular worry for some of the North's most deprived neighbourhoods. Recent research by ippr north found that even during the period of sustained economic growth that preceded the recession some neighbourhoods were left behind. In those deprived neighbourhoods that saw rapid improvements, new house building often had a key role to play (ippr north 2010).

## 6. Conclusions and ways forward

The ambition to rebalance the UK so there is less reliance on just one region – the Greater South East – is an important one. But the Spending Review, in the absence of a coherent strategy for economic growth in the North of England, would suggest that the coming years will see even greater imbalance as a result of five reinforcing factors:

<sup>1</sup> Crossrail investment runs beyond the CSR period.

1. Greater proportional job losses in the public and private sectors compared to other regions;
2. A larger proportion of people already out of work, who are more likely to be reliant on the welfare benefits and public services that are being cut;
3. A larger proportion of people claiming Incapacity Benefit / Employment Support Allowance and lone parent benefits, many of whom will be required to actively seek work as a result of welfare reforms, adding further to the competition for jobs;
4. A weaker private sector, that is less ready to take up the slack in unemployment and where the ratio of job vacancies to jobseekers is already higher than most other areas;
5. Significantly lower public investment compared to other regions.

This is the picture that emerges after the Spending Review. What is now needed is a coherent economic plan for how to grow the economy. This must include a vision for the sort of economy that we seek to achieve, and an investment plan for the industries of tomorrow.

Much interest must now turn to the White Paper on Sub-National Economic Growth which is due to be published in the coming weeks. But if the Spending Review demonstrates anything, it shows just how far the decisions of a small Whitehall elite can determine the economic futures of many millions of people living great distances from the capital city. The most pressing policy priority for people living in the North of England must therefore be to develop a coherent economic plan which it can determine for itself.

This short paper is not the place for setting out a detailed articulation as to what this agenda entails but it must be built upon three essential building blocks:

First, a Northern Economic Agenda needs to identify the conditions for good growth: the likely sources of a diverse range of decent jobs across a variety of competitive growth sectors; a clear articulation of the sources of investment that will support innovation and infrastructure upon which private growth can develop; and a considered strategy for nurturing the skills and enterprise to support people into new jobs and foster new business development.

Second, there is a pressing need for a new central-local settlement. The rhetoric of localism from the Coalition government has been backed up in the Spending Review with limited measures to give local authorities greater financial flexibilities and some additional functions. The 'unringfencing' of significant revenue grants and the reduction in some reporting and inspection requirements is largely positive, but the fact that the gearing ratio between central and local taxation means the Spending Review can have such a profound impact on local government and its partners lies at the root of the North-South problem. The forthcoming Localism Bill and review of local government finance provide opportunities for radical reform, not least in the creation of much greater incentives for economic growth, public service reform and localised delivery.

Thirdly, a new agenda for growth deserves a far more serious consideration of well-being. Traditional indicators of economic growth, while fundamentally important in addressing material welfare, mask much deeper dynamics of human prosperity and social progress. A Northern Economic Agenda must take account of social capital, environmental sustainability, leisure and other 'natural' advantages of life in the North of England.

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