

## THE ELECTIONS, THE ECONOMY, PUBLIC SPENDING AND LONDON

This was the agenda set for Tony Travers, of the London School of Economics, for a presentation to members of London Funders at their **AGM on 15 June 2010** – after the election, but before the Coalition's first budget. He added "the Big Society" to the list.

### Election results

He looked at the surprising election results which had given rise to a Conservative-Liberal Democrat coalition and noted that both the Conservative and Labour parties had consolidated within their traditional areas. With a continued reduction in the number of people voting and the Liberal Democrats squeezed, an outright victory for either major party would be unlikely in the next general election.

London had seen a different trend, with Labour strengthening, taking or keeping control of 17 boroughs though some with smaller margins than in the past. The pan-London picture was: Labour gained 10 boroughs, giving them 17 (an additional 200 Labour councillors); Conservatives lost 2, leaving them with 11; Lib Dems lost 1, leaving 2 in their control; 2 remained with no overall control (previously 9).

While there was in principle a risk that a Conservative Mayor of London might be in increasing conflict with a group of boroughs with a Labour majority, so far Boris Johnson was holding a devolutionary and "emollient" line that was making for good relationships.

The spectrum of parties holding London borough seats had narrowed: the BNP lost all its seats; Respect, the Greens and various other independents lost many seats too. Was this an indication of a "shift towards moderation" or that relatively high voting seems to bring out a "latent" Labour vote?

### Coalition policies: what should we expect?

- A radical pattern of change which will certainly affect the voluntary and community sector
- Unpredictable but severe spending restrictions
- The evolution of radical localism
- Evolution of the Big Society idea

The new government had made it plain that their focus would be on deficit reduction, though whether that would start now or in 2011-12 was still under discussion. [The following week's budget started cuts squarely in 2010.] There was a commitment to ring-fencing some public services (the frontline NHS, defence and international development looked secure at that stage) and a strong emphasis on efficiency savings. Commitments were to "localism" (but still with different interpretations by Conservative and Lib Dem elements in the coalition), a "quango cull" and "Big Society".

Unlike 1997 there was no post-election optimism even given the expected localist policies, because of the cuts in public spending and lack of certainty about economic growth. There were many questions about what pro-local policies would be like: how far these were about devolution to local authorities or a more radical approach. While efficiency savings were a central plank of financial tightening, there were question marks over the survival of the Total Place approach. It seemed that there could be more fragmentation of local institutions, e.g. less co-ordination between boroughs and health services.

The certainties were around the abolition of some public bodies and change in service provision. The promised spending review would leave "unprotected" services with reduced resources in real terms. The Office for Budget Responsibility had reported on the previous day, presenting the need for change as a complex management challenge. It suggested that there was a slightly lower government deficit than had recently hit the headlines (at 10% of GDP). It had revised growth projections for the UK down to 2-2½% from 3¼%. At this stage, before the Emergency Budget on 22 June, there was an assumption that cuts/limits to government expenditure would be around 2½% per year to 2014-15, i.e. a 15-20% cut overall. [The subsequent Budget made it plain that much greater reductions were going to be required.]

Tony Travers shared a list of public expenditure areas in order of their possible level of protection from cuts, with the "safest" first: NHS, schools, children's services, Police, services for the elderly, fire and emergency, environmental protection, transport, housing, defence, social benefits, adult education, highways, and other capital.

Participants talked about likely efficiency savings. "Gershon" had aimed for radical change through more efficient service delivery, but had allowed savings to be used as a cushion during the process of change. National Audit Office reports were not clear how much real saving was achieved. Future outright cuts in

the same services will presumably reveal how real efficiencies were. A concern now is the impact on the less “untouchable” services when cuts start to come. If children’s services cannot be cut too hard, and the practical reality of an ageing population means that short term savings on their services would soon be outweighed by increased demand, the axe will have to fall more heavily on other areas. Services with no major defences could therefore see cuts of 60%. It may be that voluntary organisations can run services more cheaply than local authorities, but some service levels are protected by law so savings are hard to make. Another challenge comes from education: academy schools take funds out of local government, but outstanding school debt will fall on a shrinking number of local authority schools. Budgets that support the voluntary and community sector will, of course, be very vulnerable to cuts.

A trend to be watched: local authority directors of finance cutting voluntarily more than central government requires – from caution or a wish to be on the front foot.

Some informed assessment (at this stage, before the budget or the more detailed Public Expenditure Report) suggests that 50,000 public sector jobs could be cut in London. The NHS is, however, still growing, so the impact on other bodies would be even more severe.

One question focused on where the greatest impact of the cuts would fall: does the evidence point to the poorest people being worst affected? Tony Travers confirmed that “history would suggest so”. A member of the audience referred the meeting to comments from John Hills in *The Guardian* on 12 June.

Professor John Hills, LSE, had chaired the National Equality Panel’s [Anatomy of Economic Inequality in the UK](#). It found the top 10% had 100 times more wealth than the bottom 10% (Trust for London’s figure for London’s population shows that the top 10% have 273 times the wealth of the bottom 10%). For *The Guardian* Polly Toynbee asked Hills to look at current Office for National Statistics’ figures to consider the effect of coming cuts. The bottom half of the population are heavy users of services and benefits, with more children and elderly than the top half. So if the deficit is reduced by, e.g., £30 billion through spending cuts, he calculates that the bottom fifth would lose 12% while the top fifth would lose less than 1%.

### **Big Society**

Tony Travers speculated as far as was possible on the ideas behind the Big Society and how these philosophical drivers for David Cameron and his Ministers might be translated into action. Big Society is presented as a solution to social breakdown and administrative inefficiencies. Still a broad concept and not yet a model for action, it assumes more community activity and local groups, and more mutuals and cooperatives taking on public services. These different providers, including the third sector, are seen as having lower costs and more flexibility and, being closer to service users, targeting services better. This raised many questions: e.g. about risk being shifted to voluntary organisations that are perhaps unequipped to accept it; and the point that the effectiveness of voluntary sector services may not equate with efficiency – time spent socially with an older person can have many positive outcomes but not the sort easily enshrined in contract terms. This theme of obstacles to voluntary organisations and community groups bidding for and winning contracts for services recurred throughout the afternoon.

In reality it is the private sector that is likely to respond to the changes being proposed – big players, including consultancies with “flat pack” versions of services, will grow exponentially, quite probably undercutting proposed buyouts from existing staff. There is scope for business to involve the third sector in bigger contracts, but the track record so far is not happy. There was some discussion about how the VCS, including social enterprises, can take services to scale: and some doubt that it could happen in time for real change under this government.

There were optimistic voices and several examples of entrepreneurial voluntary organisations or partnership that married the private and voluntary sector ethos and approach well. At the same time, there were concerns about Francis Maude’s recent call for many more new, “microscopic” organisations in what is already a crowded VCS. Capacity building would be needed over and over again for a myriad new, small groups but there appeared to be no provision for it. In general, the need for investment for support to local, community services did not seem to have been thought through as yet.

### **London in particular**

Tony Travers was asked about the new government’s attitude to London: with Government Office for London being abolished and no Minister for London, it looked as though Londoners’ needs and issues were being ignored. He confirmed that there were few senior people in government with London constituencies and that perceptions of London as the “engine of the UK economy” left little room for concern about poverty and inequality in London: indeed opportunities (especially for employment) were assumed to be better in London. The Mayor had made a bid for more powers (in transport, health, etc) but, traditionally, Conservative governments have not been keen to give power to London government.