

Allsopp Review: response to the First Report

From Richard Morris

Background

I am a private individual who, as a resident of Cumbria, wishes to see this area take part in sustainable economic development to the same degree as the wealthier part of England.

Until moving here nearly four years ago, I was a member of the West Midlands New Economics Group, whose submission has been published along with the First Report.

Comments on the Report

My comments relate to the first bulleted item in your terms of reference, namely

- the regional information and statistical framework needed to support the Government's key objective of promoting economic growth in all regions and reducing the persistent gap in growth rates between the regions;

My concern in this context is with regional Price Indices, the level at which they will be applied and their make-up.

A significant part of the Cumbrian economy is service industries including retail, leisure pursuits, restaurants etc. Expenditure on such items must be largely determined by the amount of disposable income available. And clearly, disposable income, by definition, is what is left over after essential items, including housing related costs, have been accounted for.

The Lake District area of Cumbria benefits, albeit seasonally, from tourism. The disposable income which is being spent there in holiday periods is that of people from outside the area, notably southern England. North Cumbria, by contrast, does not receive many visitors and therefore the shops and restaurants in this area depend largely on the disposable income available to local people. (The same is true of the Lake District outside of the tourist season.)

Cumbria has until recently been a low-income, low-cost area. In the last two years housing-related costs have, however, suddenly and dramatically increased. Incomes have not: wage rates have hardly increased and pensioners have seen their income remain static in real terms or even decline. There are two aspects to this dramatic increase in costs:

1. house price inflation: after years of price stability, in the past two years house prices in this area have increased by some 50 per cent.
2. Council Tax: the level in Cumbria is broadly comparable with that in the rest of England: the 2003-04 Band D Council Tax for Carlisle is £1185, compared with the average for England and Wales of £1114.

Because of the low and static incomes in Cumbria, increases in housing related costs will have a disproportionate effect on disposable income and hence on the local economy. Council Tax is already having a significant effect, house price inflation is a time-bomb because its effects will take time to feed through into higher mortgage repayments, as people move house or purchase their first property. So if Government wishes to see an equalisation in material standard of living between regions, it should first and foremost be able to measure total housing costs in relation to income levels. Only then can it take action, for instance by reducing the Council Tax burden on poorer regions, to boost regional economic growth.

In general terms, this has been picked up in paragraph 7.47: "The omission of owner-occupied housing was, however, quite naturally regarded as a serious concern." What I think has not been addressed is the disproportionate effect of rampant inflation in the costs of owner-occupied housing outside of the prosperous South-East and London.

Further, it does not make sense to measure this at the NUTS 1 level: Cheshire, which has a level of income similar to much of southern England, is in the same Region as Cumbria. NUTS 2 or lower is more appropriate, especially if levels of Council Tax relative to income are to be considered.

Different Price Indices

Nowhere in the First Report can I find any mention of the HICP, except in a technical context in paragraph 9.35. This is surprising, now that the Chancellor is using this as his preferred measure of inflation. Given its omission of any housing related costs, should the HICP not be explicitly mentioned and dismissed as useless in the context of regional indicators?

There appears to be an assumption that the RPI, or some regional variant of it, will be used. The RPI - assuming it still uses 1997 weightings - is little better in this respect than the HICP. Mortgage interest payments account for just 3.9% of the index, and Council Tax for 3.0%. These days, maybe 25% in total would be more appropriate.

Summary

The four main points I am making can be summarised as:

1. In a traditionally low price, low income area such as north and west Cumbria, a sudden increase in housing related costs has a greater effect in depressing the local economy than in more prosperous areas of Britain.
2. If the Government wishes to meet its “key objective of promoting economic growth in all regions and reducing the persistent gap in growth rates between the regions”, it will need to know accurately disposable income available and how this varies with time.
3. It is not enough for this statistic to be calculated at a regional, ie NUTS 1 level; NUTS level 2 or lower is appropriate.
4. The European HICP, because of its omission of housing costs, is useless in a regional context in Britain. The RPI is currently not much better, because its weightings have not been updated since 1997 and it does not adequately reflect housing costs.