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Public infrastructure investment & business activity in the English regions.

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Sheffield Political Economy
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In this Brief, the Sheffield Political Economy Research Institute considers the relationship between public investment in infrastructure and private sector business activity, at the regional level. The Brief therefore contributes to ongoing debates about how to ‘rebalance’ the UK economy, and in particular how to turn George Osborne’s ‘Northern Powerhouse’ rhetoric into economic reality. Greater levels of infrastructure investment are seen as vital to improving productivity and enhancing the private sector in the English regions beyond London and the South East, yet it is not clear that the coalition and Conservative majority governments have been prepared, despite their self-imposed fiscal discipline, to reduce investment in London in order to increase investment in the North.

Background

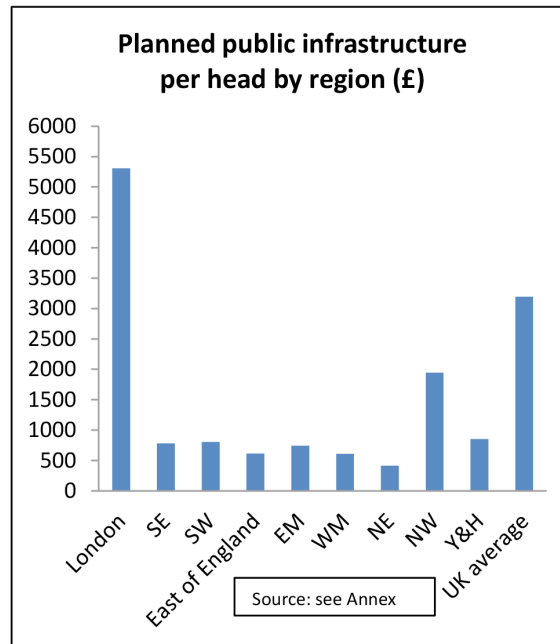
- The notion that public investment ‘crowds out’ private sector activity has been an explicit part of the rationale for the coalition and Conservative governments’ austerity agenda. In his first Budget speech in June 2010 Chancellor of the Exchequer, George Osborne, referred to the state as ‘crowding out private endeavour’.
- As such, we would expect to see public investment in infrastructure reoriented away from the areas where the private sector is strongest, enabling a more market-centred growth strategy in those areas.
- Moreover, the government’s commitment to economic rebalancing and, more recently, the ‘Northern Powerhouse’ implies that infrastructure investment in the North of England – or away from London and the South East more generally – is an important priority for the government.
- George Osborne promised ‘a series of massive investments in the transport infrastructure in the North’ in a June 2014 speech. There is a well-established link between transport investment and employee productivity.
- The coalition government’s National Infrastructure Pipeline (published in December 2014) details planned improvements to infrastructure in the UK (although the focus here is the English regions), including the level of public investment and the regional location of the project.
- The Brief maps the regional distribution of this investment against evidence on business activity across the English regions, including the number, density and size of businesses, and the rate of business start-ups.

Evidence

Infrastructure investment

- Public infrastructure investment allocated specifically to London represents £5305 per head of population. This compares to a UK average of £3192. These figures include infrastructure projects funded solely by the public sector, or the public and private sectors in partnership.
- All other regions have planned public infrastructure investment significantly below that planned for London, and below the UK average. Investment will be

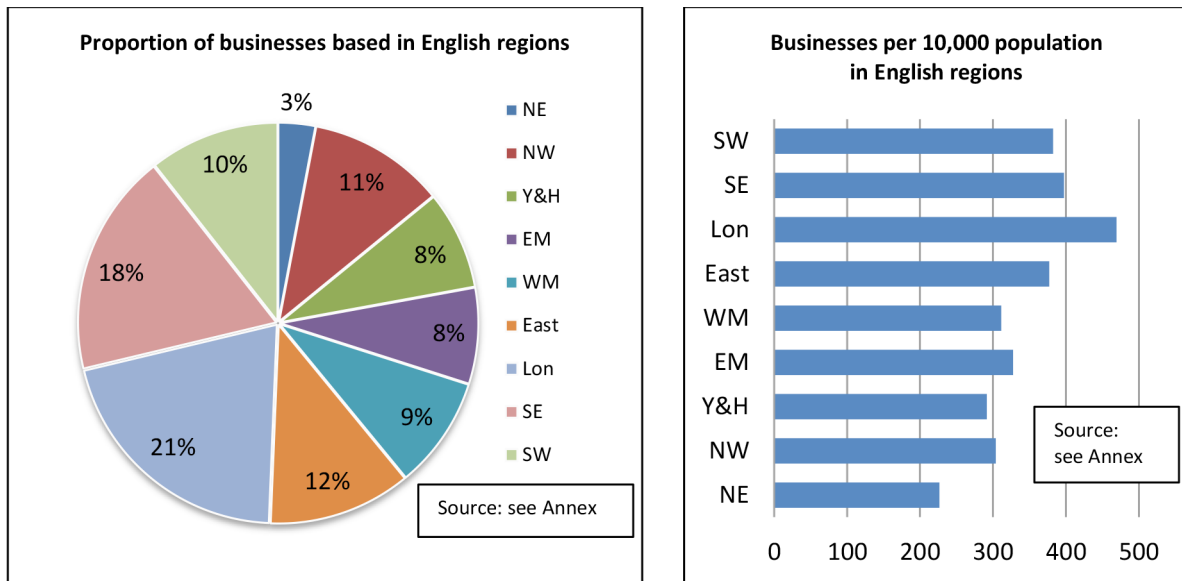
£1946 per head in the North West, £851 per head in Yorkshire and Humberside, and just £414 per head in the North East (the lowest of any English region).



- Around 42 per cent of the funds listed in the National Infrastructure Pipeline are attributed to a single English region. Of these, more than half are directly attributable to London, that is, 22 per cent. The rest of the funding is not attributed to a specific region.
- The South East has 3.4 per cent of funding, the South West has 2.1 per cent, the East of England has 1.8 per cent, the East Midlands and West Midlands both have 1.7 per cent, the North West has 6.7 per cent, Yorkshire and Humberside has 2.2 per cent, and the North East has just 0.5 per cent.
- It is worth noting that the pipeline data for Yorkshire and Humberside includes the Trans-Pennine rail line electrification (£208 million), and that the data for the East Midlands includes the Midland Mainline rail line electrification (£518 million). Both projects were indefinitely 'paused' by the government in June 2015.
- In addition, the results for London and the South East do not include the proposed Crossrail 2 rail line (estimated cost of £25 billion) and expansion of Heathrow airport (estimated cost of £19 billion).

Business Activity

- Business activity is concentrated in London and the South East. 21 per cent of all businesses and 27 per cent of all business start-ups in England are based in London; this represents 470 businesses and 98 start-ups per 10,000 residents (a start-up rate more than twice as fast as any other region, excluding the South East and East of England). 18 per cent of businesses and 16 per cent of start-ups are based in the South East; this represents almost 400 businesses and 57 start-ups per 10,000 residents.



- As detailed in the annex, the three Northern regions have fewer businesses per 10,000 residents than all other English regions, although the North West has a slightly higher start-up rate than the South West and the Midlands regions. Only 3 per cent of businesses in England, and 3 per cent of business start-ups, are based in the North East.
- As detailed in the annex, there are relatively few differences between the English regions in terms of business size. London has a higher proportion of micro-businesses (with fewer than 5 employees), which may be explained by its higher business start-up rate.
- London also has a slightly higher proportion of businesses with very high turnover. London is the only region in which more than 10 per cent of businesses have turnover above £1 million – and is the region with the highest rate of businesses with turnover above £5 million.

Analysis

- Although it forms an explicit part of the rationale for austerity, the Conservative government's infrastructure plans clearly suggest that the notion of public investment 'crowding out' private sector activity is not a significant influence on policy in practice.
- London, where business activity is concentrated, is also the recipient of a disproportionate amount of planned public investment in infrastructure. Whilst direct spending currently planned in the South East is limited, we can assume that businesses and residents in the wider region are also major beneficiaries of investment in London's infrastructure – and therefore that this supports the high level of business activity in the South East.

- The proposed expansion of Heathrow, and plans for Crossrail 2 through London into Surrey and Hertfordshire would exacerbate this regional inequality – at a time when transport investment in the North of England and the Midlands is being reduced.
- Although the North West is the recipient of a relatively high level of planned public infrastructure investment (albeit significantly below London and the UK average), the North East receives the lowest amount per head than any other region – and around one-thirteenth of that received by London.
- The volume and density of business activity is far greater in London than anywhere else, with the partial exception of the South East, but the evidence above demonstrates that the regional distribution of businesses by size is relatively evenly spread (although London has a slightly higher proportion of firms with very high turnover). This suggests that there is no innate reason why businesses in the Northern regions cannot be encouraged to grow – and underlines the need for greater balance within infrastructure investment.
- The bias towards infrastructure investment in London suggests that the Conservative government's commitment to geographical rebalancing of the UK economy is highly questionable, and will continue to inhibit private sector growth in other regions.

Conclusion

The evidence contained in this Brief suggests that the Conservative government's fiscal discipline is being applied unevenly in the English regions, as shown by the disproportionate amount of planned public investment in infrastructure in London. The high concentration of business activity in the capital indicates that the notion of public investment 'crowding out' private sector activity is not a significant influence on the government's policy in practice. The regional inequality in public infrastructure investment means that a resurgence in private sector activity in the North and Midlands is less likely than would otherwise be the case. Public investment in infrastructure is clearly vital to supporting productivity improvements and private sector growth – and as such should be redirected to the regions where the private sector is weakest. Continuing to disproportionately invest in infrastructure in London risks fuelling the regional imbalances that the government says it is committed to reducing.

Annex

Planned public infrastructure investment in England by region (2014)

	£m	% Total	£ per head
London	45295.42	21.96	5304.73
South East	6915.66	3.35	779.33
South West	4367.31	2.12	805.29
East	3695.56	1.79	614.05
West Midlands	3474.69	1.68	608.18
East Midlands	3439.19	1.67	741.62
North-East	1083.28	0.53	413.67
North-West	13882.50	6.73	1946.24
Yorks & Humber	4560.45	2.21	850.83
UK TOTAL	206220.48	---	3192.43

Source: National Infrastructure Pipeline (HM Treasury)
(available at <https://www.gov.uk/government/publications/national-infrastructure-pipeline-december-2014>).

Notes: Public investment includes public-private partnerships; UK total includes projects not attributable to a single region, and projects attributable to England, England and Wales, Wales, or Scotland.

Business activity in England by region: all firms (2014) and start-ups (2013)

		Number of businesses	% Total	Per 10,000 population
Lon	All firms	400,930	20.56	469.55
	Start-ups	83,600	27.08	97.91
SE	All firms	352,720	18.09	397.48
	Start-ups	50,895	16.48	57.35
SW	All firms	207,470	10.64	382.55
	Start-ups	25,640	8.30	47.28
East	All firms	226,940	11.64	377.08
	Start-ups	32,570	10.55	54.12
WM	All firms	177,880	9.12	311.34
	Start-ups	25,735	8.33	45.04
EM	All firms	151,770	7.78	327.27
	Start-ups	22,035	7.14	47.52
NE	All firms	59,340	3.04	226.60
	Start-ups	9,685	3.14	36.98
NW	All firms	216,660	11.11	303.74
	Start-ups	35,285	11.43	49.47
Y&H	All firms	156,320	8.02	291.64
	Start-ups	23,325	7.55	43.52
TOTAL	All firms	1,950,030	---	359.01
	Start-ups	308,770	---	56.85

Sources: UK Business: Activity, Size and Location (ONS)
(available at <http://www.ons.gov.uk/ons/rel/bus-register/uk-business/2014/index.html>);
Business Demography (ONS) (available at <http://www.ons.gov.uk/ons/rel/bus-register/business-demography/2013/index.html>).

Business size in England by region (2014)									
	Lon	SE	SW	East	WM	EM	NE	NW	Y&H
Employees:									
0-4	316,165	273,215	156,205	173,730	132,805	113,245	42,275	160,375	113,835
(% all)	78.86	77.46	75.29	76.55	74.66	74.62	71.24	74.02	72.82
5-9	42,990	41,115	27,340	27,930	23,265	19,810	8,670	28,560	21,790
(% all)	10.72	11.66	13.18	12.31	13.08	13.05	14.61	13.18	13.94
10-19	21,980	20,510	13,265	13,480	11,710	9,825	4,425	14,760	11,025
(% all)	5.48	5.81	6.39	5.94	6.58	6.47	7.46	6.81	7.05
20-49	11,460	10,940	6,910	7,370	6,190	5,620	2,455	8,140	6,030
(% all)	2.86	3.10	3.33	3.25	3.48	3.70	4.14	3.76	3.86
50-99	4,075	3,470	2,000	2,235	2,040	1,680	775	2,530	1,965
(% all)	1.02	0.98	0.96	0.98	1.15	1.11	1.31	1.17	1.26
100-249	2,425	2,080	1,090	1,330	1,125	985	445	1,415	1,030
(% all)	0.60	0.59	0.53	0.59	0.63	0.65	0.75	0.65	0.66
250+	1,835	1,390	660	865	745	605	295	880	645
(% all)	0.46	0.39	0.32	0.38	0.42	0.40	0.50	0.41	0.41
Turnover (£000s):									
0-49	64,860	62,725	42,545	40,585	33,850	30,250	9,255	37,580	28,245
(% all)	16.18	17.78	20.51	17.88	19.03	19.93	15.60	17.34	18.07
50-99	97,555	86,020	48,855	54,455	41,860	35,560	14,660	53,045	36,070
(% all)	24.33	24.39	23.55	24.00	23.53	23.43	24.71	24.48	23.07
100-249	122,415	106,810	60,130	67,755	50,105	42,590	18,050	63,225	45,495
(% all)	30.53	30.28	28.98	29.86	28.17	28.06	30.42	29.18	29.10
250-499	45,230	40,880	25,170	26,795	21,420	18,135	7,375	25,925	19,215
(% all)	11.28	11.59	12.13	11.81	12.04	11.95	12.43	11.97	12.29
500-999	29,015	24,580	14,525	16,445	13,490	11,105	4,535	16,285	11,870
(% all)	7.24	6.97	7.00	7.25	7.58	7.32	7.64	7.52	7.59
1000-4999	30,275	24,185	12,955	15,955	13,135	10,865	4,165	15,625	11,715
(% all)	7.55	6.86	6.24	7.03	7.38	7.16	7.02	7.21	7.49
5000+	11,575	7,520	3,290	4,950	4,020	3,265	1,300	4,980	3,710
(% all)	2.89	2.13	1.59	2.18	2.26	2.15	2.19	2.30	2.37
Source: UK Business: Activity, Size and Location (ONS) (available at http://www.ons.gov.uk/ons/rel/bus-register/uk-business/2014/index.html).									

Note: '% all' refers to all businesses within each region.



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