The Nottingham Economic Recovery and Renewal Consultation – Part Five

Learning from disasters – what the failures of Robin Hood Energy and the Broadmarsh debacle tell us about the degrowth future

If we are going to be serious about economic development in Nottingham we need an honest analysis of what went wrong with Robin Hood Energy and the Broadmarsh development. What is extraordinary about these episodes is that a lot of acrimony has gone into slagging off the council for its governance arrangements and making poor business decisions, but nothing has been said about the economic reasons for the two disasters. For example, a report on the difficulties of Robin Hood Energy by accountancy firm, Grant Thornton, whose corporate strap line is "An instinct for growth", is almost entirely about problems with the governance arrangements yet barely explains what went wrong economically.

Instead of finding the cause for what has gone wrong in poor governance, how about doing a proper economic analysis ? Doing such an economic analysis is even more called for since, after 2016 it was not just Robin Hood Energy (RHE) that failed. No less than 20 other energy suppliers went bankrupt and 8 others packed up and left the electricity market without "crashing and burning".
https://www.energyscanner.com/which-energy-suppliers-have-gone-bust/

Maybe Grant Thornton with their instinct for growth did not notice the common reason for all the failures.

It isn't rocket science. Companies go bust when the money coming in is less than the money going out and they cannot borrow or sell shares to cover the difference because it looks as if the problem will not go away. In this case the problem seems unlikely to go away, which is why we need to know what's wrong in order to have a credible strategy for energy supply in Nottingham. (Or anywhere else)

Let me deal first with money going out. Energy suppliers buy electricity on a wholesale market that they then sell on to their retail customers, and the cost when buying on the wholesale market has been high and rising. Why? Because the energy generation system is going through massive changes away from fossil fuel generation to renewables at the same time as the power grid itself needs costly upgrades so that it can cope with intermittent generation. (When the wind does not blow and/or the sun is not shining). The energy generation system is no longer profitable and the generators are pushing the additional cost onto the wholesale market – onto the retail suppliers like Robin Hood Energy.

Unfortunately the whole idea of RHE was to serve impoverished retail customers. Nor did it help that, alarmed at the political implications of rising energy prices for retail customers, the government imposed a price cap and encouraged competition in the retail market. Competition between suppliers was supposed to bring prices down – that is what it says in the economic textbooks and in the 4 years after RHE was established in 2015 the number of competitors that they faced nearly doubled. This meant Robin Hood Energy could not get enough customers paying a high enough retail price to cover what they had to pay out to cover the wholesale price. It did not help when they also had to pay a lot of money to buy Renewable Energy Obligation Certificates – a policy intended to incentivise the use of renewable energy. They borrowed from the city council but when councillors got cold feet the whole show collapsed.

As a matter of fact when RHE was being established there was already literature appearing about a phenomena called the "utility death spiral" that was visible in Germany and elsewhere.
https://www.greentechmedia.com/articles/read/this-is-what-the-utility-death-spiral-looks-like

The costs of transition to a renewable energy system are pushed onto consumers. The rich consumers have enough money to take advantage of solar panels and energy efficiency work on their homes and respond to the rising cost by buying less from the grid – they still buy something because of those days without sunshine but not nearly as much. So who pays for the grid upgrade? As their bills go up, poorer customers opt out too – because they can't afford to buy energy so they freeze in the dark. As they opt out, the extra costs of upgrade are loaded onto a smaller and smaller group of people and eventually the upgrade becomes unviable anyway as the costs of the upgrade are carried by too small a number of people. Bankruptcies then occur.

This sounds similar to the sorts of problem we can expect in an economy that is subjected to an involuntary degrowth process. Some problems will become ubiquitous. Tim Morgan gives a number of examples:

One of these is falling utilization rates. This can be considered using the example of a bridge, whose economic viability relies on spreading the fixed costs of operations over a large number of users. As user numbers decrease, the share of fixed costs needing to be allocated to each user increases, pushing prices upwards, and accelerating the rate at which user numbers fall. This effect applies to ***any activity whose viability relies on economies of scale****, which means that exposure to this downwards pressure is going to be virtually ubiquitous across the economy.*

A second and related process is the loss of critical mass. This occurs where some of the many components or other inputs required by a production process cease to be available. Some such gaps can be worked around, and will indeed form part of the simplification process. But others either cannot be surmounted cost-effectively, or cannot be overcome at all. Accordingly, products cease to be made because some necessary inputs can no longer be sourced.

Importantly, loss of critical mass and falling utilization rates can be expected to interact in a compounding process (for which provision is now made in the SEEDS economic model). We can, for instance, picture a manufacturer ceasing to make a product because critical inputs cannot be obtained. This reduces the purchasing of other components, whose supply then ceases because suppliers' own utilization rates have fallen below the threshold of viability.

https://surplusenergyeconomics.wordpress.com/2020/12/08/186-the-objective-economy-part-three/

The result of this is a de-complexification and simplication of the economy. As incomes fall so too do the number and variety of goods available in supermarkets and department stores.

The Retail Apocalypse and the Broadmarsh Centre re-development collapse.

This brings us to the lessons of the next crisis that has not been properly analysed – the collapse of the Broadmarsh Centre and the property empire managing it. As with Robin Hood Energy it was not a isolated case -   shopping centres and retail stores are in trouble everywhere. As pointed out in an earlier installment of this critique, it was evident a long time ago that the John Collins Strategy for Nottingham as a regional shopping centre was not sustainable. When the limits to growth kicked in the consumption economy would shrink and it would be over. Of course John Collins probably assumed that growth would go on forever – the same assumption will have been made by almost all of the economists at the two universities. Like the Growth Board and One Nottingham, they upheld the faith and still do. A rebel economist well known to my generation, Kenneth Boulding, put it like this: "If you believe that growth can go on for ever on a finite planet you are either a madman or an economist".

The assumption about the so called "Retail Apocalypse" has therefore not been that growth was falling away and that this was terminal but rather that it is the result of "disruptive innovation" **-** Amazon and the genius of Jeff Bezos is wot done it. However, as we have seen from earlier installments of this critique, the truth is that department stores live from discretionary expenditure and as the costs of essentials like energy and energy intensive food production have risen, as debt charges have risen, discretionary expenditure has shrunk and with this trend the money for shopping on the high street has dried up.

Once again we have a situation where, although we can blame covid 19 for some of the problems of the retail sector, we would have to have a very short memory not to remember that the problems of retail pre-dated the pandemic. It was the beginning of 2019 that Tim Watkins wrote an article that begins like this

It is no secret that the UK retail sector has experienced serious and growing problems in the decade since the crash of 2008. For most of the period, mainstream business journalists were able to pass off the lack of growth on the High Street by blaming the Internet. While it is true that online sales have continued to grow, however, they are insufficient to account for the combined losses on the High Street. Since 2016, journalists have also been able to mobilise the fiction of "Brexit uncertainty" to explain falling sales (this is a plausible explanation for falling investment and for large purchases like houses and new cars, but it stretches *credibility to claim that people didn't buy winter clothing in 2016/7 because Britain was due to leave the EU in March 2019).*

Prior to 2018, the "retail apocalypse" was limited to a narrow section of the High Street, including restaurants and fashion outlets. But in 2018, something began to change. The pace of insolvencies picked up and began to impact on the commercial real estate sector. Then in September we experienced a massive drop in car sales. And while this was dismissed as an anomaly resulting from falling diesel car sales and European environmental regulations, the promised rebound never happened. Vehicle sales continued to fall in October, November and December. (The diesel sales narrative never really worked because it assumed that the alternative would be to give up driving altogether rather than do the more obvious thing and buy a petrol or electric alternative).

Particularly poor non-food retail sales at the end of 2018 – when around 40 percent of annual sales are normally made – have finally obliged (mostly London-based) business news outlets to acknowledge what has been painfully obvious to those of us living outside the "Westminster Bubble;" that a decade of austerity policies, coming on top of decades of eroding living standards, has shrunk our collective discretionary income (the cash we have left over after the bills have been paid) to the point that we can no longer afford to support a consumer economy. https://consciousnessofsheep.co.uk/2019/01/15/the-other-side-of-the-retail-apocalypse/

This is not to deny that covid 19 has accelerated the trend to buying online and then have goods delivered to your address. Covid 19 and the lockdown also accentuated a trend in the decline of ancilliary services in the city centres – cafes, restaurants and pubs – as well as night clubs. Of course with more people working at home, footfall in city centres fell and fewer people were in the centre to use the shops, cafes, pubs and clubs anyway.

To the John Collins team a huge amount was put into getting people into the city centre, into the 24 hour city, so this has been a complete disaster. The longer it lasts the worse it will be. Actually the situation is worse because once started the decline of the city centre is likely to become cumulative. Big organisations whose staff are working from home are likely to start to think that a way of saving costs is to terminate their office rental costs. This cuts the heat, light and maintenance bill too. And if staff are working from home they are going to eat at home rather than in the city centre. Nor will they be in the city at going home time to stay for a visit to the local pub. As pubs, restaurants, shops, and offices empty out the commercial property market will crash and that is bad news for all those whose pensions are dependent on incomes from this market.

Local Authority Financial Losses as the city declines

The financial losers will include the local authority itself. Writing about the national picture (and not just Nottingham) an article in the **"Public Finance"** website published on behalf of the Chartered Institute of Public Finance and Accountancy tells us that*" the latest returns show that councils are expecting losses of £5.9bn by the end of the financial year. The main income losses councils have suffered so far are in relation to business rates and sales fees and charges, valued at £1.5bn and £1.7bn respectively. Sales fees and charges have recovered from a peak of £329.3m in losses in April, totalling £141.6bn in October. Business rates have recovered from peak losses of £297.0m in May to 'just' £141.6m in October…."Parking income, which had been down as low as 17%, in my borough, has only ever gone back up to about 30% of what it was this time last year. There was an improvement in commercial income, but to counter that we are seeing levels of council tax debt increasing, and seeing levels of rent debt increasing. Our rent debt is up to about £1.1m here." There are fears what the second lockdown will now have done*

https://www.publicfinance.co.uk/2020/12/2020-year-covid-19-shook-local-government-finances?utm_source=Adestra&amp%3Butm_medium=email&amp%3Butm_term=

It is clear that the City Council will be in trouble financially not only because of its RHE and Broadmarsh losses – other kinds of losses are being experienced and will grow as the situation deteriorates. Retail employment is already under threat. But I am writing here too of a decline in management and professional roles plus a lot of low grade administration jobs that will become unaffordable to commercial or public sector organisations.

A Shrinking Services Sector

It will be a process in which it is services that will shrink fastest of all. Here's Tim Morgan again:

Since 'industry' (of all kinds) accounts for 30% of World GDP, and for lower proportions still in the advanced economies, one could easily conclude that services are 'at least twice as important' to the economy as manufacturing, and all other production activities, put together.

This is a wholly misleading interpretation, in much the same way as similar statistics could be used to 'prove' that, since agriculture is 'only' 6% of World economic output, 94% of the economy could continue unscathed even in a situation in which the production of food had become impossible.

The reality is that, in the pre-industrial economy, services were few in number, and rudimentary in character, and a retreat from an energy-profligate system can be expected to drive their role back towards that situation. Historically, the availability of low-cost fossil fuel energy starkly and relentlessly reduced the numbers of people required for the supply both of food and of physical goods, which meant that the numbers no longer required for these activities soared. This was the dynamic which drove the expansion and proliferation of service activities, and the consequent reallocation of financial activity is reflected in statistics which ***seem to*** *show that services are now 'more important' than production.*

The obvious corollary is that service activities will shrink more rapidly than the supply of goods as the economy moves away from the dissipative-landfill model.

https://surplusenergyeconomics.wordpress.com/2020/12/08/186-the-objective-economy-part-three/

Policy responses – relocalisation, reducing the need for production and energy, developing manual skills to redevelop craft trades, re-discovering appropriate technologies for a low energy future

What can possibly be appropriate to stem such a catastrophe? It would be futile to even try. The job of a politician in tune with times like this is not to try to push back against such a massive historical process but to do their best to steer its effects as best they can. Politicians should "expedite the inevitable" as Talleyrand put it - not try to push the baby back into the womb.

The transition into this future will be painful but it will be even more painful unless we radically rethink what is going on and how we all need to respond. Above all that requires a different model of future development – and that model must be based on re-localisation of the local economy, meeting as many needs as possible as close to home as possible – using technologies that rely as little as possible on external sources of energy. (Complete localisation will be impossible, this is not a story where the transition can be achieved all at once)

To put that again in a slightly different and somewhat fanciful way: if Nottingham were a country that imported its consumer goods and paid by selling foreign tourists visits to Nottingham Caste Museum then it needs an import substitution strategy to grow much of its food in and near the city as it did in the 19th century. At that time a huge proportion of the population had a vegetable garden or a share in one. The more that is grown locally, the less needs to be imported and paid for somehow.

Thus, for example, instead of charging non existent tourists entrance fees to see paintings and tasteful historical bric a brac, what Nottingham needs from a museum….from its universities…. is what the past can tell us about how technologies and work can organised in an era without coal, oil, gas as energy sources. (This will also be an era when electricity will still be available – sometimes, to a limited extent. It will be intermittent because it is too expensive to store power except on a very small scale with batteries.)

This will require rediscovering technologies….

Here are a couple of examples that would be possible and maybe even appropriate where Nottinghamshire might re-develop pre-industrial energy sources as well as for growing some of the fruit that we will no longer get from the European Union nor from further afield: https://www.lowtechmagazine.com/2020/09/how-to-make-biomass-energy-sustainable-again.html https://www.lowtechmagazine.com/2020/04/fruit-trenches-cultivating-subtropical-plants-in-freezing-temperatures.html

What that means is that most of the working population, pretty much all of us, will have to get involved in manual production and work with our hands as well as our heads – and that does not mean typing.

It needs arrangements to reduce the need to buy in consumption goods. We can do that when we insulate our houses so that we do not need to buy as much energy. We can do that when we cycle rather than use a powered vehicle so do not need to buy petrol. We can do that when we grow some of our own food. We can do that through developing DIY skills. We can do that when we share durable goods with neighbours. We can do that when we use libraries of tools and equipment.

We also need a revival of manual skills and technical ingenuity. That said the revival of these skills and trades will not be easy. An economist friend of mine wrote to me today a letter that discusses how much colleges of further education might help in reviving manual skills. He has skills in making shoes and writes:

The FE colleges etc. seem mainly sites of industrial (displacing crafts) or services training. There seems to be increasing interest on the ground in crafts, but from a very low base. The Heritage Crafts Foundation report a critically endangered list of traditional crafts. Shoemaking is listed as 'currently viable' ie not on the endangered list but my information is that in the UK it basically depends on one tannery, and there are probably less than 100 independent makers. If that tannery goes there is zero capacity without imports. There is so little of the traditional industry left that it can be a problem when even one supplier retires or goes bust. There is one clogmaker left, who has just trained another one … ! (Thanks to N.B.)

The main difficulty will be embracing the idea that all this is necessary because the world has changed so profoundly. As the economist John Maynard Keynes put it:

"The difficulty lies not so much in developing new ideas as in escaping from old ones"

Concluded for now….maybe…

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