



Centre for Local
Economic Strategies

bulletin

Budget 2010 - Headline results

Number 72

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INTRODUCTION

Alistair Darling delivered the last Budget before the general election against the backdrop of an economy slowly emerging from recession. With a record deficit of £167 billion, the budget had to demonstrate a balance between placating the markets with policies that would reduce the country's debt while making sure these policies did not stifle the economic recovery.

Below are the key headline messages from the Budget that have an impact on economic development and regeneration. Some of the more interesting messages are the extension of the Future Jobs Fund, the acknowledgement of the power of procurement to stimulate the SME sector and the introduction of Accelerated Development Zones to finance major infrastructure projects.

Key messages for economic development

The UK economy contracted 6% during the recession and is predicted to grow 1-1.25% in 2010. The growth rate for 2011 was lowered from 3.5% to 3-3.5%. Against this backdrop the Government introduced the following policies to help achieve these targets.

Economic Governance

Policies from the Review of Sub-National Economic Development and Regeneration continue to be moved forward. The city-region agreements with Manchester and Leeds are further strengthened and a new initiative to fund major infrastructure projects is introduced.

- Strong city-regions will be given more autonomy under new regional arrangements. The 2009 Pre-Budget Report announced city-region agreements with Manchester and Leeds. Greater Manchester is consulting on proposals to put city-region governance on a statutory footing, to oversee delegations and devolved powers agreed with the Government, including on skills, transport and housing. Leeds city-region is making progress towards similar powers as well as trialling new approaches to asset and capital management. This Budget also announced that the Birmingham city-region has been granted powers to set the adult skills strategy across its area.

- To support investment in infrastructure in cities and other centres of growth, an Accelerated Development Zone (ADZ) pilot programme was introduced. The pilot schemes will be introduced in locations across England in 2011-12. Combined authorities, as they are agreed, and selected local authorities, will receive capital grant funding to a total of £120 million to help support projects that deliver key infrastructure and commercial development to unlock growth. The Government will assess the impact of the investment on business rates growth within the defined ADZ area to further understand the case for introducing Tax Increment Financing.
- A regional growth fund will be established by the Regional Development Agencies (RDAs) within their capital budgets for 2011-12, to promote high-value investment in support of regional and national growth and industrial policy. To simplify the regional tier, the Government will also act to co-locate the RDAs, Homes and Communities Agency and Government Offices, saving £255 million from 2012-13.
- Total Place: a whole-area approach to public services¹ was released by the HM Treasury and Department for Communities and Local Government

Help for business

Below are the headline messages for how the Government intends to help business. Most encouraging for CLES was the recognition of procurement as a useful tool for strengthening supply chains. CLES has been doing a lot of work around the importance of public procurement to a local economy. Projects in Swindon, West Lothian and Manchester have all demonstrated the positive impact of procurement on local supply chains.

- Procurement: The Government will deliver change in central departments by agreeing departmental targets to increase the proportion of central government procurement spend that goes to SMEs by 15% throughout the supply chain;
- £2.5 billion package for small business to boost skills and innovation;
- One year business rate cut from October to help 500,000 companies;
- Investment allowance for small firms doubled to £100,000;
- Doubling relief on capital gains tax for entrepreneurs;
- No change to capital gains tax rates;
- £385 million to maintain road network.

Jobs and training

CLES has done a lot of work around worklessness and how it can be tackled and the extension of the Future Jobs Fund to tackle 18 – 24 year old unemployment levels created by the recession can only be seen as a positive thing.

- £450 million to extend the Future Jobs Fund to March 2012 which guarantees a job, training or work placement for every 18 to 24 year old who has been claiming Jobseeker's Allowance for six months.
- Amount of time over-65s must work to receive work credits reduced.

Tackling financial exclusion

Tackling inequality and financial exclusion is something CLES believes strongly in. We recently produced a piece of research with Urban Forum looking at the need for Government to take steps to deal with the 'poverty premium' that exists in this country. A number of recommendations from that report were included in the Budget including the need for everyone to have a basic bank account and greater transparency in the coverage of retail banking services.

¹ *Total Place: a whole-area approach to public services*, HM Treasury and Department for Communities and Local Government, March 2010.

- The Government recognised the need to secure greater transparency in the coverage of retail banking services. It is now exploring with the FSA the best way to ensure that the banks provide public information about the geographical distribution of banking services to personal and small business customers. This transparency requirement would highlight differences in coverage and therefore the people most at risk of financial exclusion.
- The Government intends to introduce a new 'universal service obligation', giving people the right to a basic bank account under certain conditions and will consult on the details.
- It will consult on options to make sure banks make an appropriate contribution to community lenders, through regulatory action or a new community levy to be funded by retail banks.
- The Government also intends to seek views on raising the current share capital limit for industrial and provident societies from £20,000 to £35,000, enabling societies to raise more capital from members to further their objectives. It will also consult on proposals to facilitate the use of electronic communications by mutual societies.

Third sector

As CLES' resilience model shows, the social economy is an important part of the local economic territory. Our resilience pilot projects are showing that it is important for strong relationships to exist between the private, public and social sectors to create a resilient place. The announcement of a Social Investment Wholesale Bank is a positive step forward.

- To support the creation of a Social Investment Wholesale Bank the Government will provide up to £75 million of Dormant Accounts money as a minority stake in a private sector social investment fund of funds. The SIWB's aim will be to deliver financial inclusion and other social returns by linking mainstream investors with organisations with social impact. The Government will work actively with potential co-investors and will look to appoint a fund manager following an open competition, selecting on the basis of their ability to leverage in private capital for social investment.

Implications for the wider economy

Below are the key messages to come from the Budget that will have an impact on the wider economy:

Housing

- Two-year stamp duty relief for first time buyers for property purchases up to £250,000, alongside an additional 5% rate of stamp duty for residential property purchase over £1 million from 2011 to 2012.

Bank lending

- The one-off bank bonus tax raised £2 billion, double the amount forecast;
- There will be a basic bank account guarantee for a million extra people;
- Partially state owned banks RBS and Lloyds Bank Group will provide £94 billion in small business loans;
- The Budget backed a tax on bank transactions but this should only be done on a global basis.

Government savings

- The Budget said the Government was on track to achieve the £11 billion efficiency savings target;
- There has been a reform of housing benefit to save £250 million;
- To benefit from savings that can be generated in cheaper rent elsewhere, 15,000 civil servants are to be relocated outside London.

Environment

- There will be a £2 billion investment bank to back low-carbon industries such as offshore wind. Government will provide £1 billion through asset sales.

Education

- Funding for 20,000 new university places in science and maths but institutions must make savings elsewhere;
- £35 million enterprise fund to help university-launched businesses.

Bulletin is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is a not-for-profit think-doing organisation, consultancy and network of subscribing organisations specialising in regeneration, economic development and local governance. CLES also publishes Local Work, Rapid Research and Briefing on a range of issues. All publications are available as part of CLES membership services. To find out more about membership visit the CLES website or contact CLES to request a membership leaflet.

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