Centre for Local Economic Strategies

bulletin

# Budget 2012: A fair deal for local economies?

***Number: 91***

***Author: Adrian Nolan, Senior Policy Consultant, CLES, 0161 236 7036***
***adriannolan@cles.org.uk***

---

## A budget to support business and growth

It is still an uncertain time for the UK economy, but as we move gradually out of the red and growth is starting to reappear – albeit very sluggishly – this Budget was important for the Coalition Government to prove to taxpayers and businesses that they are managing and delivering economic stability effectively. The overarching theme of the Budget was to *'reward hard work and promote growth'* but how successful was George Osbourne in achieving this, particularly in another budget in which fiscal concerns predominate? Are the Government's plans and initiatives enough to make the key differences in changing the course of stagnant economy? And what does the Budget mean for local economic development in the future?

### The wider economic landscape

The Budget highlighted the continuing economic uncertainty in which economic development practitioners are operating. The Euro area growth prospects have further weakened since the autumn statement, although amongst the turmoil, the Office for Budget Responsibility (OBR) has not changed their forecasts to any great extent. We are still likely to experience subdued growth this year, with the recovery likely to be uneven – in short, the pain is likely to continue for some time yet. This message is reinforced by the disappointing retail figures for January and February 2012 released last week, which highlight the continuing lack of consumer confidence. Despite these challenges, the OBR forecast that we are likely to avoid a double dip recession, although the degree of confidence in such an assertion must be questionable.

In terms of the fiscal forecasts, these are generally unchanged to those presented at the autumn statement. Public sector net borrowing is set to fall to just 1.1% of GDP in 2016/17; and public sector net debt is forecast to peak at 76.3% of GDP in 2014/15, and falling to 74.3% by 2016/17. The Government's plan for fiscal consolidation is on course, and as at the end of March 2012, 40% of the annual fiscal consolidation for the Spending Review 2010 period has been achieved. Spending will fall further during the course of the Parliament and this ultimately impacts on the nature and level of interventions.

Overall, the continuing focus on restoring public finances to health means this is a 'fiscally neutral' Budget, which results in a lack of 'big ticket' initiatives, as highlighted in the review below.

### Tax the overriding focus

Perhaps unsurprisingly, the main focus of the Budget was on tax. The key headlines of the Budget included:

- reduction of the top rate of tax from 50p to 45p;
- reducing the threshold for higher rate tax;
- raising the personal income tax allowance by a further £1,100 in April 2013 up to £9,025;
- child benefit being withdrawn where one person in a household earns £50,000 per year or more;

- increase on stamp duty for properties worth £2 million or over;
- removal of age related tax allowance for pensioners;
- reduction in the main rate of corporation tax by an additional 1%.

These have been the key headlines focused upon since the Budget's publication. Are the tax changes fair? Certainly, the reduction in the top rate of tax provides relief for higher earners, and could be interpreted as an ideological move which does little for poorer people in society. Others will argue that many of the top earners are the key entrepreneurs who are crucial for the country's overall prosperity, helping to create employment for others. Raising the income tax allowance does help lower earners, and the middle earners are being targeted by the raise in child benefit reductions from £40,000 to £50,000. The reduction in the rate of corporation tax is aimed to send a message to businesses that the Government is encouraging growth, although whether this is large enough remains to be seen. In sum, despite the media headlines, these tax measures may be relatively modest, reflecting the fiscal straightjacket that Government is operating in, and it is difficult to foresee them directly resulting in a major step change in the wider economy unless accompanied by serious targeted interventions, which are explored below.

## Encouraging growth and levers for local economic development?

There are a wide range of thematic areas covered by the Budget, which cannot all be done justice within this briefing; however we outline below a number of areas which we feel are important for local economic development, and assess the measures taken related to these.

### Skills, unemployment and benefits

Unemployment continues to rise across the UK and is a pertinent issue for so many localities, holding them back from maximising their potential and, more than anything, increasing inequalities within and between places. What did the Budget announce around tackling skills and unemployment issues, and how much of this was new?

- The Youth Contract, announced earlier this year, will go live in April 2012. This will aim to help 500,000 young people most in need, into education and work.
- £126 million of targeted support for young people not in education, employment or training (NEETs), which will be awarded to contractors from June 2012.
- 40,000 incentive payments to employers taking on their first apprentice by April 2013 – this is part of a wider approach of increasing skills via apprenticeships, which also includes £20 million for supporting 19,000 degree level apprenticeships.
- Piloting the best way to introduce a programme of enterprise loans to help young people set up and grow their own business.
- Below inflation increases to the adult National Minimum Wage rates – this will be £6.19 per hour and youth rates will be frozen.

Beyond this, there is little in terms of tackling unemployment. The Budget provides a vague update on the progress of the Work Programme which continues to be one of its flagship policies, but beyond this there is little to encourage practitioners. The Government has rightly recognised that entrepreneurship is a positive way of getting young people off benefits and increasing flows of tax into the Treasury, thus the enterprise loans for young people is a step in the right direction. The targeted support for NEETs is welcome, together with the Youth Contract, and highlights the recognition of the need to overcome severe structural problems in the labour market from an early stage. The below inflation increases to the minimum wage is economical for employers at a time of severe financial pressures, but this results in further hardships for those on minimum wage, mainly young people and those resident in deprived communities, which could serve to further widen inequalities.

Overall, the labour market problems are deeply systemic and require more than just a few initiatives, more a joined up programme which tackles not just the symptoms but the causes. With youth unemployment now over one million, more needs to be done than is currently being implemented to address an issue which will have serious social and economic consequences for the future of our places.

A valid response from the Government would be to say that the other cross cutting growth measures will address issues around unemployment and this is true to some extent; however more needs to be done to provide highly targeted place specific support in a less piecemeal way, otherwise other growth measures may not have the desired impact and could lead to increased inequalities.

The area of focus that is particularly welcome however is that of the increased drive on creating apprenticeships. This is fundamental to addressing youth unemployment, and the measures being taken on this are important in helping rebalance the economy, as increased numbers of these apprenticeships are within manufacturing.

**Enhanced levers for local economic development or enhancing spatial disparity?**

Successive governments have mooted the possibilities of devolving power and policy levers away from the centre and to first regions, and then cities. It is generally recognised that giving localities greater power to respond to the challenges specific to them will help the local economy, as central policies are often unable to respond in the most effective way. The Budget announced that the Government is working with the eight core cities on a number of measures to decentralise decision making powers away from Whitehall. This makes the City Deal for Manchester stated in the Budget particularly interesting. This is an 'Earn Back' model, agreed with the Greater Manchester Combined Authority, which could see up to £1.2 billion of new investment across the Manchester City Region (MCR). It permits Manchester to earn back up to £30 million a year of tax for growth that it creates. Under the scheme, the money will be spent in improving infrastructure such as transport. It is the first time a UK city has had the freedom to reinvest its own tax revenues. Particular projects mooted for development include a City Apprenticeship and Skills Hub, a strengthening of its Business Growth Hub, establishing a low carbon hub, an investment fund to drive new homes construction, and further improving transport services.

This is an innovative initiative which will certainly support growth in the Greater Manchester area; however a key question is around its transferability. The reason that Greater Manchester has been at the forefront of city based initiatives by both the current and previous government, is due to its particularly strong governance structures across its ten districts. Such developments are more likely to work there than anywhere else. The same cannot always be said of other areas of the country, where there is not such a shared vision for places. We have yet to see what the other City Deals look like for the core cities, but will they all be able to implement initiatives as effectively as in Greater Manchester?

The second consideration is about areas that are not in the hinterlands of core cities. Devolving power to cities is a welcome development which caters for local responsiveness, but what about the likes of post-industrial towns and rural places? They are missed out in the Budget, and face specific pressures of their own which are not being identified at the central level. Building on strengths and opportunity, such as scale and mass, is good but leaving out other struggling places could continue to extend social and economic inequalities across the country. There needs to be more of a spatial focus in the economic planning that is not being delivered here – it is not just about backing 'winners'.

**Enough help for struggling SMEs?**

The reduction in Corporation Tax could provide some stimulus for business. There are a number of other specific measures which are designed to help businesses and stimulate growth and productivity. In line with the autumn statement, these include a number of measures based on supporting innovative, high growth companies, such as:

- establishing a UK centre for aerodynamics to support innovation in aerospace technology;
- introducing further Corporation Tax relief for digital industries such as video games, animation and high end television, in an effort to make the UK the 'technology hub' of Europe;
- introducing an 'above the line' R&D tax credit from April 2013, with a minimum rate of 9.1% before tax – this adds to the R&D tax credits for SMEs from last year's Budget.

These are clearly positive moves to drive innovation and local economies which have a prevalence of manufacturing, and digital industries are in a position to build on those competitive advantages. However, not all places have such strengths, so what benefits does the budget bring to other SMEs which are struggling in an uncertain economic climate?

The launch of the National Loan Guarantee Scheme is a key measure for helping businesses grow. Under this scheme, the Government will provide up to £20 billion of guarantees to banks, allowing them to borrow at a cheaper rate. There is also a guarantee that these will be passed through to smaller businesses; however it should be noted that this is small compared to the money already put into the system through quantitative easing by the Bank of England – time will tell whether it has the desired effect of lending to businesses, but it may well be a sticking plaster approach which does not provide the long term solution. There are also other piecemeal support measures which have been announced, including business coaching and reducing regulatory burdens for small businesses.

The above are relatively generic measures which will help businesses to an extent, but the policy towards businesses is still too much of a 'rising tide will lift all ships' approach which is spatially and sectorally blind. The support for technology companies outlined above is the nearest thing to an industrial policy the Coalition Government has produced, and hopefully such policy will be extended, but much more is needed in terms of focused and targeted investments which will make a difference. High level generic measures are not enough on their own, and the lack of such a policy causes uncertainty and can potentially deter both internal and external investment. In terms of geographical policy, there is a lack of awareness of economic geography and understanding that businesses face different issues across the country. This is again where the City Deals are a positive development, but businesses in other areas of the country will not get the support they need, leading to employment, productivity and output gaps being widened.

**Other growth measures**

The Budget also highlighted a number of other measures designed to promote growth in the economy. These included:

- **increasing the Growing Places Fund –** there will be an additional £270 million provided, although £70 million has been earmarked for the Greater London area. Importantly, the Local Enterprise Partnerships (LEPs) will be involved in the Fund, providing an important source of capital for local developments;
- **the development of Enterprise Zones –** was announced in the last Budget, and the Government will also work with interested LEPs to develop ten more of these across the country;
- **Tax Increment Financing (TIF) –** local authorities will be able to undertake TIF from 2013/14. There will be £150 million made available for the core cities;
- **local authority borrowing –** the Government will introduce discounts on loans from the Public Works Loans Board (PWLB) under prudential borrowing, if the local authorities applying provide improved information and transparency on their long term borrowing and capital spending plans. This will mean that local authorities are able to borrow more cheaply to invest in job creation schemes.

The access to finance mechanisms are welcome, however the TIF funding will only apply across the core cities to begin with, and the conditions for PWLB borrowing make clear that 'principle' local authorities must have clear plans about how they will invest capital, and therefore hints at a measure again aimed at the larger cities. This once again raises questions around what this means for non-city areas who are struggling more than cities to raise finance even without these measures. The extension to the Growing Places Fund is, whilst welcome, in our view unlikely to address the causes of disadvantage and underperformance in our localities, more so providing some short term solutions to structural problems. It is also competitive, thus what happens to those places which miss out? Much has also been made of the Enterprise Zones, and time will tell whether they stimulate local economies. However CLES would encourage more investment to link local labour markets to the businesses which will be situated in the zones, building up skills profiles which result in a long term legacy for the wider locality.

**Infrastructure and planning**

The Government has recognised the importance of infrastructure in encouraging development within the economy and stimulating external investment. Using pension funds to contribute to key developments will be an ever common measure – with a first wave of major developments worth £2 billion in early 2013. The Budget was preceded by David Cameron's speech last week on the importance of the country's infrastructure for the future, and outlined a number of measures:

- **super-connected cities –** Belfast, Birmingham, Leeds, Manchester, London, Bristol, Cardiff, Edinburgh and Newcastle are to receive ultra-fast broadband coverage for businesses and residents. This is part of the £100 million initiative announced in the autumn statement; a second wave constituting £50 million investment will take place at a later stage;
- **better connected North –** £130 million has been allocated to the Northern Hub rail scheme, which will improve links between a number of northern locations including Manchester, Sheffield, Rochdale, Bolton, Bradford, Halifax, Preston and Blackpool. This will connect cities and towns more effectively therefore increasing the reach of potential labour markets;
- **National Planning Policy Framework (NPPF) –** this has just been published, although the Budget gave little in the detail of it. It will conform to principles of localism, localising choices around the use of previously developed land and end national targets. The Government will also be taking measures to simplify the planning system.

The developments highlighted are a move in the right direction and the Government has heeded what localities have been lobbying for a long time now. However, there are geographical concerns, and a long term plan on how infrastructure will be developed in different areas across the country would be welcome. It is not only about investing in economic 'winners' but connecting communities across the country. In terms of the upcoming changes in the planning system, it is positive that unnecessary blockages will be removed and local people will have more of a say, however there may be unrealistic assumptions around the means and willingness of all communities to shape local changes, and the role of local authorities is still central. At the time of writing, the NPPF was still to be published thus it is difficult to assess the implications on local economies and practitioners.

### Support for the voluntary sector

The voluntary and community sector was rather overlooked in the media and by commentators in the run up to the Budget, despite its growing importance in service delivery, as frontline public services are scaled back. The Budget does make some, albeit limited, references to supporting the sector. This includes:

- **funding for advice services over the next two years of £20 million –** to support the sector as it adapts to changes in the way it is funded. This is a positive development for supporting important voluntary and community sector organisations, although the amount set aside for this is limited, considering demand across the sector and the losses it is experiencing;
- **review on social investment –** the Treasury will be conducting an internal review which looks into the financial barriers of social enterprise. New models of social finance and funding are emerging and this review could be important in developing a platform for future support; therefore we believe it should be undertaken as a matter of urgency;
- **a cap on income tax relief for donations –** for anyone seeking to claim more than £50,000 of reliefs, a cap will be set at 25% of income. This could negatively impact the scale of donations for charities and others in the sector, and further hit those deprived communities which are struggling through continued socio-economic pressures. However, the Government has stated that it will work with philanthropists to explore ways to minimise the impacts of these measures.

These measures are unlikely to go far enough, thus it will be important to ascertain from the Government whether the key initiatives being aimed at businesses, such as the National Loan Guarantee Scheme and others, are applicable for social enterprises. This will be important in attracting social entrepreneurs to the sector, crucial at a time when demand is higher than ever. The Government must appreciate that, for the Big Society idea to work effectively, robust support needs to be provided.

## Heseltine Review

Lord Heseltine will undertake a review this year assessing the effectiveness of how the public and private sectors are linking together. It will assess the capacity to deliver pro-growth policies, with a review of how other economies implement their industrial policies. This offers an opportunity to outline the development of a focused industrial policy for the UK, which will allow local economies to understand their strategic fit and provide more steer for local structures such as Local Enterprise Partnerships. This review reflects how more than ever it is important to link cross sector working in the most effective way to leverage capital for economic development.

## Conclusions

The 2012 Budget is one that may not live long in memory. The headlines are of gambles being taken by the Chancellor, particularly around the 45p rate for higher earners and other tax measures, which may or may not have much of a difference in the long term to the economy. The cut in Corporation Tax is welcome for businesses, but again within a stagnant European and global economy there is much uncertainty as to how influential a measure this may be. Beyond these key strap lines however there appears to be little of substance in the Budget that will help local economies up and down the country. Perhaps more than anything, the Budget is not spatially aware enough to be effective. Different places face different issues and challenges, and therefore need both the policy levers and the targeted interventions to be able to make an effective difference. The private sector and growth is important, but we cannot just rely on business to take up the slack – we need more place and sector based stimulants from the Government, which will allow local authorities and their private and social sector partners to steward their places effectively, although of course the mistrust from the Government towards local authorities does not help. Time will tell, but on face value the main outcome from this Budget may be to increase the already sizeable socio-economic divides across the UK.

**Bulletin** is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is the leading membership organisation in the UK dedicated to economic development, regeneration and local governance. CLES undertakes a range of activities including independent research, events and training, publications and consultancy. CLES also manages the monthly New Start digital magazine, through its new CLES online service, which provides comprehensive analysis and commentary on current policy and good practice.

**Centre for Local Economic Strategies and CLES Consulting** • Express Networks • 1 George Leigh Street • Manchester • M4 5DL • Tel 0161 236 7036 • Fax 0161 236 1891 • info@cles.org.uk • www.cles.org.uk