CLES
Centre for Local
Economic Strategies

bulletin

Early thoughts on what the Budget will mean for economic development and regeneration: June 2010

Number 74
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This Budget announced the path of public spending for the period until 2015-16. The message was clear and hard hitting, that to tackle the deficit, public expenditure will be £83 billion a year lower by 2014-15. Whitehall departments will bear the pain of these cuts with a massive 25% cut over the four years. £52 billion of these spending reductions were already implied in projections that the Government inherited, but in addition, this Budget also announced:

- additional reductions in current spending totals of £30 billion a year by 2014-15; but
- no further cuts in capital spending totals beyond those announced as part of the £6.2 billion of savings in 2010-11, in order to protect the most productive public sector investment.

This special CLES bulletin provides some of CLES' early analysis of the budget along with a summary of the main changes which will impact upon economic development and regeneration.

Initial thoughts on how this budget will impact economic development and regeneration

- **Cutting public sector budgets will hurt local economies**
  The budget announced that government department budgets, outside of Health and International Aid obligations, will face an average real cut of around 25% over four years. This will have a huge impact on government spend and that will affect all local economies, particularly those places which are highly reliant on public sector jobs and investment. As our work on the value of the public sector to local economies has demonstrated, the private sector also depends on public sector spending through procurement and staff wages. It will be interesting to see if the 'business friendly' measures introduced in this budget can help the private sector cope with the amount of public sector money that is going to be taken out of the system.

- **The cuts will disproportionately impact upon deprived areas**
The cuts in department spend will disproportionately affect the most deprived areas and this is something that will need to be addressed. For example, if you take an area like the North West, there are a high proportion of public sector jobs, high levels of unemployment and worklessness and a lower level of private sector jobs than other regions. The public sector cuts, therefore, will have a significant impact on this region. Research currently being undertaken by CLES shows that the North West will experience 17.9% of the cuts in England compared to 7% in the East of England.

- **A strong case for economic development**
The budget does make the case for economic development. In order to ensure that public sector job losses and disinvestment are replaced, local authorities and the new Local Economic Partnerships will have to work hard to stimulate private sector investment and demand, particularly in those regions which lag behind in terms of growth, compared with London and the South East. In those areas, where the private sector economy is particularly weak, the development of social enterprise could be an important pathway for communities into enterprise and entrepreneurship. The cuts will also make partnership working even more important and if economic resilience is to be achieved there is going to have to be effective collaboration between the public, private and social sectors.

- **Measures to stimulate enterprise are important**
CLES welcomes the support within the budget for business and enterprise. It is clear the coalition's main aim is to encourage inward investment and private sector investment into the country to increase the number of private sector jobs available in order to fill the gaping hole left by public sector job losses. Questions remain however, about whether enough jobs will be created, particularly in those areas where the economy is less diverse and where the economy suffers from a lack of critical infrastructure, e.g. transport and housing. In addition, there are questions about the quality of jobs that will be created through these measures and their sustainability.

- **Recognition of unequal growth across the UK**
CLES also welcomes the Government's recognition of uneven regional growth in the UK. The new ideas on this agenda are interesting, for example, the National Insurance cap and Regional Growth Fund may make an important contribution. However, this is a challenge that has dominated the economic development and regeneration agenda for decades and crucial to the debate is the wider discussion about regional and local governance structures. The announcement of a forthcoming White Paper on this issue is good news and shows that the government are serious about tackling this important issue, early in the new parliament. CLES will be preparing some ideas on what this white paper could include over the next few weeks, based on our work with local authorities and Regional Development Agencies (RDAs) across the UK.

- **Place based regeneration is more important than ever**
One of the key lessons of the last 10 years in regeneration has been that regeneration of places takes time, investment and patience. The Budget lacked a clear vision for economic regeneration and renewal of places, particularly those areas most at risk from future public sector cuts where a lot of work will be needed to support the growth of private enterprise. The renewal of many of our towns and neighbourhoods will take many years as the challenges are intergenerational and as such, need a long term approach. There is still a great deal of hard work to be done to ensure that these areas do not go into reverse in a period of post recession austerity.

- **Cuts to welfare budget will impact upon the most vulnerable**
CLES recognises there is a need to reform the welfare benefits system and has sympathy with many of the proposals set out in the Conservative Party manifesto which have been strongly informed by the work of the Centre for Social Justice. However a massive £11bn is to be taken from the system and the big question is how achievable these cuts are in terms of ensuring the most vulnerable people in society are not disproportionally affected and whether the measures

announced yesterday will decrease the marginal tax rate significantly to incentivise work. The Coalition Government pledged to *"increase the incentives to work and reduce the incentives not to work. We will focus our benefit more towards those in need".* However, the content of the proposals, including the freeze on child benefit, the compulsion for lone parents to work as soon as their child goes to school and the new medical assessment for Disability Living Allowance, sound a lot like big sticks with few carrots to help support the most vulnerable in our society back into training and employment.

Key points from the budget

Growth in all parts of the UK

- Local Enterprise Partnerships: The Government will enable locally-elected leaders, working with business, to lead on local economic development. As part of this change, Regional Development Agencies will be abolished through the Public Bodies Bill. A White Paper later in the summer will set out details of these proposals.

- As part of this, the Government will:
  - o support the creation of strong Local Enterprise Partnerships, particularly those based around England's major cities and other natural economic areas, to enable improved coordination of public and private investment in transport, housing, skills, regeneration and other areas of economic development;
  - o consider the most appropriate framework of incentives for local authorities to support growth, including exploring options for business rate and council tax incentives, which would allow local authorities to reinvest the benefits of growth into local communities;
  - o as part of the shift to a more locally driven planning regime, promote the role for a simplified planning consents process in specific areas where there is potential or need for business growth, through use of Local Development Orders.

- To encourage the creation of private sector jobs in regions reliant on public sector employment, the Government will reduce the cost of employing staff to new businesses, The Government will shortly announce details of a scheme to help new businesses in targeted areas of the UK that need it most. During a three year qualifying period, new businesses which start up in these areas will get a substantial reduction in their employer National Insurance Contributions (NICs). Within the qualifying period, these employers will not have to pay the first £5,000 of Class 1 employer NICs due in the first twelve months of employment. This will apply for each of the first 10 employees hired in the first year of business and operate in selected countries and regions. Subject to meeting the necessary legal requirements, the scheme is intended to start no later than September 2010. Any new business set up from 22 June 2010 which meets the criteria set out in the forthcoming announcement will benefit from the scheme.

- To help areas and communities particularly affected by reductions in public spending make the transition to private sector-led growth and prosperity, the Government will create a Regional Growth Fund in 2011-12 and 2012-13. This Fund will operate in England only and support increases in business employment and growth.

- This Budget announced that the 2010 Spending Review will be published on 20 October 2010.

Business support

- The main rate of corporation tax will reduce from 28 per cent to 24 per cent over the course of four financial years from April 2011.

- The threshold for employer National Insurance Contributions (NICs) will increase by £21 a week above indexation.

- The Enterprise Finance Guarantee (EFG) supports lending to viable small businesses that lack sufficient collateral or the financial track record to access a normal commercial loan. To ensure that more businesses have access to credit as the economy recovers, the EFG facility for this year is being increased by £200 million to support additional lending of up to £700 million for small businesses until 31 March 2011.

- The Government will create the Growth Capital Fund. This is to address the Rowlands Review findings that, for some fast-growing SMEs, capital for growth is not being provided by the market and that this problem was exacerbated by the recession. To support small businesses with high growth potential, a new Enterprise Capital Fund is also being launched. This new Fund will form part of the existing £237 million programme of Enterprise Capital Funds and will provide an extra £37.5 million in equity finance. It will be funded through a £25 million Government contribution and £12.5 million in private co-investment.

Fairness

- The personal allowance for under 65s will be increased by £1,000 to £7,475 in 2011-12.

- Effective from 23 June 2010, capital gains tax will rise from 18 to 28 per cent for those with total income and taxable gains above the higher rate threshold.

- The 10 per cent capital gains tax rate for entrepreneurial business activities will be extended from the first £2 million to the first £5 million of qualifying gains made over a lifetime. The Government confirms that the annual exempt amount for capital gains tax will continue to rise in line with inflation and will remain at £10,100 for 2010-11.

Low Carbon Economy

- Following the Spending Review, the Government will put forward detailed proposals on the creation of a Green Investment Bank to help the UK meet the low-carbon investment challenge.

- The Government will establish a Green Deal for households through legislation in the Energy Security and Green Economy Bill, to help individuals invest in home energy efficiency improvements that can pay for themselves from the savings in energy bills.

The benefit and tax credit system

- To support more lone parents into employment, those with their youngest child over five will be moved onto Jobseekers Allowance rather than Income Support from 2011-12.

- The Government will introduce a package of reforms to Housing Benefit from April 2011 onwards. This includes changing the percentile of market rents used to calculate Local Housing Allowance rates, and uprating these rates by Consumer Price Index from 2013-14, capping the maximum Local Housing Allowance payable for each property size, time-limiting the receipt of full Housing Benefit for claimants who can be expected to look for work, and restricting Housing Benefit for working age claimants in the social rented sector who are occupying a larger property than their household size warrants.

- The Government will introduce the use of objective medical assessments for all Disability Living Allowance claimants from 2013-14

- The Government will reduce tax credit eligibility for families with household income above £40,000 from April 2011 and make further changes to this threshold in 2012-13 to focus tax credits on lower income families. The Government will also increase the rate at which tax credits are withdrawn once household incomes rise.

- From April 2011 the Government will restrict eligibility to the Sure Start Maternity Grant to the first child only and abolish the Health in Pregnancy Grant from January 2011.

Tax

- The Government will work in partnership with local authorities in England to implement a council tax freeze in 2011-12.
- The standard rate of Value Added Tax (VAT) will increase from 17.5 per cent to 20 per cent from 4 January 2011. VAT is a sustainable source of revenue and is less distortionary than other major tax bases.
- The Government will introduce a levy based on banks' balance sheets from 1 January 2011, intended to encourage banks to move to less risky funding profiles.

Infrastructure

- This Budget confirms the establishment of Infrastructure UK (IUK) to lead work within HM Treasury to enable greater private sector investment in infrastructure, and improve the Government's long-term planning and delivery. In the autumn, the Government will publish a national infrastructure plan that will set out goals for UK infrastructure. This will include priority public and private sector investments and proposals for delivering and supporting investment on a cross-sector basis.
- The Government will not introduce a tax on landlines.

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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