CLES

Centre for Local Economic Strategies

briefing

The Pre-Budget Report 2009: what will it do for economic recovery?

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The Pre-Budget Report (PBR) was published by HM Treasury on the 9th December 2009.[1] The report essentially has been constructed with reference to two key aims: to ensure effective stimulus to embed recovery within the economy, and to set out a plausible plan to cut the budget deficit. The report presents an assessment of the state of the economy and forecasts for both economic output and public finances. It outlines how the Government has responded to the economic downturn in delivering support to the economy, businesses and individuals. This briefing provides an overview of some of the key messages from the PBR, including some of the key announcements which could potentially affect local economic development and regeneration, and public service delivery. The briefing then goes on to present CLES' thoughts on the PBR.

Economic outlook and forecasts

- The forecast for the UK economy is that output will decrease by 4.75% in 2009. Gross Domestic Product (GDP) growth is forecast to pick up by 1.25% in 2010 and to above trend rates of 3.5% in 2011 and 2012. Key assumptions are that there is considerable economic rebalancing, away from consumption to investment and exports, which are less tax rich; and that the financial sector expands and profits return to average by 2014/15.

- Borrowing is projected to more than halve from 12.6% of GDP in 2009/10 to 5.5% in 2013/14, before falling to 4.4% in 2014/15. The Public Sector Net Debt (PSND) is forecast to increase over the forecast period to 77.7% of GDP by 2014/15. It is therefore very much a similar story to the Budget earlier this year, with the need to cut borrowing likely to have a major impact on local economic development and public service delivery.

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[1] HM Treasury (2009) Pre-Budget Report 2009: Securing the recovery: growth and opportunity

http://www.hm-treasury.gov.uk/prebud_pbr09_repindex.htm

Helping to support businesses and growth during the recovery period

- Business payment support service, which has enabled 160,000 businesses to spread over £4bn of tax, will continue; there will be an extension of the temporary increase in the threshold for empty property rate relief, with a further deferral of the increase in the Small Companies Rate of corporation tax.

- There are a number of measures for helping businesses access capital including:

    - making £500m of lending available to Small and Medium Enterprises (SMEs) through a 12 month extension of the Enterprise Finance Guarantee;
    - through the £325m UK Innovation Investment Fund;
    - creating a new Growth Capital Fund. The Government is working with a number of UK and global banks to provide a new channel to attract private sector investment into UK SMEs, seeking £2m to £10m.

- The creation of Infrastructure UK will help facilitate private sector investment in infrastructure, and help ensure that publicly funded infrastructure is effectively prioritised and delivered (this is partly to help the transition towards a low carbon economy). Infrastructure UK's strategy for the UK's infrastructure over the next 5-50 years will be published in the Budget 2010.

- The introduction of a Patent Box to drive innovation which includes a reduced rate of corporation tax to income from patents from 2013; there will also be additional funding of £200m for the Strategic Investment Fund (includes £150m for support to low carbon investment) - an extension to the £750m fund announced in the Budget 2009.

- Government will continue to examine the framework required for implementation of Tax Increment Financing (TiF), a tool which uses future gains in taxes to finance current improvements (such as infrastructure) that are expected to generate those increased revenues. It will consider the primary legislation required if TiF is introduced.

- The Government is to produce a Policy through Procurement Action Plan, which will demonstrate how the Government will use procurement to deliver policy priorities of apprenticeships, skills and youth employment, small businesses, and low carbon resource efficiency to stimulate economic growth. Additionally:

    - online training aimed at increasing SME understanding of public procurement is being enhanced and will become free of charge when re-launched on the Learn Direct website in January;
    - Government will increase the transparency of spend and will publish next summer the level of central government spend with SMEs;
    - all public sector contracts above £20,000 will be able to be viewed in one place by the end of 2010 through a free HMRC online portal.

Opportunity for all

- Through £300m investment, the Government is bringing forward the Young Persons Guarantee, so that 18-24s claiming Job Seekers' Allowance (JSA) for six months will now be guaranteed a job, work placement or work-related skills training. This Guarantee includes 100,000 new Future Jobs Fund jobs (local authority led) for young people as well as adults, in areas most affected during the downturn. The Government is also making additional support available through both Jobcentre Plus and specialist providers to ensure over 50's get back into work quickly.

- A 'Better Off in Work' credit is to be introduced, ensuring that all claimants who have been receiving benefits for six months will be entitled to a top up payment so that their in work income is greater than their benefit income.

- Spending on 16-19 participation is to rise by 0.9% per year, and on front line schools by 0.7% per year; spending on Sure Start centres will be in line with inflation.

- Extending free school meals for up to 500,000 primary school pupils in low income working families will be implemented from September 2010.

- To provide household support during the recovery, the basic state pension will be increased by 2.5%, the child element of the Child Tax Credit by £20 above earnings indexation, and other benefits and tax credits linked to Retail Prices Index (RPI) by 1.5%.

- VAT, which was temporarily at 15% following the 2009 Budget, has, as expected, returned to 17.5% effective from January 2010. Similarly, the Stamp Duty holiday on properties up to £175,000 in value, in place since September 2008, has now ended.

- The 2009 Budget outlined the commitment towards a Social Investment Wholesale Bank, and the PBR has reinforced the commitment to take this forward. This will aim to leverage in investment for organisations with social impact from a wide range of sources and improve their access to finance. The Bank, independent from Government, will also aim to increase financial inclusion by supporting Community Development Finance Institutions and credit unions. The Budget 2010 will finalise the model for the Bank setting out how it will grow over time. Government will commit up to £75m of the funds, expected to be released through the Dormant Accounts Scheme in England.

- Government has stated within the PBR that banks have a vital role to play in supporting communities and tackling financial exclusion, and that it is important to understand how banks support broader community regeneration work. The Government will explore options with banks to improve the information available on services delivered in deprived communities.

- In order to meet the target of 240,000 homes per year by 2016, the Government are assessing a number of support measures – one of these involves working with the Department for Communities and Local Government (CLG) to explore mechanisms to bring forward surplus public sector land, including expanding the Public Land Initiative. This is designed to bring new construction partners to the housing market by using land in public ownership – instead of selling the land outright to developers, public landowners take deferred payment instead, which acts to bring publicly owned housing sites forward.

Government savings in economic development and regeneration

- Highly targeted and prioritised spending will ensure £5bn of public sector savings by 2012/13. £340m in savings will be made around regeneration, ending the New Deal for Communities programme (already planned), and improving targeting of regeneration and housing growth funding and prioritising regeneration and growth programmes to maximise value for money as the economy recovers. The Government will also be assessing the efficiency and effectiveness across Government of interventions to tackle worklessness and promote growth and inclusion in deprived areas (there is no detail yet on which schemes will be reviewed). £1.4 billion will be saved through an end to temporary employment schemes which were introduced during the downturn. £600m of savings will come from science and research and higher education, with another £350m from the Department for Children, Schools and Families.

- One of the other key announcements for bringing in money to the Treasury, (perhaps the most contentious announcement from the PBR) will be through increasing National Insurance rates by 0.5% from April 2011 for employees, employers and the self employed.

Supporting Low Carbon Growth

- An additional £400m will be invested to support business investment in low carbon growth and help households reduce energy costs. This, together with the policies announced since 2008, could support over £15bn of additional public and private investment in low carbon and energy sectors over the next three years (much of this though would seem likely to depend on private sector momentum and stimulus).

- Some specific announcements include the £120m for low carbon industries in the UK, including new manufacturing activities and testing facilities for offshore wind, a large scale trial of smart grid technologies, and support to improve energy use in the chemicals industry; £200m to improve energy efficiency and tackling fuel poverty through upgrading old boilers and providing extra resources to help vulnerable areas; increasing support for low carbon vehicles, including £30m for low carbon transport projects and exempting electric cars from company car tax from 2010.

- Manchester City Region has been designated as the UK's fourth low carbon economic area, specialising in the built environment. It is expected to save 6 million tonnes of carbon, pump an additional £650m into the economy, and support up to 35,000 jobs.

CLES' thoughts

- **A vague PBR lacking in detail**
  The PBR held little in the way of surprises, is lacking in new ideas, and has generally done little to tackle the provision of short term stimulus for the economy or to outline a detailed overview of how the budget deficit will be closed in the medium to long term. It appears on the surface to be a political, rather than economic, PBR with the upcoming election at the forefront of the Treasury's thoughts, hence the lack of detail.

  The forecasts for economic growth, whilst realistic in the short term, appear too optimistic from 2011 onwards, certainly when compared with independent forecasters.[2] The forecasts rely upon strong growth in consumer spending, investment and business confidence, which despite certain improvements in recent months is still weak and likely to remain so for some time. This also assumes that the financial sector will revert to the 'norm' – this however is unlikely following the damage caused by the recession. There remains a concern that the Chancellor has not laid out a plan for full economic recovery and improving the state of the public finances, with the budget containing a small number of pre-election measures being put in place which are ultimately unlikely to have much effect on economic recovery (the tax on bonuses being one obvious example of a populist move which will bring very little in the way of revenue).

- **Implications for businesses and individuals**
  The extra £3bn per year which will come from both employers and employees through an increase in National Insurance contributions from April 2011, runs the risk of curtailing growth as businesses see their overheads further increase. This could have a further long term knock-on effect on innovation and wider productivity within the economy.

[2] HM Treasury (November 2009): Forecast for the UK Economy http://www.hm-treasury.gov.uk/d/200911forcomp.pdf

- **What the PBR means for local economic development practitioners**
  The savings around regeneration and some lower priority skills provision were partly to be expected and confirm the squeeze on resources within economic development and regeneration which will clearly negatively affect local authorities and other organisations working within the field. Government has to ensure that areas (and individuals) of most need are receiving the resources required to lay the foundations for, and to promote, future growth. Government must work closely with local authorities in effective prioritising for highly targeted and focused use of resource. Regeneration need not, and should not, become an after-thought for Government policy; this would result in reinforcing the effects of deprivation, further increase polarisation in society, and ultimately hold back economic growth during a period where the recovery will already be slow and painful.

  There are some positives to emerge from the PBR. For example the Government's intentions regarding the Policy through Procurement Action Plan, and other associated procurement activity, is a step in the right direction - effectively using the considerable power of the public purse to stimulate economic growth and help both small businesses and individuals. The commitment to community investment activities through the proposal to take forward the Social Investment Wholesale Bank, with the Budget 2010 firming up plans for this, is another positive move which will be welcomed within community based organisations, as will the announcement that Government will explore options with banks to decrease financial exclusion within deprived areas (although this is a vague statement). There are also a range of business support measures in place, which is encouraging, although rather offset by the increase that businesses face in National Insurance payments.

- **Opportunities to innovate**
  This reduction in spend can also be viewed as an opportunity – innovation is becoming increasingly important within public services and doing more with less will be a necessity in future. Being able to ensure effective, innovative frontline delivery services are in place will be crucial, and is a chance for practitioners to work in different, creative ways. A key part of this may include working closer with communities, who may in future have a greater role in the delivery of services, and also increasing levels of working with the Third Sector and other social enterprises, who may be in an increasingly prominent position to act as a broker between local authorities and communities. This increased collaboration may act as a key driver of innovation.

Briefing 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, Bulletin and Rapid Research 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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