Centre for Local Economic Strategies

bulletin

Budget 2011 – a budget for widening gaps?

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Introduction

The 2011 Budget was heralded by the Government as a Budget for stability, growth and fairness. Whilst there is evidence of the former in terms of continued austerity measures and 'new' policies such as Enterprise Zones (EZs); there is a continued lack of consideration for issues surrounding economic inequality, social justice and working within environmental limits. Whilst a drive towards growth is admirable, Government needs to recognise that growth is not relevant for all localities in the UK and that reductions in regulations for business may actually exacerbate, rather than narrow, gaps between London and the South East and the rest of the country.

For the Centre for Local Economic Strategies (CLES), the 2011 Budget was an opportunity for Government to lay out its plans for national economic development, not just economic growth policy and to address the supply side as well as demand side challenges restricting the prosperity of business in many of our localities. These include significant levels of unemployment and a skill to employment opportunity mismatch. What we have ended up with is a Budget focused almost purely on the demand side with policies for physical development, rail infrastructure, relaxation of planning laws, and EZs. A question many economic development practitioners will be asking themselves is how do we twin physical development with tackling skills gaps without reverting to trickle-down economics? Indeed the whole Budget appears overly focused upon place without a related consideration of people.

The 2011 Budget is also full of contradictions: policies for EZs but reductions in brownfield land targets; pilot land auctions for developing agricultural land but commitments to sustainable development; and a drive towards economic growth but a shrinking economic development function. This Bulletin provides critique of these contradictions in more detail; but firstly provides an overview of the key economic development related policies of the 2011 Budget.

The Policies

The 2011 Budget was presented to the House of Commons by the Chancellor, George Osborne on Wednesday 23rd March 2011. It is based on the Government's core economic policy objective 'to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries'. Wrapped up in this theme is the Government's rhetoric around re-balancing the economy:

- re-balancing from the public to the private;
- re-balancing from overdependence upon the South East;
- re-balancing from the financial services sector;
- re-balancing from welfare to work.

The 2011 Budget re-affirmed the Government's commitment to reducing the public deficit and the three overriding drivers of Coalition policy to date of:

- a strong and stable economy;
- growth;
- fairness.

Within each of these themes of the Budget were a number of policies relevant to economic development:

A strong and stable economy

This section of the 2011 Budget reiterates the Government's continued commitment to 'bring public finances under control and reduce the deficit'. In particular it sets out the targets for growth and scenarios for deficit reduction. The key message is that despite the drive towards the commercial economy as the driver of productivity, anticipated GDP growth is lower than forecast in the previous budget in June. The key figures from the Office for Budget Responsibility (OBR) are as follows:

- the economy is forecast to grow by 1.7 per cent in 2011, lower than forecast in the June Budget;
- GDP is forecast to strengthen with growth peaking at 2.9 per cent in 2013;
- public sector net borrowing will decline from its peak of 11.1 per cent of GDP in 2009/10 to 1.5 per cent of GDP in 2015/16;
- public sector net debt will peak at 70.9 per cent of GDP in 2013-14, before declining to 70.5 per cent of GDP in 2014/15 and 69.1 per cent of GDP in 2015/16.

Growth

This section of the 2011 Budget sets out two key mechanisms for the future growth of the UK economy. The first is the reduction and in some cases removal of the string of regulations and bureaucracies restricting the growth of business including the assumption that the planning process restricts development. The second is the introduction of specific interventions designed to instigate business growth and economic growth in the localities hardest hit by recession and public sector cuts. It appears based upon the continued assumption that the commercial economy will create the jobs lost in the public economy. Specific regulation removals include:

- ***Drop existing proposals for specific regulations which would have cost business £350million a year*** – this includes regulations around training practices for small to medium sized enterprises (SMEs) and not taking forward dual discrimination rules allowing people to challenge employment practices because of two equality characteristics. e.g. black women.

- ***Introduce a moratorium exempting micro-business and start-ups from new domestic regulation for three years*** – this is designed to be a boost to both start up rates and the survival of businesses beyond their first year.

- ***Introduce a powerful new presumption in favour of sustainable development*** – this is designed to reduce the time taken to make planning decisions in localities and speed up the process where developers can demonstrate sustainability principles. This also includes removing nationally imposed targets around previously developed (brownfield) land.

- ***Streamline the system for planning applications and introduce new fast-track planning for major infrastructure*** – this includes making it easier and less bureaucratic for developers to submit planning applications and includes a twelve month guarantee for the processing of all applications and appeals.

Specific interventions introduced include:

- ***Pilot a land auction model*** – this is where local councils can ask landowners to submit sealed bids for the price at which they would be willing to sell land. The council would be given the right to buy the land for a certain period, grant planning permission and then auction it off to developers.

- ***Provide £200million for new funding for rail projects*** – this includes commitment to the Northern Hub and particularly the Ordsall Chord and also investment in other potential growth areas.

- ***Establish 21 new Enterprise Zones (EZs)*** – this includes ten specified sites in the Local Enterprise Partnership areas of: Birmingham and Solihull; Leeds City Region; Sheffield City Region; Liverpool City Region; Greater Manchester; West of England; Tees Valley; North Eastern; the Black Country; and Derby, Derbyshire, Nottingham and Nottinghamshire. EZs will have a range of policy tools designed to stimulate growth including:

    - 100 per cent business rate discount over five years for businesses that move into EZs;
    - all business rate growth within the EZ will be retained and shared by the local authorities in the LEP area to support economic priorities;
    - government and local authority help to develop radically simplified planning approaches.

  There will be opportunity for other localities to competitively bid for Enterprise Zone status with a further eleven to be confirmed in the future.

- ***Fund an additional 80,000 work experience places for young people*** – this is on top of already committed investment in education and training for young people.

- ***Fund up to 50,000 additional apprenticeship places over the next four years*** – this will include 40,000 apprentices for young unemployed people. It also includes commitment to address the barriers facing SMEs in attracting apprenticeships by setting up advanced and higher apprenticeship schemes supported by grants.

Fairness

This section of the 2011 Budget does not deal with fairness in the broadest sense of the word in terms of equality and tackling inequality. Indeed it is interesting to view what Government perceives as constituting 'fairness' with a focus upon 'fair' tax systems and welfare reforms. None of the policies are particularly relevant to the function of economic development; instead focusing upon reduction of fuel duty by a penny per litre and tackling tax avoidance.

CLES Critique

Taking into account the reductions in regulations and emerging interventions described above there are some elements in the 2011 Budget for economic development practitioners in the public sector and for developers in the commercial economy. This includes the £200million investment in rail projects; the creation of 21 Enterprise Zones; new work experience placements and apprenticeships for young people; and amendments to the planning function.

Delving a little deeper into these policy developments and it becomes clear that there is a degree to which the initiatives and mechanisms are contradictory. A number of questions spring immediately to mind:

- If there is no guaranteed commitment to re-developing brownfield land, where is the incentive for regenerating the most business deprived localities?
- Will land auctions simply lead to development upon vast swathes of green belt, threatening all notions of sustainable development?
- How can we enable economic growth without the expertise of local government and regional economic development practitioners?
- And how can the array of demand side interventions flourish without balanced investment in the supply side?

For CLES, the 2011 Budget fails significantly to address and consider these key questions in a way which will be beneficial to the growth of our economy, to narrowing economic gaps and importantly tackling economic and social inequality. Indeed there are a number of key critiques to the emerging policy:

The challenge of scale

The relationships between the 21 (Local) Enterprise Zones and the Local Enterprise Partnerships appear vexed. How far the 10 announced are able to ‘nest’ within the LEPs, and how far will fiscal instruments such as TIF (tax increment financing) and business rate reductions work together, and with the grain of the review of local government finance intentions, to relocalise and vary business rates is open to debate. LEPs will have different economic strengths and weaknesses and also different political and entrepreneurial cultures, which threaten redistribution for wider economic priorities. The retention of business rates within a locality may actually be a blunt, as opposed to creative, finance raising vehicle particularly in places with a small business base. There are additionally concerns over how Enterprise Zones link strategically to other emerging programmes around the Regional Growth Fund and the Work Programme.

The lack of strategic expertise

The commitments to economic growth in the 2011 Budget come at a time where, as a result of spending cuts, we are seeing the stripping back of economic development functions at the local authority level and the removal of Regional Development Agencies. Going alongside this disinvestment is the loss of strategic and delivery expertise which is surely vital to growth aspirations and the delivery of Enterprise Zones. LEPs and EZs surely cannot just be driven by the commercial economy and developers. CLES would argue that there is a need for public sector engagement to ensure developments are strategic and that Enterprise Zones link up to wider issues around worklessness, low skills, enterprise, business attraction and business support.

The challenge of opening up planning

There are a number of elements of the announcements which open up the planning process and reinstate the assumption of planning favouring development; indeed a similar situation to the 1980s and 1990s. Land auctions of public sector owned agricultural land will surely lead to retail, housing and other development on greenfield land, threatening the Coalition's commitments to the environment. Additionally relaxation of planning for major projects could simply lead to the further build up of the retail, office and warehouse shed project culture of developers which characterised the 1980's and 1990's. There is a challenge here for local authority planning departments to not simply roll over in the drive for economic growth but to continue to make considered planning choices, including ensuring wider community benefit and planning gain through the process. CLES would argue that Section 106 Agreements need to take on added roles in ensuring these benefits.

The dependence upon the market

Initiatives such as Enterprise Zones and Tax Increment Financing are helpful mechanisms for financing physical and business infrastructure within localities. They do however, rely on the commercial economy, and particularly global developers, to drive them and growth. The challenge is for places which don't have those market forces and which don't necessarily have aspirations of growth. There are concerns that pilot land auctions may simply flood the local development market. There is also a need to fully understand the role and needs of SMEs in this whole growth focused agenda and ensure they receive as much attention as developers. It will, after all, be predominantly SMEs which will be the occupants of Enterprise Zones.

The challenge of matching supply and demand

Each of the policies of the 2011 Budget appears to be very demand side. For example, Enterprise Zones are about putting the conditions in place to enable growth industries and new enterprise to flourish. What however is being done about the supply side? In many of the areas where Enterprise Zones are located there is a need to develop entrepreneurial cultures and provide business support, particularly in the most deprived areas. These demand side interventions also need to be linked to employment programmes such as the Work Programme.

The consideration of social justice, equality and the environment

Whilst the investment in rail projects is welcome, it is undertaken in a purely economic growth focused manner. The infrastructure is deemed important to attract business investment. What about thinking about social factors and the links between access to public transport and access to employment? Similarly how do reductions in fuel prices contribute towards environmental concerns and priorities? Across each of the policy measures announced in Budget 2011 there is an overriding assumption that reducing regulation will lead to growth. There is a need to recognise that there are wider barriers to growth than regulation, including low skills, and to address them.

The focus of apprenticeships

Evidence suggests that apprenticeships for young people are most effective in public sector and construction professions. There is however a need to branch out apprenticeships into other professions. A degree of thought is therefore required as to what the sectoral nature of apprenticeships will be and what guidance the commercial sector requires to support apprenticeships. There are also concerns over whether the number of apprenticeships allocated is adequate, especially given the million or so and rising number of young people whom are not in employment, education or training.

Conclusion

The 2011 Budget has an economic policy objective to 'achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries.' Whilst the policies suggested in the Budget certainly have the potential to enable growth, CLES would argue that they lack the innovation, creativity and importantly, principles required to match growth with sustainability and equality.

What is evident in the 2011 Budget is a piecemeal approach to economic development and an approach which is overly focused upon reducing regulation as opposed to supporting people and improving places. Continuing with the theme of contradiction, the reduction of regulation may actually benefit business in London and South East more effectively than in the areas designated for special interventions such as Enterprise Zones. For CLES there are four key issues that need to be tackled in order for the 2011 Budget to meet its objectives:

- there needs to be clarification of how the current myriad of programmes link together. Here we are talking about how Local Enterprise Partnerships link to Regional Growth Fund and how Enterprise Zones link to the Work Programme. Without this joining up we will see disjointed and fragmented policy making;
- there needs to be an emphasis upon both place and people. The 2011 Budget and surrounding policy is too focused upon place and development, without considering the implications for people in terms of employment and quality of life;
- the new assumption in planning in favour of development needs to be twinned with sustainable development principles. We feel that the Government's discussions in the 2011 Budget are not about sustainable development but sustainable growth;
- the 2011 Budget appears to be a return to Thatcherite principles of property development and trickle down benefit. We need to ensure that this is not a return to the 1980s and that property development does come at the expense of equality.

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.

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