BULLETIN

Budget 2015

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Context

This CLES bulletin does three things. First, it details announcements in the 2015 budget which relate to economic development and regeneration. Secondly, it provides a critique of this content. Thirdly, it outlines ways in which CLES think local economic development should progress post-budget and post the 2015 General Election.

The 2015 budget was a highly politicised and populist affair, coming just 49 days before a General Election. The Chancellor was in a confident mood, painting a picture of economic recovery, sustained growth, more jobs; and of 'Comeback Britain'. However, the opposition have been quick to pour scorn on this notion, highlighting the failure to deliver on the all-important deficit reduction. Despite all the political rhetoric, it appears to us that this is another budget that will fail to bring about economic growth whilst addressing social inequality.

We have nearly reached five years of a coalition government. We have seen an emphasis upon reducing the deficit through a period of austerity; encouraging work over welfare through job creation and welfare reform, and a raft of policies designed to restructure and grow the economy. This has included the re-emergence of Enterprise Zones, the introduction of Local Enterprise Partnerships (LEPs), and in more recent times the devolution of power towards cities. The framing principle of economic policy has been one of economic growth and job creation.

The Chancellor would argue that the economic outlook appears positive. GDP grew 2.6% in 2014, at a rate faster than in any other advanced economy; however this is short of the 3% that was predicted in December. Similarly, levels of employment are growing, with 1.85million more people in work during this parliament.

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CLES would, however, argue something different. Like previous policy approaches, wealth creation has come at the expense of growing inequality. Whilst jobs have been created, we have seen a proliferation of low skilled, part-time, and particularly zero hours contracts. Wealth inequality has risen four times faster in the seven years since the crash, compared with the seven years before it. The picture for health is just as stark; for example, life expectancy in East Dorset is 8.9 years longer than in Blackpool.

The Chancellor has also continued the current government's drive for austerity. Despite deep and sustained cuts in public expenditure since 2010, the financial position of the Government is yet to improve. The OBR (Office of Budget Responsibility) now expects net public sector borrowing for 2014/15 in the region of £90.2billion, someway short of the reductions necessary for a budget surplus in 2019-20.

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The idea of a 'strong society' is looking a long way away in our poorest communities; who are disproportionately affected by local government cuts. In many places, vital services have disappeared altogether, whilst in others voluntary and community groups have been bridging the gap. The Chancellor has taken the easy option and continued with the Coalition's default approach to achieve growth. A more progressive budget would involve a far greater emphasis upon local economic development which would have sought to have balanced economic and social growth.

The content of Budget 2015

The key themes of the budget are growth and fairness, essentially this is intended as a budget that will allow the economy to continue to grow and reward those who economically engage in this process. Large-scale investment projects have been scaled back since the last budget, although investment in innovation has been pushed. Businesses have been supported through a reduction in fuel duty, with the aim of improving competitiveness. The idea of fairness is framed around the philosophy that those who want to work hard and get on are supported, whilst the most vulnerable receive the care and services they need. The budget contains the following announcements which are relevant to local economic development and regeneration.

'Northern Powerhouse'

There is a commitment to create a 'Northern Powerhouse' which will try to address the spatial inequalities of the current recovery. There was a step towards further fiscal devolution, with the headline announcement that 100% of business rate growth generated will be retained in Greater Manchester (worth £35m over three years). In addition, there were large scale investments pledged to develop a network of high-speed rail connections across the North – with a single integrated ticketing system; 50% expansion of Manchester Airport Enterprise Zone (with the creation of 3,000 new jobs); and a £20million 'Health North' programme, which will promote innovation and reform in health and social care.

Businesses

There was plenty of tinkering to ensure that the budget provided something for businesses. They will be boosted by a reduction in Corporation tax, cut to 20%, down from 25% in 2010. This formed part of a wider package of support for British business, which included freezing fuel duty and reducing taxes to improve North Sea competitiveness. These come against a backdrop of greater corporate responsibility. International trade was also high on the agenda, with £7.5million of funding for UK Trade and Investment to improve links with China, with a focus on advanced manufacturing, transport, financial services, healthcare and life sciences. This commitment to science was affirmed with the announcement of further investment in the UK's world leading science and innovation base.

Employment and Skills

Apprenticeships were the target of one of the Chancellors key announcements, namely a wage increase of 20% for apprentices to £3.30 per hour, it is hoped this will remove the low pay barrier. There was also a boost for higher education, with the commitment to strengthen support for postgraduate research. The coordination between services will be expanded, with the Increasing Access to Psychological Therapists programme located in 350 Jobcentres.

Fairness

There was a lot of rhetoric around fairness contained within the budget. One outcome of this will see the national minimum wage increase by 20p, to £6.70 per hour. This was also a budget for savers, with an increase in the personal allowance for basic rate tax to £11,000 in 2017-18 and making the first £1,000 earned in interest, tax free. There was also something for first time buyers, in the shape of the Help to Buy ISA which provides a state funded £3,000 bonus for those who can save £12,000 towards a home. Finally, there was a commitment to provide extra funding for mental health public services to the tune of £1.25billion, with £118million committed to the Increasing Access to Psychological Therapies programme.

Critique of the budget 2015

The budget 2015 will not live long in the memory. Although the Chancellor largely avoided the temptation to dole out freebies with an election looming, neither did he produce any headlining policies to stimulate the economy. Instead, much attention is devoted to highlighting the impact of the Government's economic plan and welfare reform on economic and employment growth. There are plenty of small scale interventions that will help working people, but nothing revolutionary from a local economic development perspective.

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Symptomatic of the political nature of the budget is the major announcement regarding housing; The Help to Buy ISA. It is a clear attempt to hoover up votes, whilst appearing to aid first time buyers on taking their first step on the property ladder. On the surface it sounds great, for every £200 saved by first time buyers, the Government will contribute £50. However, the fund is limited to £12,000, plus £3,000 government support, and restrictions on the monthly deposit allowance mean that it will take four years for the full government bonus to be accessible. Fundamentally the biggest flaw with this scheme is that it will drive up demand in a market that is suffering from a chronic lack of supply. Unless there is a significant drive to add to the UK housing stock, particularly with development most suited to local needs, then this policy is nothing more than a token gesture that will end up adding to the cost of home ownership for the vast majority.

Despite five years of austerity and large cuts in government expenditure, the scale of the deficit remains a significant issue. It was initially planned that by the end of this parliament the deficit would be wiped out completely. This was quickly swept under the carpet as the lack of productivity in the economy resulted in lower than expected tax revenues. Even now, despite signs of growth, the Government has planned to overspend by £120billion in the next three years.

Local government have been given a boost by the news of increased devolution, particularly in the Greater Manchester area; with the announcement that responsibility for Greater Manchester's £6billion NHS budget will transfer to the city region. However, this has the potential to result in an abdication of responsibility, rather than empowering the city region to take control of their budget. The continued cuts to local government funding exacerbate the issues, because the same problem of a dwindling fund with which to provide decent public services may persist, simply on a smaller scale. In addition, the capacity of heavily depleted local government agencies to make informed, and often difficult, decisions on the use of this budget must be considered. Devolution is perhaps not the silver bullet that many perceive it to be.

CLES's thoughts

Prior to the 2015 budget we felt that central government were not serious about place and local economic development. The continued development of the devolution conversation is a welcome step, but it still fails to be accompanied by significant fiscal redistribution. We feel that a number of steps must be taken to ensure economic development focusses on the creation of localities which show resilient economic growth, but are job and skills rich, support good health, have a key role for locally delivered public services, enable economic and social inclusion and promote equality of opportunity. These are the framing points of the CLES Manifesto for Local Economies.

1) **More local control-** *comprehensive devolution which ensures a positive economic and social destiny for localities.*

   The devolution conversation needs to develop to include the wider public, commercial, social sectors and citizens. There must also be clear legislation to safeguard the role of local government. Finally, place budgets for local services would allow local need to be assessed prior to the allocation of funding.

2. **Scale back public sector austerity–** *because decent public services and fairness work for prosperity.*

   It is necessary to secure a real terms growth in resources to local government and fundamentally rethink the balance between progressive taxation and spending, to protect the poorest communities. The economic and social impacts of any funding changes must also be considered to ensure that the gap in outcomes between the most deprived and the most affluent places can be reduced.

3. **Alternative local economic policy making–** *to create an enabled local state, with a clearer focus on social outcomes, alongside economic growth.*

   The traditional philosophy which assumes that investment capital will benefit the supply chain and local jobs will be created, is broken. We need to create a double dividend strategy, whereby local communities are part of the system that creates success, not just the receipts via trickle down. To do this we must ensure LEPs reflect the needs of small businesses, with a clearer focus on social outcomes. They must utilise the third sector, housing organisations and business citizenship to create a new narrative around local economic growth.

4. **Decent public services–** *more reflective of the demands of users and based around more effective joined up working, with wider socio-economic and environmental benefits.*

   Social value must be embedded into the procurement conversation to ensure maximum benefit. Greater levels of collaboration in public service delivery and a focus on co-production will also ensure greater effectiveness and efficiency. Finally, those spending public money need to understand how their choices impact on local economies; through a social value framework which considers socio-economic and environmental outcomes.

5. **Integrating transport and local economies–** *as it is a key element of local economic development and needs to satisfy passenger and wider local strategic needs.*

   Renationalisation of railways and local regulation of buses would allow transport to be woven into local economic and place strategies, and become an integrated network.

6. **Resilient towns and town centres–** *by creating a new functionality for our towns looking at the wider activity, not just retail.*

   A strong partnership must be created between the commercial, public and social sectors, to ensure that effective collaboration can take place. Most importantly, the social – commercial relationship must alter, to foster more collaborative working on local priorities such as employability and skills and health and well-being.

7. **Creating and sustaining good jobs–** *through localised employment support provision which is tailored to the needs of individuals.*

   The Work Programme has operated on a payment by results basis, with a remit to move people from welfare to work. A more localised approach needs to be taken to ensure that local supply and demand can be better understood. These schemes will be more flexible and understand the range of support each client requires. Local authorities and employers also have a responsibility to pay the living wage and embed these principles in their supply chain.

8. **A skilled workforce –** *trained through localised models, framed through effective relationships between providers, businesses and individuals.*

   Localised provision is needed to enable local government to take a long-term view of skills needs, it also allows greater understanding of the gaps that exist in the locality. There also needs to be a shift to link employability and skills to other policy areas such as health and family support. A practical approach would be a local skills charter, in which businesses and others commit to investing in the local population and employees.

9. **Health for all -** *we must improve the life chances for the poorest fastest, with activity prioritising prevention over cure.*

   We must recognise the wider socioeconomic determinants of health in a joined up approach. In addition, public sector funding must be allocated to improve the health of the poorest, with an acknowledgement of the interdependency of different budgets. A practical approach here would be to invest in joined up local approaches that tackle the wider determinants of health; for example, investment in staff that work across agencies with individuals and families with complex needs.