CLES

Centre for Local Economic Strategies

bulletin

# Budget 2013

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***Authors: Matthew Jackson, Head of Research and Adrian Nolan, Senior Policy Consultant, CLES, 0161 236 7036, matthewjackson@cles.org.uk, adriannolan@cles.org.uk***

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## Introduction

In this bulletin we seek to describe the key elements of the 2013 budget in relation to economic development and local government; looking in particular at what it means for jobs, stimulus, and public services. We then move on to critique the content of the budget and what it means for local economies; before concluding with some thoughts on what we would do differently. We argue that:

- There is a need to create a new economic narrative;
- There is a need to challenge rampant centralism;
- There is a need to shift towards place based targeted intervention;
- There is a need to invest properly in SMEs.

## Context

In the run up to the 2013 Budget, the Government and the Chancellor took the unusual step of pre-releasing some of the key policy proposals and changes. We saw the direct response to Lord Heseltine's economic growth review and the general acceptance of its 89 recommendations; and we saw interesting proposals to offer childcare payment support to working families. This whetted the appetite of policy commentators to suggest that this Budget might be something different; bringing a stall to the austerity and growth driven budgets which have characterised the previous budgets of this Coalition Government and delivering a budget which was focused upon people, families and economic development.

In one way, the Budget did deliver upon this rather disillusioned hope. It did focus upon people, but not the right people. Increases in the income tax threshold and support for hard working families are to be applauded; but what about those living in poverty and threatened by the perilous impacts of welfare reform? The benefit of the above and more public relations focused tax breaks such as those on beer will appeal to those very marginal voters which the Government want to attract before the next election.

However, this disillusioned hope was fettered by the lack of emphasis placed upon real creativity and innovation when it came to the economy. Previously, CLES has described the Chancellor as being 'like a rabbit caught in the headlights'; entwined in an economic model driven by growth, trimming back the public sector, and stimulating the private sector. In this Budget, even these principles do not come strongly to the fore: there is stimulus for infrastructure and housing but it is small fry and not focused on the right geographic areas; growth forecasts have been cut to 0.6%, but there is no new response in terms of job creation; and there is scope for small business growth, but not on a large enough scale.

So the Budget which we got on 20th March 2013 was not one of defining a new and much needed economic model for the UK; it was one driven by political ideologies, designed to temper the concerns of the marginal voters at the expense of the marginalised. In terms of the economic model, there was more evidence that the Chancellor is continually likely to follow a 'suck it and see' or 'hang on and hope' approach where austerity is the primary objective. That is not to say that there are not positives in there; the employment allowances for small business should foster job creation.

## The content of Budget 2013

The 2013 Budget is framed in the three overarching objectives of the Coalition Government's plan for the economy from when they came to power in 2010, so based upon:

- Fiscal responsibility to deal with our debts with a credible deficit reduction plan;
- Monetary activism to support demand and keep interest rates low;
- Supply-side reform to help businesses create jobs and deliver lasting prosperity.

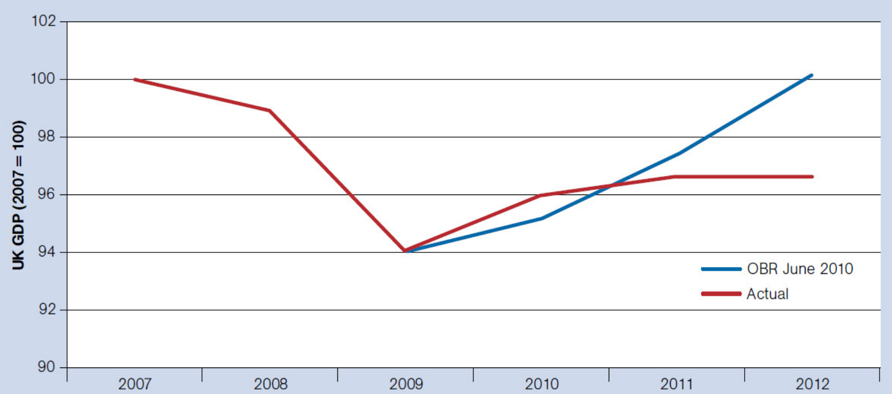
In addition to these largely macro-economic level aspirations, Budget 2013 shows a little more of a softer and people focused side by committing to 'help those who aspire to work hard, and get on, care for their families, buy a home, start or grow a business and save for retirement.' There are three identified further actions to enable this to happen:

- It announces further detail on the Government's deficit reduction plans, new steps to ensure active monetary policy continues to play a full role and supporting the economy;
- It outlines further reforms to help businesses create jobs, help people buy their own home and give Britain the lowest corporation tax rate in the G20;
- It announces further actions to ease the cost of living, help people plan for retirement and deliver on the Government's ambition to make the first £10,000 of income exempt from income tax.

The Budget delivers a number of changes which are relevant for economic development and local government.

***Trimming growth aspirations and continued austerity***
Budget 2013 scales back the Government's growth aspirations significantly for 2013 and 2014; as well as continuing the austerity drive in the public sector. The Office for Budget Responsibility has revised its forecast for GDP growth for 2013 from 1.2% to 0.6%, reflecting a lower than expected momentum in the last quarter. Similarly, forecasts for GDP growth in 2014 have been trimmed from 2% to 1.8%. The below from the new economics foundation shows the difference between forecast and actual GDP growth over the last six years.

**Figure 3. Official forecasts vs. reality of GDP recovery.**



In austerity terms, the Budget reflects upon continued underspend by central government departments over the last three years (at an average of £4billion) by reducing Departmental Expenditure Limits by £1.1billion in 2013/14 and £1.2billion in 2014/15, and reallocating this funding towards housing. The Budget also continues with restrictions on public sector pay, stating that public sector pay awards in 2015/16 will remain limited by an average of up to 1 percent.

***Growth and stimulus strategy***
Budget 2013 introduces and sustains a number of measures designed to stimulate growth. It provides an incentive to grow and create jobs by 2014, giving small business and charities an entitlement to a £2,000 Employment Allowance per year to their National Insurance Contributions; this is a welcome and positive move. In capital terms, the Budget commits to increasing capital expenditure by £3billion a year from 2015/16, with funding raised through savings from elsewhere.

The Budget also outlines the Government's commitment to devolving some resource and power towards Local Enterprise Partnerships (LEPs). Building on the recommendations of Lord Heseltine's Review, the Government commits to resourcing competitively focused Local Growth Deals from April 2015.

***Housing market development***
Budget 2013 introduces reforms to the value of £5.4billion which are designed to tackle long-term challenges associated with the housing market and to stimulate investment in house building. In particular it introduces the Help to Buy scheme, which consists of two elements. The first element is First Buy which will be extended from April 2013 to all those who aspire to own a new build home. To enable this to happen, the Government will provide an equity loan worth up to 20% of the value of the new build home which is repayable once the home is sold. The second element is a mortgage guarantee scheme for lenders who offer mortgages to people with a deposit of between 5% and 20%, thus increasing the availability of mortgages to those with small deposits.

***Tax breaks for working families***
Budget 2013 provides a number of measures to 'reward' hard working families through tax breaks and other incentives. The Government aims to meet its commitment to make the first £10,000 of income free from income tax; with the personal allowance increased by £560 to £10,000 in 2014/15. The Budget also introduces a new Tax-Free Childcare Scheme through which working families will be supported in 20% of their childcare costs, up to a maximum of £1,200 per child per year. The Government also touches upon rolling out this incentive in relation to Universal Credit to encourage low and middle income parents to work full-time. There is however little information on the value of this support.

## CLES critique of Budget 2013 and impact upon local economies

***Further evidence of an economic model which is simply not working***
The cut in OBR's forecast for growth for 2013 from 1.2% to just 0.6% is a damning indictment of the Government's economic growth policy. Whilst external factors such as wider conditions in the Eurozone and weakening global markets are in part contributing to this lack of growth; the narrow focus upon austerity and rising inflation are also to blame at the UK level. The knock on consequence of this austerity drive is falling consumer and, importantly, business confidence. The Government is not providing the conditions which enable businesses to take risks and develop.

This lack of business confidence has knock on effects for local economic development. Those local economies that were already behind the growth curve will find it even more difficult to get local people into jobs in an increasingly weaker environment; a hypothesis reaffirmed by the release of the latest unemployment figures alongside the Budget. These figures detail that: unemployment in the three regions of the North of England is up by 10,000 over the last quarter; compared to a 17,000 fall in London.

***Job growth but is it sustainable job growth?***
Budget 2013 talks a lot about progress made by the Government in reducing dependency upon public sector employment and growth in employment in the private sector. It argues that new measures such as the Employment Allowance for small business and charities will support the creation of an expected 600,000 more jobs. For CLES jobs growth is fine as long as: those jobs are sustainable and not just a stop-gap to the cycle of unemployment; and they provide individuals with expected terms and conditions.

In terms of local economies, Budget 2013 is systematic of the lack of central to local; central to work programme provider; and work programme provider to local business relationships. Indeed, a search of the full budget document provides not a solitary mention of the work programme. If the Government is serious about moving people into work, developing the potential of small business, and inspiring growth; then tax breaks for small business are not enough. There has to be locally formed strategic relationships between the local state, providers of employment support, and the business community.

***A continued fixation with under-resourced infrastructure development***

Budget 2013 continues the Government's fixation with using capital side and infrastructure development to facilitate growth. From our perspective, the extra £3bn for infrastructure development is just simply taking with one hand from other departments including CLG and already vastly reduced and overstretched local authority budgets to give to the other in terms of capital projects. Additionally, the £3bn identified is only likely to tinker at the margins of creating jobs and growth, unless twinned with a proper economic and industrial strategy for the UK and with harnessing growth in SMEs.

The challenge for local economies in relation to infrastructure development is that any additional funding will only become available from 2015/16 and importantly the focus of any such investment is likely to be in areas of existing growth; so the Greater London and South East economies. The Government must be prepared to let go of some of the bureaucracy associated with capital investment for the benefit of national and local economies.

***A commitment to devolve, but is it enough?***

Budget 2013 highlights some of the positive work which has been undertaken by central government departments to reduce costs and make savings; with an average under spend of £4billion. The Government talks of reallocating this funding to housing projects through the 26th June spending review. Our question is where does this leave the devolution proposals of the Heseltine Review and particularly the suggested £49billion Single Pot. If the Government is committed to fiscal decentralisation; then would a more worthy cause of such funding be localities and regions? This would enable local areas to set their own growth priorities and utilise levers to growth and economic development that are far more locally defined and less clumsy than the centralist approach.

## What would we do differently?

***Create a new economic narrative***

The narrative used by Heseltine, in his review, and the Chancellor, in the Budget 2013, is generic and one dimensional: it is predicated on growth which is not bespoke to the characteristics of place; it is based on using trickle down economic policy to tackle inequality; and it is being driven by competition not collaboration. CLES believes there is a need for a new narrative focused economic development strategy from central government, where the focus of policy is not just about growth but consideration of people, places, alternative finance, social return, social business, working within environmental limits, and cooperation. This narrative needs to challenge the orthodoxy of growth, recognise that economic uncertainty will be the new norm, and that public sector largesse has gone forever.

***Challenge rampant centralism***

The biggest barrier to developing local economies is not skills and capacity, nor is it weak local government and partnerships, it is the oppressive centralism of government driven by Whitehall and notably the Treasury. There is an unwillingness of government departments to work together, share budgets for economic and social purposes, and ultimately decentralise power and responsibility away from London. The UK is the most centralised of all western liberal democracies and the culture, attitudes and regulatory framework prevents the significant acceleration of localism. As practitioners in localities, CLES believe that we (collectively) need to be challenging this rampant centralism by identifying and detailing the exact barriers which prevent economic development at the local level.

***Shift towards place based targeted intervention***

The approach of the Government to growth, as advocated in the Budget, is centralist, bureaucratic and top-heavy. Given the growth forecasts we feel there is a need for a shift, as already emerging in the City Deals, towards more place based targeted interventions to help local economies and move people towards employment. If the Government wants to increase tax receipts and decrease borrowing then an invest to save attitude is needed to encourage enterprise in our local economies; this is through spending and allowing local authorities and their partners to target the resources based on local knowledge and need. Part of this targeted investment could be through the new funding pots for LEPs but we also need to go another level down and allow individual local authorities the levers and resource.

***Invest properly in SMEs***

The nuanced place based investment discussed above should be twinned with proper investment in SMEs. It is SMEs which make local economies tick and without proper support they will not prosper and provide employment; unless based in already prosperous and growing areas. There is still too much of the 'rising tide will lift all ships approach' for both places and businesses. Things like cuts in Corporation Tax and the Employment Allowance announced in the Budget are certainly useful but there is still not enough targeted support for small businesses in terms of finance and improving confidence. Procurement is an interesting area for SME development and investment. It is positive that the Government is committed to increasing the value of spend with SMEs. However, this should be matched with formal agreement from local government and other public and private sector partners to follow suit, building upon existing progressive practice and enabling real benefit locally.

**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