Budget 2014 Briefing

March 2014

Overview

George Osborne delivered his fifth Budget with a timely boost from the Office of National Statistics (ONS) giving positive news on employment the same morning. With only two more fiscal events to go before the 2015 general election, this Budget was an important opportunity to prove the success of the Coalition government's long term economic plan, as well as to cement Osborne's credentials as the Conservative Chancellor who succeeded in delivering it. His message was clear: the plan is working.

The UK economy is growing faster than Germany, Japan and the US and it continues to surpass forecasts from the Office of Budget Responsibility (OBR). Growth in 2014 is forecast at 2.7 per cent, up 0.3 per cent from the Autumn Statement, while unemployment is down to 7.2 per cent with a 24 per cent fall in the claimant count in the past year. And although behind schedule with a surplus now expected only in 2018-19, the deficit this year was lower than forecast at 6.6 per cent.

This was a Budget focused on resilience and security, with a rebalancing of the economy towards 'Made in Britain' manufacturing and exports a key theme throughout. But the big announcements were around tax and giving people more freedom over their pensions:

- Increasing the personal allowance to £10,500
- Increasing the 40 per cent tax rate threshold to £42,865
- Raising the annual ISA savings limit to £15,000
- Removing drawdown limits and compulsory annuities on pensions
- Abolishing the 10p lower rate of tax on savings and introducing a pensioner bond
- Introducing £2000 childcare subsidy per child under 12 years

How did the Budget deliver for cities?

Creating the conditions for growth requires a focus on improving skills, the business environment, housing, infrastructure and transport in cities and their hinterlands, so how did the Budget deliver in these areas?

Skills

- An extra £85m funding for apprenticeships in 2014-15 and 2015-16
- £42m to build a big data research institute in honour of the late Alan Turing
- £47m over 5 years to develop dedicated cell therapy and graphene research centres
- £106m over 5 years to build twenty doctoral training centres

The Budget did not contain a great deal on skills but the announcements made were positive – any investment in skills is welcome for cities. The continued support for apprenticeships is a good thing, aligning education and training with the demands of the labour market. Similarly, funding for graduate and post-graduate research centres is welcome: connecting universities with city-economies and building greater linkages between the two is important.

Skills are vital to the success of cities, both for increasing wages and living standards and creating an environment attractive to job-creating businesses. Improving attainment at all levels – from ensuring basic English and Maths to developing greater research capability in high value sectors – should be encouraged.

Business

- Business rate relief extended to 2018, availability of capital allowances in Enterprise Zones extended to 2020
- Plans for Northern Ireland to pilot an Enterprise Zone near Coleraine
- Doubling the annual investment allowance to £500,000 until the end of 2015
- Expanding the UK Export Finance direct lending programme to £3bn

The Budget contained a number of measures to support businesses, and with private sector jobs driving the recovery, any measures to support growth in this sector is positive for cities and businesses across the country. But Enterprise Zones have not proven to be especially effective to date, so while the extended relief measures and the piloting of a new zone might boost growth in some areas, it is unlikely to make a significant change to national growth. And extended business rates relief for Enterprise Zones will be welcomed by those businesses who wish to locate within them, but this does little to inject much needed certainty and clarity into the business rates system. A more radical review of the business rates system would benefit businesses and enable them to plan and invest for the long-term.

Housing and planning

- Help to Buy equity loan scheme extended to March 2020 (Help to Buy mortgage guarantee will end as scheduled in 2016)
- A £500m fund to provide loans to SME developers to unlock 15,000 housing units stalled due to difficulty in accessing finance
- A £150m repayable loan scheme to provide up to 10,000 serviced plots for self-build
- A £150m repayable loan fund to kick start the regeneration of large housing estates
- Proposals to unlock up to 11,000 homes at Barking Riverside by extending an existing rail line and proposals to regenerate the Brent Cross shopping centre, both in London
- Formation of an urban development corporation and up to £200 million infrastructure spending to unlock a new garden city at Ebbsfleet, Kent

- Identification of £5bn worth of government land and property to be released in Strategic Land and Property Review and the Government Property Unit to work with local areas to make better use of housing assets

Housing was well represented in this Budget. The positive news is that housebuilding is up 23 per cent and through a raft of measures to stimulate development further, the Chancellor is committing support to build up to 200,000 new homes. It was also good to see that the Government Property Unit will work with local areas to make better use of assets, which we called for in our pre-Budget letter.

All attempts to increase the supply of homes are welcome but this is an issue more relevant for some places than others. The detail shows that London has expressed the most interest in the funding to regenerate urban estates, and the danger is that government funding is subsiding activity that might have taken place without stimulus. Similarly the news of a new garden city is welcome but there are other locations that need to build more and should also be supported, such as Milton Keynes and Peterborough.

Beyond headline schemes, there was too little focus on the everyday activities of local authorities permitting or refusing new developments – the implications of which are more significant in the long-term. As the only real player incentivising local authorities to build more, the New Homes Bonus needs to be increased and targeted more effectively at places that face the highest demand for homes and the strongest barriers to development if the country is to build the amount of new homes it needs.

Infrastructure and transport

- Commitment to develop proposals to accelerating HS2 with an open line to Crewe by 2027 – as well as exploring options for the redevelopment of Euston station
- A guarantee of up to £270 million to support the Mersey Gateway Bridge
- Scope of the existing Regional Air Connectivity Fund extended to include start-up aid for new routes from regional airports, and funding increased to £20 million
- A new £100m City Deal with Cambridge to support transport and infrastructure investment through a Gain Share mechanism
- £200m potholes challenge fund
- £140m to repair and restore condition of vital flood defences

The Budget showed that momentum is building on HS2 and, assuming the scheme is to go ahead, speeding up the process can only be a good thing – delays will stall investment and create uncertainty for cities along the route. The City Deal for Cambridge is also welcome - the government has committed £100m to help Greater Cambridge deliver ambitious housing, transport and infrastructure proposals through a Gain Share mechanism.

But this was a Budget of very specific announcements on infrastructure and transport, which will play well politically (such as the support for potholes and flood defences) or benefit particular cities (like Liverpool), but with very little in the way of a step-change in how infrastructure and transport investment decisions are made across the country. Overall, we continue to see centralised decision-making and national government taking the lead on issues of local importance.

More generally...

Alongside the big themes of tax and pensions, one major announcement for cities was the £119 billion overall welfare cap to take effect from 2015-16. With 67 per cent of housing benefit spent in urban areas this will affect cities quite significantly. Meanwhile the Troubled Families programme, which helps families who have the most complex needs, was also extended. This is very good news and particularly important for cities: they contain 84 per cent of the most deprived areas.

But both these announcements raise a broader question about local authority finances, public spending and the ability of cities to meet local and national priorities, which the Budget did not address. Troubled Families style initiatives which create efficiency savings and ultimately reduce welfare dependency require upfront expenditure by the local authority, but the savings they generate to the public purse accrue to Whitehall. If the Chancellor wants to achieve his national objectives of cutting the welfare bill, he needs to address a system in which cash-strapped local authorities do not benefit from the success of their investments and so may struggle to continue to do so.

Conclusion: A missed opportunity for cities to help achieve national priorities

The Budget contained good news on jobs and unemployment but national figures mask the reality that certain areas are feeling the benefits of recovery more than others. Overwhelmingly, cities have driven the recovery, with our larger cities, and in particular London, leading the way in job creation. And yet despite the welcome news of a City Deal for Cambridge and another for Glasgow currently in development, this was an overwhelmingly national Budget with few wins for cities.

Cities or places themselves should not be at the forefront of any Budget, which is primarily about setting the UK's macro-economic conditions for growth. And yet beyond the national policies on tax and pensions, the Chancellor overwhelmingly made place-specific, discrete announcements on transport, infrastructure and housing. A new bridge for Liverpool or garden city for London are welcome, but neither are nationally significant and the Budget should have done more to create the conditions for cities to make such decisions and investments in place-specific infrastructure themselves. In contrast, Wales, with a smaller economy than both Leeds and Manchester, was promised new borrowing powers that mean it can begin investing in much-needed improvements to the M4.

In a Budget all about resilience, the Chancellor missed an opportunity to make the most of cities for delivering a stronger national economy. A more radical approach to fiscal devolution, giving cities greater control over economic growth and the ability to target policies according to their needs, is in the interest of local actors as well as national government. Giving cities greater freedoms and responsibilities will enable them to do better. It is also vital if we are to achieve national priorities such as reducing the welfare bill, boosting business growth, building more homes and growing the UK economy overall.

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