It's the little things:

What does the 2011 Budget mean for cities?

Kieran Larkin, March 2011

In his March Budget, George Osborne set out the Government's plan for stimulating growth in the economy. There are a number of positive measures that should support private sector growth, although with no money to spend the majority of these interventions are more micro than macro. The Chancellor will be hoping that, in time, his Budget, and the Growth Review published on the same day, will be viewed as amounting to a package that is greater than the sum of its parts rather than tinkering around the edges.

But what did the *Budget for Growth* have to say about cities, the drivers of the UK economy? Many of the national measures will have an impact on city economies and we consider these below. We have then identified three policy areas where announcements were made that have particular relevance to city economies – Enterprise Zones, planning and housing, and skills.

The big picture – growth downgraded, lower corporation tax and a focus on rebalancing the economy

The headline economic news was that the forecast for the UK economy's growth this year has been downgraded from 2.1 percent to 1.7 percent. The forecast for growth in future years remains fairly similar[1] and the Government is continuing to hit its targets for reducing the deficit.

In terms of the whole economy, the most significant intervention was an additional one percent reduction in the headline rate of corporation tax, on top of the planned one percent reduction in April. Corporation tax will now fall to 23 percent by 2014-15.

The Government's emphasis on the importance of rebalancing the economy was a theme throughout the Budget. Many elements of this agenda are clear priorities for the UK economy, for example, shifting towards exports and investment and from the public to the private sector. In other areas, such as rebalancing the economy geographically, the Government missed an opportunity to make the most of particular cities' roles in driving higher levels of private sector growth across the UK.

Rebalancing the economy across the UK has historically proved hugely challenging. Even during a decade of economic growth and significant investment, some cities grew more quickly than others – for example, 321,400 private sector jobs were created in London between 1998 and 2008, while at the same time 20,900 private sector jobs were lost in Stoke and 61,400 lost in Birmingham.[2]

1. The new forecast is 1.7 percent in 2011; 2.5 percent in 2012; 2.9 percent in 2013; 2.9 percent in 2014; and 2.8 percent in 2015.
2. Webber C and Swinney P (2010) *Private sector cities: A new geography of opportunity*, London: Centre for Cities

Policy in this area would be more effective if it recognised that the global economy makes rebalancing challenging, and instead worked to make the most of local assets. This means that, rather than committing to rebalance growth equally in all areas of the country, the Government should:

- **Make the most of cities currently experiencing growth** – usually the cities that offer businesses access to clients, skills and new ideas, such as Milton Keynes and Leeds.
- **Support neighbouring areas to link to those cities** through investment in transport, skills or housing – this benefits both areas; for example, Manchester may grow faster if it has access to workers in Stockport, Trafford and Salford.
- **Provide support for weaker economies** in a more tailored way, for example by helping them to address urban dereliction and manage decline.[3]

We encourage the Government to recognise the importance of a wider range of sectors in generating the jobs that the UK needs and, with this in mind, welcome the package of financial reforms for SMEs. However, the Budget placed a particular emphasis on manufacturing, arguing Britain should set out on a "march of the makers".

Manufacturing is clearly an important part of any modern economy. While manufacturing as a whole is benefiting from a favourable exchange rate and may grow as a share of UK output; given long-term past trends we suspect that the Government may be overestimating the extent to which the sector can be a big source of new jobs.[4] If manufacturing means manufacturing-related services, then there is more evidence to suggest it will be a source of employment growth, but even then it is important not to overstate its contribution to the UK economy as a whole.

It was also encouraging to see that the Budget recognised the importance of advanced manufacturing, life sciences and the creative industries, which will be good sources of productivity growth in the future. But we would again suggest caution in assuming that a significant number of new jobs will come from these sectors. Evidence suggests that the high growth firms which generated more than 50 percent of new employment from existing firms between 2002 and 2008 came from all sectors of the economy.

Enterprise Zones

For cities, the eye catching announcement of the Budget was undoubtedly the new urban Enterprise Zones, although this policy had been previously trailed. Ten Local Enterprise Partnerships (LEPs) – including those covering Birmingham, Manchester, Leeds and Sheffield,[5] will be allowed to identify and decide on an area within their partnership in which to locate an Enterprise Zone. In addition to those announced in the Budget, the London Mayor will be able to identify one zone in the capital (subsequently confirmed by the Mayor to be in Newham) and there will be a competition for a further 10 LEPs to access the zone benefits.

In terms of incentives, firms that move to the zones will be able to access a 100 percent business rate discount worth up to £275,000 over a five year period and businesses in the "manufacturing focused zones" will be able to access enhanced capital allowances for plant and machinery. There will also be simplified planning, superfast broadband and support from

3. For example see: Webber C et al (2010) *Grand Designs? A new approach to the built environment in England's cities*, London: Centre for Cities
4. Swinney P et al (2010) *Firm Intentions: Cities, Private Sector Jobs and the Coalition*, London: Centre for Cities
5. The full list of LEPs able to designate and Enterprise Zone is: 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.

UKTI. As an incentive for the local authorities, the LEPs will be able to retain all of the growth in business rates that occurs in the zones for a 25 year period.

It's clear that some of the lessons have been learned from the 1980s Enterprise Zone experiment – for example, despite the Chancellor suggesting that the zones will be in "the areas of greatest need and with greatest potential" indications are that they will be in areas with real potential to grow, rather than the most deprived areas. This recognises that alternative policies are needed to help the most deprived areas. Efforts have also been made to minimise displacement and maximise additionality through penalising local authorities if businesses simply move from one local site to another.

The zones are also being used to fast track the introduction of Tax Increment Financing (TIF). This is a positive step as it will enable cities to make investments today - such as improvements to their transport infrastructure - that support the future growth of their economies. There had been worries that the introduction of TIF could have become caught up and delayed in the Local Government Resource Review.

The decision to involve LEPs is also a good one. It will give these new bodies some real power and an income stream, something they have thus far lacked. This will give partnerships' local authorities a clear reason to work together and collaborate with each other. This could be the start of a city-regional approach to economic development which would be both more efficient and a far better reflection of the 'real' economy that businesses recognise.

However it's not all good news. Despite the changes, in terms of their mechanics the new Enterprise Zones still bear strong similarities to the zones of the 1980s. The emphasis on business rate discounts remains, for example, and many zones may also claim capital allowances by arguing they have an advanced manufacturing specialism. As our research, *What would Maggie do?*, evidenced, the zones of the 1980s were not a great success, generating just 58,000 additional jobs at a cost of £26,000 per job in current prices. Given the similarities between the previous zones and the latest incarnation, it is difficult to see that the new urban Enterprise Zones will be a big generator of net additional jobs. One of the challenges the 1980s zones faced was that many jobs were just shuffled around the country and this will remain a major test of these new Enterprise Zones.

And despite the Treasury's best efforts there are also risks about what the Business Rates rebate to firms will be spent on: will it be new jobs or will some of the money go to capital and to property owners in the form of higher rents?[6] It also remains to be seen how rigorously ultra-simplified planning regimes will be introduced in the zones. As always, the devil will be in the detail. Ultimately, even if Enterprise Zones perform very well, they cannot on their own be the answer to supporting the economic growth of cities and their hinterlands.

Planning and housing

Planning was the area which saw perhaps the most radical intervention, as the Government seeks to tackle a policy that has long been cited as a barrier to economic growth. This is good news for cities and should be good news for the national economy, with the economic cost to the country of the current regime estimated at £3 billion per year.[7]

6. Cambridge Econometrics (2008) *The Relationship between National Non-Domestic Rates and Rents on Commercial Property: Empirical Evidence from Enterprise Zones,* Cambridge: Cambridge Econometrics
7. Ball M (2010) *Housing Supply and Planning Controls - The impact of planning control processing times on housing supply in England,* London: National Housing and Planning Advice Unit (NHPAU)

In the Budget the Government reintroduced a new presumption in favour of sustainable development (which had been missing from the Localism Bill). This should make the reformed planning system more pro-growth.

The Budget also abolished the national brownfield target which specified that 60 percent of development was required to take place on previously developed land. This policy had restricted development of non-brownfield sites, reducing the supply of land available for housing and commercial development, with the inevitable effect of pushing house prices and commercial rents higher.

The abolition of this target is welcomed, but unfortunately the Government missed the chance to take the next logical step by retaining existing controls on greenbelt land. In many of the country's more buoyant cities, where new housing is most required, the restrictions on greenbelt development are constraining their growth and economic success for little social benefit. Clearly any development on greenbelt land has political, social and environmental implications, but a more flexible approach to the greenbelt policy would be a powerful tool for supporting growth, and (because of some land classified as greenbelt not really being 'green') would not necessarily have detrimental outcomes for local communities.[8]

Perhaps the most radical move in the Budget was the decision to pilot land auctions. This fairly unconventional policy approach seeks to allow councils to capture a greater share of the land value uplift created by the granting of planning permission, with the intention of releasing significantly more land for development. This was highlighted in a Centre for Cities report last year.[9] It has the potential to be a powerful step towards dealing with the housing supply predicament that the country faces and one that could genuinely provide real benefits. Initially the land auctions will be based on public sector land, but it is important that the testing of the model is not restricted to this condition, as a broader model offers potentially greater benefits.

Policy decisions about the demand side of housing were a political win but may not be beneficial for the UK housing market as a whole. In particular, the allocation of £250 million to support 10,000 first-time buyers to purchase a new property may simply stimulate demand further for what remains very expensive housing, despite the fall in property prices due to the recession. This type of demand stimulation is likely to continue to push prices higher.

There were also a number of smaller, but important announcements, including:

- Making it easier to change the use class of land from commercial to residential.
- Introducing a 12 month guarantee for the processing of all planning applications.
- Strengthening the duty on local authorities to co-operate on planning matters – particularly through LEPs.
- A change to the treatment of stamp duty land tax on bulk purchases, which should help encourage investment in the private rented sector, as previously argued for by the Centre for Cities.[10]

Increasing the supply of skills

The Budget and Growth Review rightly recognised that a skilled workforce is vital for the future success of the economy. A number of interventions have been made that will be helpful in boosting many cities' skills profile. Interventions have particularly focused on improving

8. Aldred T (2010) *Arrested Development: Are we building houses in the right places?*, London: Centre for Cities
9. Aldred T (2010) *Arrested Development: Are we building houses in the right places?*, London: Centre for Cities
10. The Smith Institute and Centre for Cities (2008) *The future of the private rented sector*, London: Smith Institute

the quality of, and access to, vocational education, which has for some time been seen as a weakness in the UK education system and a drag on productivity.[11]

The number of apprenticeship places has been boosted by 50,000 over the next four years, including 10,000 higher level apprenticeships in small and medium sized enterprises. This comes at a cost of £210 million. In addition to this there will be a further 80,000 work experience places for young people.

As well as providing funding for a greater number of students the Government is also making some investments in the infrastructure required to up-skill the population. In the Budget it committed to expanding the programme of University Technology Colleges (UTCs) from 12 to 24 colleges by 2014. These will be partnerships between universities, colleges and businesses designed to provide technical training opportunities for 11 to 19 year olds relevant to the local economy. However, it is questionable whether it would be wise to stream people at such a young age (pupils will adopt a different course of study aged 14) into very specific career paths.[12] It's vital that young people should also have access to a broad based education that will provide them with the skills they need to succeed later on in life.

Conclusion

The Budget showed that, even with little money to spend, the Government and civil service can still come up with an impressive range of interventions that have the intention of supporting growth. Many of these changes offer genuine promise and should benefit city economies – such as planning reforms and additional skills funding. Others are likely to have less impact.

Whether the Budget and Growth Review will deliver the private sector jobs the country needs is unclear. Perhaps tellingly, the Office for Budget Responsibility has downgraded its estimation of employment in each of the years 2011 through 2015 by 100,000 jobs and revised its estimation of unemployment upwards – although this reflects the macroeconomic conditions, rather than an analysis of the individual policies. What is certain is that if the Government really wants to support growth then it must continue to back the UK's cities, which are the drivers of the national economy.

11. OECD (2011) *OECD Economic Surveys United Kingdom*, Paris: OECD
12. Wolf M (2011) 'Osborne makes the best of a bad hand', *Financial Times*, published 23 March 2011

centreforcities

Enterprise House
59 - 65 Upper Ground
London SE1 9PQ

www.centreforcities.org

Contact

Kieran Larkin is an Analyst at Centre for Cities.
Contact Kieran on k.larkin@centreforcities.org / 020 7803 4310

Summary of city relevant announcements

Enterprise Zones

- 21 urban Enterprise Zones are to be created in LEPs. 10 have already been announced and one will be in London.
- Firms locating in the zones will get access to a 100 percent business rate discount; a simplified planning regime, superfast broadband and capital allowances in some cases.
- LEPs will be able to access the business rate growth in the zone area and use for Tax Increment Financing.

Planning

- New presumption in favour of sustainable development (previously announced).
- National target on brownfield land has been abolished.
- Land auction pilots will be held, starting with public sector land.
- LAs asked to reconsider planning obligations where they're stalling development.
- Businesses will be allowed to bring forward Neighbourhood Plans and Development Orders.
- Duty to co-operate on planning for LAs and public bodies has been strengthened with reference to key sub-national infrastructure.

Housing

- FirstBuy programme to assist 10,000 first-time buyers with deposit required to purchase a new build home.
- Stamp duty land tax rules changed so that for bulk purchases rate will reflect mean value of dwellings – to support investment in private rented sector.
- Will test "build now, pay later" techniques to speed up the release of public sector land for house building, with a focus on Ministry of Defence real estate.

Skills

- 50,000 additional apprenticeship places over the next four years, including 10,000 higher level apprenticeships.
- 80,000 extra work experience places for young people.
- £150m to expand the University Technology College programme from 12 to 24 by 2014.

Transport

- £200m additional new funding on rail projects (this includes the Ordsall Chord between Manchester Victoria and Manchester Piccadilly stations.
- An additional £100m to deal with potholes, on top of £100m announced in February.
- Reduction in fuel duty tax and future fuel duty rises. Fuel duty escalator also scrapped.

Innovation

- Location of the first High Value Manufacturing Technology and Innovation Centres (TIC) announced - Rotherham, Coventry, Strathclyde, Sedgefield, Redcar and Bristol.
- Funding for nine new university-based Centres for Innovative Manufacturing.
- £100m to be spend on science facilities at Cambridge, Norwich, Harwell and Daresbury.
- There will be an increase in the SME rate of R&D tax credit to 200 per cent from April 2011, and 225 per cent from April 2012.

City specific

- Approval of the revised Sheffield retail quarter regeneration scheme.
- Approval of a re-designed, element of the Milton Keynes residential quarter scheme.