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A Budget for Britain?

Budget 2015 briefing

March 2015

Executive Summary

- The Budget included a number of measures directed at boosting investment and growth in specific places, with the Chancellor referencing the Northern Powerhouse, South West and Midlands.
- Announcements specific to cities included commitments to devolving powers and funding, to a greater or lesser degree, to Greater Manchester, Greater London, Leeds City Region, Cambridge and Peterborough – from business rates retention pilots to devolution of skills budgets.
- Housing was a key focus, including the introduction of the Help-to-Buy ISA. However, the scheme will do little to address the problem of affordability in the most expensive cities outside London, or support those unable to save for a desposit.
- A comprehensive review of the business rates system was also included, alongside the introduction of three business rates retention pilots. The review is welcome especially if it opens up the doors for wholesale reform of a system that is out of date and deeply flawed.
- Other welcome announcements included funding for transport infrastructure across the country, with the emphasis on investments in the Northern Powerhouse and the South West, as well as the publication of the interim report of Transport for the North.
- With an increased focus on investment in cities, the Budget reflected the progress made on urban policy and city devolution across the political spectrum over the past year. But it also made clear that there remains much to be done to unlock growth in UK cities and support cities themselves to unlock growth.

Introduction

George Osborne's sixth Budget focused on telling a story of national economic recovery and success. The Chancellor described an economy "stronger in every way" after having made the journey from "austerity to prosperity". Delivered against the backdrop of a General Election in less than seven weeks, the rhetoric was about "Britain, the come-back country" and the success of the Government's 'long-term economic plan'.

The overall statistics on the economy were positive, with national economic growth revised upwards to 2.5 per cent for 2015. In absolute terms, more people are in work nationally than ever before, the employment rate stands at 72 per cent (the fourth highest rate in the G7) and the unemployment rate this year is down to 5.3 per cent.

Some of the Chancellor's big ticket announcements were on pensions – relaxing requirements on annuities and decreasing the annual individual allowance to £1 million. He also committed to a minimum wage increase of 3.1 per cent to £6.70 from October 2015, an increase in the personal income tax allowance to £11,000 in 2017-18 and a revision of the diverted profits tax, or 'Google tax', announced in the Autumn Statement.

The Budget also contained a number of announcements which will have a specific impact on cities. This briefing looks at some of the key funding and policy commitments made by the Chancellor and their implications for UK city economies.

Devolution and cities

The Chancellor sought to emphasise the "truly national" nature of the recovery by name checking the North, South West and Midlands, many of them areas with marginal seats, as places that are growing. He cited in particular higher rates (if not levels) of economic growth in the North than the South over the past year. The Budget contained specific measures to empower London as well as other cities such as Leeds City Region, Cambridge, Manchester, Cardiff and Aberdeen, reflecting the continued debate and discussion about the distribution of economic growth and prosperity across the country and a year in which devolution and the Northern Powerhouse have remained high on the agenda.

For **Greater London**, the Chancellor announced new powers in skills and planning for the Mayor of London. The Budget included £97 million support for the regeneration of Brent Cross to unlock 7,500 homes and support 27,000 jobs; £1 million for a London Land Commission to create a comprehensive database of public sector and brownfield land; £7 million to support the development of the Croydon Growth Zone to unlock over 4,000 homes and more than 10,000 jobs. The Chancellor also announced reinvesting up to £30 million from the sale of the Medical Research Council assets to support research at the Francis Crick Institute.

Under the banner of the **Northern Powerhouse**, the Chancellor announced a number of policies including the long awaited Devolution Deal with West Yorkshire, business rate retention pilots in Greater Manchester and Cheshire East[1] and the creation of new Enterprise Zones.[2] The Chancellor also announced the publication of the interim report of Transport for the North and pledged £20 million to 'Health North' with centres in Newcastle, Liverpool, Manchester and Leeds-Sheffield. £11 million funding will also be made available for tech hubs in Manchester, Leeds and Sheffield, alongside funding for a financial technology incubator in Leeds and £14 million for an Advanced Wellbeing Research Centre in Sheffield.

The Chancellor committed £138 million of funding towards the UK Collaboratorium for Research in Infrastructure and Cities (UKCRIC) with hubs in London, and further centres in Birmingham, Newcastle, Sheffield and Southampton, which will apply research to ensure that the UK's infrastructure is resilient and

1. The third pilot will be in Cambridgeshire and Peterborough
2. NB. Some of the policies grouped under the Northern Powerhouse also apply to other parts of the country, such as the business rate retention pilots in Greater Manchester and Cheshire East which will also take place in Peterborough and Cambridgeshire or the extension of Enterprise in the North (including Humber, Manchester, Mersey Waters, Tees Valley; amending the Leeds Zone; and developing Zone in Blackpool) which also applies to Oxford Science Vale.

responsive to environmental and economic impacts. £40 million will also be made available for demonstrator programmes, business incubator space and a research hub to develop applications for 'internet of things' technologies in healthcare and social care, and 'smart cities'.

Finally, the Chancellor committed to negotiating **City Deals with Cardiff, Aberdeen and Inverness**, following on from the deal with Glasgow last year. The Chancellor also **re-stated devolution commitments to the devolved administrations** as part of the Smith Agreement to give Scotland greater tax and welfare powers, as well as greater powers for Wales as included in the St David's Day devolution package. Northern Ireland will also be able to borrow up to £350 million more for infrastructure projects and the Government has commited to enact legislation for devolution of corporation tax rate setting powers.

Housing, transport, skills and businesses

The Budget also contained a number of national measures across different policy areas that will play out differently across cities.

Housing

- 20 new housing zones outside London
- Help-to-Buy ISA scheme

The Budget contained two policies on housing. The Chancellor announced a list of the first housing zones outside London, with 20 sites focused in the South West and Midlands,[3] set to deliver 34,000 new homes. The scheme which was first announced in January 2015 includes £200 million for infrastructure and land remediation, as well as access to cheaper borrowing from the Public Works Loan Board and priority access to expert planning and technical support from the Homes and Communities Agency.[4] In comparison, London's Housing zones have been used in the capital to provide specific tools such as waiving planning obligations, or directing transport investment, enabling the city region to plan for housing strategically. It is still early, but the London zones appear to encourage an existing strategic approach by providing the Greater London Authority (GLA) with useful tools to expedite delivery. The new schemes appear more lightweight than their London counterpart, and it is unlikely the proposed zones will have the powers to adapt planning or financial obligations, which is vital to getting homes built in specific areas.

The Chancellor also introduced a Help-to-Buy ISA scheme in which the Government will top-up 25 per cent of first-time buyer savings as part of the scheme (up to £3,000 available per saver) at the point of purchase. The bonus is available on homes up to £450,000 in London and up to £250,000 outside London and is estimated to cost £2.1 billion over five years. The variation in eligibility signals a welcome recognition from the Government that the housing crisis is not playing out evenly across the country: the average home in London costs around 14 times more than the average salary compared to seven times in Manchester, for example. However, it will do little to address the problem in expensive cities outside London, predominantly in the Greater South East such as Oxford, Cambridge and Brighton, whose average house prices are between 10 and 15 times average wages at £320,000 to £420,000. It is also doubtful that this type of incentive will be strong enough to encourage new savers to invest and may subsidise existing behaviour. Fundamentally, as with all demand-side approaches to tackling housing unaffordability, without the complementary and significant increase in the supply of more housing, the scheme will result in stoking demand and pushing up prices.

Ultimately, the measures on housing contained in the Budget were weak. Policies that further fuel price increases are unhelpful. This isn't just harmful for people living in these cities, but for businesses too, who depend upon access to skilled labour that could be priced out of living in these areas.

3. These include sites at South Bristol, Hinkley, Poole, Weston-super-Mare, Ashchurch, Gloucester and Foxhill in the South West; and at Bassetlaw, Gedling, West Lindsey, Derby and Stoke-on-Trent in the Midlands.
4. These details were announced in January 2015 and are not included in the Budget document itself

Transport

- £13 billion investment for transport in the North
- New franchise for the Great Western Route in the South West
- £34 million for London Metropolitan line extension to Watford Junction
- Publication of Highways England Delivery Plan

The funding for the North of England will focus on connecting cities, electrifying the main rail routes, building the northern rail hub, and providing new trains through the new northern rail franchise. The Chancellor also announced the interim report from Transport for the North – published Friday 20 March – which sets out strategic options for future transport investment. The report includes a plan for rail connections building on the HS3 concept, bringing the benefits of HS2 to the North sooner than expected and plans for an integrated smart ticketing system across the region.

The Chancellor also announced he would shortly set out the details for a new Great Western Route franchise which will introduce the new £3 billion Intercity Express trains. Funding was also made available for the extension of the Metropolitan Line on the London Underground to Watford Junction on the West Coast Main Line.

Before the end of this Parliament, Highways England will launch their Delivery Plan which will set out further detail on the road investment programme from 2015 to 2020. The Budget also confirmed funding for a number of transport and infrastructure schemes, including roads, many of which were included in the Growth Deals. Overall, while there were no significant policy announcements, the Budget included welcome funding for vital transport investment in many areas of the country.

Businesses

- National Insurance contributions cut for under-21s and apprentices
- Business rates retention pilots in three areas
- Review of business rates system

The Greater Manchester, Cheshire East and Greater Cambridgeshire and Peterborough business rates pilots will trial 100 per cent retention of any additional business rate growth from April 2015. Local authorities currently retain 50 per cent of the business rates revenue and growth generated in their area. Although the view from most cities is that the incentive is both too small and too complex to change behaviour, efforts to sharpen the incentive for local authorities to take policy decisions that increase local growth are welcome, and it will be interesting to monitor the impacts of the pilots. To a different end, the London Borough of Brent was given a ring-fence over the localised portion of business rates it receives to invest in the regeneration of Brent Cross, alongside £97 million of funding from Government. This ring-fencing provides a relatively certain funding stream for much-needed development in the area, not dissimilar to the TIF in Enterprise Zones.

The Chancellor's announcement that he will introduce a review of the business rates system as a whole is the most encouraging point. The current business rates system is neither working for businesses as a tax nor for local government as a funding stream. This Government has held consultations on business rates before and has tinkered with the system. The comprehensive nature and timing of this review has the potential to open up the doors for whole scale reform of a system that is out of date and deeply flawed.

Skills

- Devolution of skills funding to Greater London
- Financial support for PhD and research masters

The Government will devolve to the Mayor of London and the Greater London Authority power over the Apprenticeship Grant for Employers budget and a role in the re-commissioning of Further Education skills provision in the capital. These are similar to the powers devolved to Greater Manchester and Sheffield City Region in the devolution deals made last year and are a positive step. There is recognition that a more localised approach to skills delivery can improve alignment with the labour market, and ensure people gain the qualifications they need to secure a job.

The Budget did not contain much on skills policy beyond some specific announcements on funding for postgraduate study, which includes support for PhDs and research-based masters degrees through income-contingent loans of up to £25,000 to sit alongside existing funding. The Government is also launching two reviews into postgraduate funding and research stipends and co-funding opportunities between government, industry and charities.

Conclusion

For the economic recovery to be truly sustainable and felt more widely, it will first require many more UK city economies to improve their economic performance. Secondly, it means ensuring our urban areas are equipped with the powers they need deliver key services to their residents and address their most pressing challenges. The 2015 Budget demonstrated a continued focus on growing the UK's city economies, as well as the role that investment in the fundamentals of housing, transport, infrastructure and innovation can play in building a more sustainable national recovery.

The Budget reinforced the increasing gap between the powers available to Greater Manchester and those available to other UK cities to decisively shape their economic future. Even London was unable to secure any steps towards the kind of fiscal devolution that would enable the capital to tackle its housing and infrastructure shortfall, and help achieve the future growth the Chancellor claims he would like to see.

There is undoubtedly more to do in order to fully realise the potential of UK cities' contribution to the national economy, and ensure the recovery is more widely felt. But looking at this Budget across a longer timescale suggests that urban policy has come a long way. The last Budget delivered before the new Government came to office in 2010 contained a number measures to support local economic growth including enhancing the role of regional ministers, a regional growth fund, powers for Birmingham to set skills strategy across the city region and infrastructure investment through accelerated development zones – as well as commitments to explore statutory city-region governance for Greater Manchester. It is reflective of the extent to which cities and their role in driving economic growth is increasingly recognised that five years later, a pre-Election Budget contains devolution to the Greater Manchester Combined Authority and future metro mayor, alongside both more specific and ambitious measures to support growth in other UK cities.

Ultimately, this was a Budget that reflected the progress made on urban policy and city devolution across the political spectrum over the past year. But it also made clear that there remains much to be done to unlock growth in UK cities and support cities themselves to unlock growth.

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