# thinking: new economy

## BRIEFING 03

## Pre Budget Report Analysis

## December 2009

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| **THINKING NEW ECONOMY: BRIEFING 03** | *The Pre Budget Report (PBR) confirmed Manchester's Statutory City Region Agreement. The government's ability to introduce new measures through the PBR is constrained by the position of the public finances and the overall health of the economy. However, a number of announcements were made grouped around the policy themes of:*<br>• *Maintaining macroeconomic stability*<br>• *Reforming financial services*<br>• *Supporting business and growth*<br>• *Achieving fairness and providing opportunity*<br>• *Protecting public services*<br>• *Supporting low carbon growth* |
| **SOURCE:** | **Pre Budget Report, December 2009** |
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**PBR announces Manchester to become “Statutory City Region”**

Importantly for Greater Manchester (GM), the Pre Budget Report (PBR) confirmed a Statutory City Region (SCR) Agreement. This as an early step forward on a long-term agenda. GM is moving towards a mature city region that can start to increasingly think and act for itself in a global interconnected world. GM is a conurbation that will not, and cannot, rest on its laurels. This will mean demonstrating again and again that it has the capacity to make major strategic decisions. Crucially, GM needs to demonstrate it can be trusted to deliver on its commitments. Only in this way, can we cement our position as the UK’s second growth pole outside London and the southeast.

There will be many challenges ahead on this agenda and many difficult choices. City regions in the UK are a relatively new concept, but the sub national review confirmed that a number of policy areas are best formulated at this level, as it is the natural functional economic geography. Clear resolutions to governance issues around the precise extent of devolution, intergovernmental fiscal relations and the specific policy areas (e.g. transport, economic development, regeneration and housing along with the extent of integration between them) that can be best conducted at this level remain a source of debate. Deeper collaboration across local authority boundaries is a major challenge, but can bring forth major gains in improving local government and the services it provides and in an increasingly efficient way. Greater Manchester’s SCR Agreement is however a significant step forward, and includes:

- **New legal powers to direct how public funding for adult skills is spent.** GM will direct how the newly created Skills Funding Agency and National Apprenticeship Service invest in GM. The agreement covers a budget of around £150 million annually to provide education and training for those aged 19 and over studying in colleges and in the work place. To execute these powers the Commission for the New Economy’s Board has been designated as a statutory Employment and Skills Board and will be responsible for developing a skills strategy.
- With regards to the Young Persons Learning Agency (YPLA) budget, GM will receive **a single allocation for 16-19 places in Schools and Further Education from 2011-12** (except Academies funding).
- A range of **freedoms and flexibilities in relation to apprenticeships**.
- **Transport protocols and governance** - there is a commitment to examining how Manchester as a city region can assume responsibilities and influence comparable to Transport for London, alongside the robust governance arrangements necessary to support this. For heavy rail, a series of protocols will provide a basis for a close working relationship between GM and Dept. For Transport (DfT). In respect of highways, there will be a more joined-up approach between the Highways Agency (HA) and local authority road networks. On bus, it has been agreed that, through the pilot, DfT and GM will undertake a joint piece of work on the issues currently being faced by bus users in GM which will provide the basis for a range of joint work streams to deliver the required step change in the quality and capacity of the bus network across key corridors.

- **Designation as the UK’s fourth Low Carbon Economic Area (LCEA).** GM will use its LCEA status to fulfil five objectives over a five year period: accelerated economic growth; accelerated carbon abatement; increased employment and skills progression; further development of low carbon innovation and technology; enhanced infrastructure. The LCEA will involve a five-year "retrofit" programme which will improve the insulation of thousands of homes and offices in Greater Manchester. Small-scale renewable energy technologies will also be installed and "smart meters" will be introduced so people can see how much energy they are using. A ’low carbon laboratory’ will also be established. One of the most innovative areas of work will be the development of new finance initiatives such as mortgage products linked to carbon savings.

The full Ministerial Agreement can be found by clicking here.

**Maintaining macroeconomic stability**

- Broad macroeconomic conditions impact upon businesses and individuals across GM, and much will hinge upon the ability of the Treasury and Bank of England to manage our way out of recession and set the macroeconomic conditions for growth. GM has been hit hard by the recession, but as set out in the MIER and in our strategic priorities in the Greater Manchester Strategy (GMS), its resilience and capacity to benefit going forward depend on the longer term trends in the global economy, towards globalisation and new markets, and our ability to innovate and attract the best talent and high skills, maximising productivity.

- Much of the government's macroeconomic policy is based on the assumption that the economy is set to return to relatively high rates of growth of 3.5% in 2011 and 2012. Given the present uncertain state of the economy and public finances, cautious measures are set out to continue the fiscal stimulus, whilst also attempting to balance the books. This is a difficult tightrope to walk, and its success will ultimately depend upon many factors in the global economy and how the UK economy holds up.

- This includes most notably a 0.5% increase in national insurance contributions on incomes over £20,000, from April 2011, which will bring in an estimated £3 bn per year, but may also affect consumer expenditure and negatively impact on growth. Public sector borrowing is set to grow still further in 2010 reaching £178 bn with forecast reductions in 2011 and 2012, again dependent upon assumed return to economic growth and increases in tax revenues that come with it. The borrowing figures are a substantial increase from the £38bn forecast at the time of the Budget, and will now reach 8% of national income (GDP), the highest since modern records began in 1970 and reason for concern.

**Reforming financial services**

- Government confirmed its recent emphasis on the importance of improving regulation of the sector and curtailing its lack of prudence, helping to create a more sustainable banking and finance approach in future. This will not only impact on the City. Manchester has a sizable financial services sector and we need to pay close attention to emerging government policy – particularly around regulation and its potential impacts. However the new emphasis on sustainable banking may provide new market opportunities for a financial sector headquartered in GM.

**Supporting business and growth**

- As well as continuing ongoing tax relief measures for businesses, the difficulties SMEs are having accessing finance is at the centre of the PBR. An additional £500m of lending will be made available to SMEs through a 12-month extension of the Enterprise Finance Guarantee and the creation of a new **Growth Capital Fund**, along with the £325m UK Innovation Investment Fund.
- In addition, plans were announced to establish a new agency, **Infrastructure UK**, to facilitate private sector investment and ensure public sector investment is prioritised and delivered effectively. How this will add value to existing public investments planned for GM will need to be monitored.
- There is a clear emphasis on supporting innovation, a key priority for GM, by introducing a **patent box** – a reduced rate of corporation tax applying to income from patents, although not until April 2013.
- High-speed broadband is to be extended to 90% of the population by the end of 2017, funded by 50p-a-month duty on landlines and a Strategic Investment Fund which will support hi-tech projects (£200m boost). This could build on strengths of the GM economy in ICT/Digital/New Media sectors. Rail electrification between Liverpool, Manchester and Preston is to go ahead, which is in line with MIER and recent Northern Way funded research that points to the importance of improving inter-city connectivity in the north.

**Achieving fairness and providing opportunity**

- The PBR sets out a package of additional support to help people back into work and keep unemployment as low as possible during the recession.
- Child benefit increases and working tax credits are a positive that will support the early years and better life chances priorities of GMS.
- Government will use some of the JCP and employment programmes funding already announced to bring forward the young persons guarantee, so that **18-24s claiming Jobseeker's Allowance for six months will now be guaranteed a job, work placement or work-related skills training**. This announcement will benefit a significant number of young people in GM and supports the priorities set out in the GMS in terms of improving the economic prospects of young people, particularly in our most deprived areas.
- Other key announcements include government action to provide support for households during the early stages of economic recovery, including increasing the basic State Pension by 2.5%, the child element of the Child Tax Credit by £20 above earnings indexation, and other benefits and tax credits.

**Protecting public services**

- The government's public service reform agenda is to sustain efficient and effective public services and support the wider economy through the downturn. A number of short term spending measures are set out to support this aim and protect public services whilst also setting out a number of new efficiency savings and reforms.
- Announcements include savings through rationalisation, targeting and prioritising spending, a cap on public sector pay settlements of 1% and reforms to public sector pensions.
- In addition, government reiterates its commitment to the Total Place Initiative and states its intention to report on the success of initial pilots at Budget 2010. The GM pilot focuses on 0-5 years and aims to create a new commissioning model for an enhanced service offer for whole families, particularly generating better life outcomes for young people.

**Supporting low carbon growth**

- Financial support for supporting low-carbon growth over the next three years was set out. Infrastructure UK (as noted above) will leverage further investment in low-carbon projects, £200 million will be invested to improve energy efficiency and tackle fuel poverty, £120 million for low-carbon industries in the UK and there were measures to help vulnerable households by providing discounts on their energy bills and increasing support for low carbon vehicles.