Spring Budget 2023

17-03-2023

Key Takeaways for South Yorkshire

- **Devolution & governance**. Further details on the 'trailblazer' devolution deals with GMCA and WMCA were revealed, providing a blueprint for other MCAs to follow. These will see income streams increase as business rates are fully retained, single-pot settlements, with increased powers over housing, retrofit, and skills. LEPs are to be wound down and evolved into business advisory bodies, with funding ceased by April 2024. SYMCA has already been developing plans for what a successor to the LEP will look like.

- **Regional development**. South Yorkshire (SY) will be one of 12 Investment Zones in the UK, worth up to £80m in backed funding and tax incentives. The schemes can begin from 2024/25 and comprise up to 600 hectares (10x size of Advanced Manufacturing Park). A third instalment of Levelling Up Funding (LUF) with additional £1bn to top up the £3.8bn allocated in the previous two rounds. LUF has so far funded several schemes in SY totalling £105m. A second round of CRSTS (geared to sustainable urban transport capital investment) is announced. SYMCA received £570m in the first round.

- **Cost of living**. Maintaining the Energy Price Guarantee at the current level will provide some protection of disposable incomes, including households in fuel poverty, which SY has a higher prevalence of compared to the national average (19% vs. 13%). Extending the previous cut to fuel duty is an expensive choice (2023/24 alone costs the same as entire Levelling Up Fund). However, this broad policy does protect disposable incomes, albeit adding challenges to reaching net zero targets. Extending free childcare provision for up to 30 hours per week for children starting at 9 months, is another headline. It may have a role increasing labour force participation, especially for women, as the scheme ramps up over coming years. Female unemployment in SY is higher (5.8%) than the national average (3.6%). However, this policy will take up to 3 years to be rolled out so the full impact may not be immediately realised.

- **Energy & net zero**. Reclassifying nuclear energy as 'sustainable' and promising new funding streams for both nuclear and carbon capture and storage (CCS) signals an increasingly supportive environment for investment in these two low carbon technologies. South Yorkshire has world class facilities and strengths in both sectors, so this policy will be watched with interest. There is some concern that funding proposed isn't at a level or pace (£20bn over 20 years for CCS) that can meaningfully contribute to net zero targets.

- **Skills and employment**. The new Universal Support programme and associated white paper is a recognition of growing post-Covid economic inactivity driven by ill health. This problem is even more prevalent in SY. Efficacy of this new policy to encourage early retirees back to the workforce – 'Returnships' and 'Skills Bootcamps' – is less well supported by available data and has less relevance in SY.

ECONOMIC CONTEXT

Official forecasts updated the previous (November) outlook, revealing a less pessimistic outlook for the UK economy. It is no longer expected to enter recession in 2023, interest rates are expected to peak at a lower level, and inflation will fall faster. The better outlook afforded more fiscal headroom for spending decisions. However, the cost of headline policies such as on childcare and pensions have most implication in future spending years (2025 onwards).

DEVOLUTION & REGIONAL DEVELOPMENT

Key announcements

- Trailblazer deals announced for Greater Manchester and West Midlands provide a blueprint for future devolution deals. They include commitments to a 10-year business rate retention, a single pot of funding, and devolution of funding in areas such as affordable housing, retrofit, post-19 education and skills, and further 16-18 skills.
- A third Levelling Up Fund is on the way later in 2023 (questions remain over criteria and whether success depends on previous bids), with a further £1 billion available across the UK.
- LEPs to be wound down and funding to cease in April 2024, the detail of which in terms of staffing, assets, will be part of an audit process. The new English Devolution Accountability Framework sets out the how MCAs will be held to account by "by local politicians and businesses, by the UK government and parliament and – most crucially – by the residents whom they serve". Gov't will consult on transferring responsibilities for local economic development from LEPs and move into MCA and LAs where they don't exist.
- Over £200 million announced for 16 high quality regeneration projects targeted in left behind areas, assessed as high quality; delivery to commence later this year, including a £20m scheme in Rotherham.
- Over £100 million of support for local charities and community organisations, and over £60 million for public swimming pool providers to help with immediate cost pressures and make facilities more energy efficient.

Implications for South Yorkshire

- Potential for future trailblazer deal with more powers for SYMCA as they set the blueprint for future negotiations. Single settlement funding could shape future funding for all MCAs as the vision is rolled out across England, which officials describe as "irreversible, ongoing, long-term".
- Levelling Up Partnership for Doncaster will mean deep dives carried out by a partnership of the Local Authority, MPs and business leaders to gather a whole-place picture of its unique challenges and opportunities and future cross-Government interventions to unblock obstacles to regeneration.
- Levelling Up Fund allocation later in the year presents an opportunity for Local Authorities and the MCA to secure more funds to invest in South Yorkshire.
- LEPs will be evolved into local business advisory bodies. SYMCA has already been developing plans for what a successor to the LEP will look like.
- There is progress for devolution but the pace and scale of change, alongside funding, is still not transformative.
- South Yorkshire is one of the few MCAs which does not currently participate in the 100% business rates retention pilot scheme, hence the eventual enactment of the announcement in the Budget will put SYMCA and its constituent members on a par with Liverpool, Greater Manchester, the North East, West Yorkshire and the West Midlands.

External commentary

"More power in the hands of local leaders and out of Westminster is a good thing. But it can't stop there. Pots of money for Combined Authorities won't put power into the hands of communities. From what we've seen so far, these deals are far too light on mechanisms to transfer power first from the combined to local level, then to communities. Places will not level up without putting people at the heart of that process."

- Courtney Stephenson, Demos

"It is very welcome that the Government is increasingly focused on addressing the underperformance of the UK's big cities in order to kickstart national economic growth. This is recognised in today's Budget through its announcements of the long awaited trailblazer devolution deals for Greater Manchester and the West Midlands, a second round of five year funding for big city transport, and investment zones across our largest urban areas."

- Andrew Carter, CEO, Centre for Cities

HEALTH

Key announcements

- White paper recommends scrapping Work Capability Assessment (WCA) and establishing 'Universal Support' scheme to help people with disabilities get into work - £4k per person, 50k people per year. Removing WCA is intended to mean disabled people can seek work without their benefits being reduced or removed.
- Considerations of a 'right to return' period, during which employers must keep jobs open to workers who are away from work due to sickness or disability.
- New fitness-to-work testing regime to qualify for health-related benefits.
- Embedded tailored employment support within mental health and MSK services in England. This will include the expansion of the well-established Individual Placement and Support (IPS) scheme and scaling up MSK hubs in the community.
- Digitise the NHS Health Check to identify and prevent more cases of cardiovascular disease.

Implications for South Yorkshire

- The main cause of economic inactivity in SY is long-term illness (31% economically inactive fall into this category – above the national and Yorkshire & Humber average). Therefore, SY will benefit from policies that are encouraging these groups back to work, e.g., disabled people can work without losing their benefits.
- Having more accessible health checks to prevent more cardiovascular diseases will also be beneficial to SY given our high proportion of respiratory diseases (such as asthma and Chronic Obstructive Pulmonary Disease) – these were responsible for 13.6% of all deaths in Yorkshire and the Humber in 2017 (Source: Public health England/ ONS data).

External commentary

"Big policy action on this budget is on raising economic activity […] scrapping Work Capability Assessment - very big deal, rightly motivated by avoiding labelling people as too sick to work, but hard to do in practice. Will be losers (people too ill to work but without a disability with associated costs) as well as winners (those with disabilities who can keep more support in work). Package has pretty big sticks as well as carrots - require people on UC to work 18 hrs rather than current 15 hrs, and both people in a couple to work."

- Torsten Bell, Chief Executive, Resolution Foundation

"The UK is getting sicker year on year and there's far too little in this budget to stem that rising tide. There are no answers to the NHS' collapse; nothing tangible for adult social care; and nothing on how we can use prevention to deliver healthier lives"

- Chris Thomas, Head of the Commission on Health and Prosperity, IPPR.

COST OF LIVING, TAX & BENEFITS

Key announcements

- Energy Price Guarantee for the average household remains at £2,500 until the end of June instead of scheduled £3,000 at the could cost of around £3bn. Total cost of the scheme expected to be £29.4bn since inception (for context this is roughly 20% of annual NHS budget).
- The pensions Lifetime Allowance (LTA), which is a cap on how much can be saved tax-free, has been abolished (was previously £1m) to incentivise older skilled workers, such as senior doctors, to re-join the workforce. The annual allowance – the most a worker can save in their pension pots in a year before paying tax – will also rise, from £40,000 to £60,000.
- Extending free childcare hours, costing £3-6 billion to extend to 1-and-2- year-olds. Will support living standards of parents with young children more than employment. Parents with children under 3 helped in households with two parents working 18+ hrs. A staggered increase as the market ramps up: 15 hours at first until end of 2024, by Sep 2025 30 hrs.
- Foster care has been mentioned, with around £450 worth of tax-free support offered to those with shared life and foster care responsibilities.
- For those claiming Universal Credit (2 million jobseekers), sanctions will be applied more rigorously to those who don't take up a good job offer up. However, more support will be made available to those on low hours to increase their employment.
- Departments say a 3.5% pay rise next year is affordable. Going further with a 5.5% rise would cost a further £5bn. No explicit commitments on improved pay settlements for public sector workers amid ongoing strike action.

Implications for South Yorkshire

- Our region has higher fuel poverty (19%) than the national average (13%), so continued support is welcome for households on the lowest incomes.
- Given the relative significance of public sector employment in South Yorkshire, ongoing uncertainty over pay continues to disproportionately affect many.
- In line with the national trend, retirement has spiked in South Yorkshire as a reason for economic inactivity since September 2021 from 9.3% to 14%, so new policy to encourage key workers to re-enter the workforce is welcome if effective.
- Female unemployment in South Yorkshire (5.8%) is much higher than the national average (3.6%), so policies to tackle the difficulties that mothers have in returning to work, particularly in low-paying sectors, will be extremely beneficial for maintain living standards and containing the cost-of-living crisis.

External commentary

"Today's announcement on childcare could connect more parents – particularly women – to opportunities to work more hours, boost their incomes and contribute to the economy. CPP estimates that access to suitable childcare could increase women's earnings by £9.4bn per year and boost GDP by 1%"

- Charlotte Alldritt, Chief Executive, Centre for Progressive Policy

"The lifetime allowance currently affects around 8,000 people who are fortunate enough to have £1.07m in their pension pot(s). Most are doctors. Abolishing LTA may well help NHS staffing, but it's also a huge giveaway to a very small group of very wealthy people."

- James Kirkup, Director of Social Market Foundation

ENERGY & NET ZERO

Key announcements

- Commitment to extending the 5p fuel duty cut for 2023-24, representing £10bn of additional support over coming years. Scrapping planned rises in fuel duty would permanently cost £5bn a year.
- Energy Price Guarantee for the average household remains at £2,500 until the end of June instead of scheduled £3,000
- Nuclear energy to be reclassified as 'environmentally sustainable' following consultation. More public and private investment. Two further additions to Sizewell C.
- Launch of great British Nuclear, providing opportunities across nuclear supply chain and 25% of energy by 2050.
- Up to £20bn earmarked for early development of carbon capture and storage

Implications for South Yorkshire

- Taken together, the announcements that energy and fuel duty will remain at their current level rather than increasing the cost to the consumer, will help with the cost of living across all households. This will be welcome news to the 19% of households in South Yorkshire experiencing fuel poverty (compared to 13% nationally).
- Neither, however, are targeted either in ways to protect particularly vulnerable (i.e. low-income) consumers or in ways which incentivise lower demand for energy, and therefore fossil fuels. From a climate emergency / net zero perspective therefore, these policy changes add to the challenge of transitioning to a net zero economy.
- A potentially more encouraging policy environment for nuclear energy is through reclassification as 'environmentally sustainable'. Detail is lacking as to what 'Great British Nuclear' will do, but small modular reactors have been mentioned as in line for more investment, apparently in an upcoming competitive bidding process. Likewise, more detail is needed on the announcement of investment into carbon capture and storage.
- South Yorkshire is well placed to benefit given its world class development facilities in association with University of Sheffield and large industrial emitters.
- However, in terms of meeting the need for a reduction in fossil fuels in the short term we are not likely to see much impact in the timeframes we need.

External commentary

"Yesterday the chancellor announced he'd be freezing fuel duty for the 13th year in a row - at a cost of £6bn. But this is a regressive policy that disproportionally benefits the richest households (and that's without even considering it's damaging environmental impact)."

- New Economics Foundation

"The Energy Price Guarantee 20% rise has been postponed from April to July - meaning in practice it's cancelled. Exactly what my letter to Chancellor asked for. Thanks to the govt for listening & to the 135 charities backing the campaign."

- Martin Lewis, Founder of Money Saving Expert

INVESTMENT ZONES & INNOVATION

Key announcements

- 12 new Investment Zones in eight areas to ‘drive up business investment and level up’ (plans will be agreed by the end of the year) backed with Government funding/tax incentives worth approximately £80m each over 5 years, to begin in 2024/2025
    - In terms of footprint, it is understood to comprise one site of up to 600 hectares or three smaller sites at 200 hectares each,
    - Tax incentives include reliefs on SDLT, enhanced capital allowances, employers NI relief, business rates relief.
- Areas must bring together local Government and universities to build innovation clusters
- Policy levers include skills, infrastructure, tax reliefs and business rate retention
- £900 million to build an ‘exascale’ supercomputer and to establish a new AI Research Resource
- New ten-year £2.5 billion quantum research and innovation programme as part of the Quantum Strategy
- Competition for £1m (Manchester Prize) by individual/team who does the ‘most ground-breaking AI research’

Implications for South Yorkshire

- South Yorkshire confirmed to be offered Investment Zone, with the government’s stated vision as “*harnessing local sector strengths to drive productivity, and leveraging the bottom-up energy of local talent, knowledge and networks to deliver sustainable growth that benefits local communities*”.
- SMEs in the region will be encouraged to spend more on research and development, encouraging innovation.

External commentary

“There can be benefits from generating new, specialised economic clusters, and there can be synergies between the tax incentives and investment in skills, innovation and infrastructure. However, such active industrial policies can pick ‘losers’ rather than ‘winners’”

- Institute for Fiscal Studies

“Focusing on supporting emerging ‘new economy’ sectors (such as digital or life sciences) where they need it is sensible in principle – it is these industries that will disproportionately create tomorrow’s prosperity. However, attempting to do this is not new, and policy has failed in the past in its belief that it can predict what these specific sectors are going to be.”

- Paul Swinney, Centre for Cities

HOUSING & PLANNING

Key announcements

- Rent support (Local Housing Allowance) frozen at 2019 levels.
- GMCA Trailblazer Deal includes significant changes to the operation of the Affordable Homes Programme (AHP) in Greater Manchester. The current programme for 2021-26 will see GMCA setting the strategic direction for the AHP in its region and having a greater role in key operational decisions such as site selection and provider choice, whilst still working through Homes England. In the next AHP (2026 onwards), GMCA will have even greater powers and be able to 'direct' Homes England to identify and bring forward sites for affordable housing, set GMCA standards for affordable housing, and approve funding allocations to schemes.
- Greater Manchester Housing Quality Pathfinder will trial a range of regulatory interventions to improve housing quality in the private rented sector (PRS) in Greater Manchester. This will include an approval for a larger selective licensing area. A joint taskforce called 'Policy Sandbox' comprising of GMCA, Greater Manchester Integrated Care Partnership, DLUHC and the DWP to drive improvements to the renting experience for tenants and landlords and the quality of homes in the PRS. It includes £3.9 million to GMCA to lease 200 good quality private rented sector properties for homeless families, contributing to eliminating the use of bed and breakfast accommodation for homeless families in Greater Manchester other than in exceptional circumstances.
- The Investment Zone Policy Prospectus notes that Government funding can be used across a number of areas including Planning and Development, e.g., funding to recruit a dedicated planning team, or support a Development Corporation to deliver complex or large-scale developments. This will be an area for careful consideration with relevant Local Planning Authorities in developing Investment Zone proposals within South Yorkshire.
- Brownfield Funding announcement for 'trailblazers' GMCA and WMCA, receiving £100m to deliver 4,000 homes and £150m to deliver 7,000 homes, respectively.
- Although there were no announcements in the Chancellor's Spring Budget today on the successful projects for Social Housing Decarbonisation Fund (SHDF) Wave 2.1 there have been indications that an announcement is due shortly.

Implications for South Yorkshire

- The cost of renting in the private sector risen by an average of 9% since 2019, and a frozen Local Housing Allowance for low-income renters means housing has become increasingly unaffordable. A consequence of increasing unaffordability is rising homelessness presentations at Local Authorities due to evictions. SY Local Authority partners are already seeing more families going into temporary accommodation.
- The Investment Zone Policy Prospectus notes that Government funding can be used across a number of areas including Planning and Development, e.g., funding to recruit a dedicated planning team, or support a Development Corporation to deliver complex or large-scale developments.

External commentary

"We are hugely disappointed that the chancellor has failed to use his Budget to uprate Local Housing Allowance. This will be a blow to renters across the red wall, who have seen rents consistently rise since 2020 while support for housing costs has been frozen. The continued freeze on LHA also puts our councils under huge pressure and is likely to result in more homelessness presentations and drive up the use of temporary accommodation."

- Tracy Harrison, Northerrn Housing Consortium CEO

“In contrast to the original investment zone concept, the ‘planning system improvements’ in relation to Investment zones are unlikely to involve anything which goes against the current strategic planning system. So they are likely to be limited in their impact – albeit, a focus on increasing the resources available to local planning authorities would clearly be helpful in speeding up decision making.”

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- David Churchill, partner at consultancy Carter Jonas

TRANSPORT & INFRASTRCUTURE

Key announcements

- Commitment to a second round of CRSTS transport capital from 2027/28 to 2031/32. The size of this pot is £8.8bn made available nationally, and individual settlements will provide a contiguous 10-year funding window.
- HS2 investment between Birmingham and Crewe delayed due to inflating costs (pre-Budget announcement)
- Additional £200 million in 2023/24 for local authorities to repair potholes and improve roads, expected to fix the equivalent of up to 4 million additional potholes across the country
- England's struggling swimming pools and other public amenities will be supported with a new a £63m fund. Offered as a one-year donation managed by Sport England.

Implications for South Yorkshire

- In its first round, SYMCA was allocated £570m in CRSTS between 2022-2027. A second round slated for the following 5-year period could be transformational.

External commentary

"News of a second £8.8bn CRSTS fund could be transformational for areas like ours to progress with plans to revolutionise our public transport network – I'm looking forward to receiving the funding framework to see how our area can capitalise on the opportunity."

- Steve Rotherham, Mayor, Liverpool City Region

"[…] trailblazers only warrant the name if others follow the trail. We need to see a rapid widening of devolution to all local transport authorities to help them deliver infrastructure strategies that will enable economic growth, alongside flexibility for combined authorities to determine their own spending priorities within their settlements."

- Ben Wilson, National Infrastructure Commission

"A budget would not be complete without something on potholes."

- Ben Franklin, Director, Centre for Progressive Policy

BUSINESS

Key announcements

- Rise in corporation tax from 19% to 25% for businesses with taxable profits over £250k. Companies with profits between £50,000 and £250,000 to pay between 19% and 25%.
- New tax break regime for businesses over next 3 years whereby businesses can opt to claim 100% capital investment in the first year of purchase. Increase business investment by 3% for every year it's in place.
- Temporary extension of rates for three corporation tax reliefs that are collectively referred to as the 'cultural reliefs': Theatre Tax Relief (TTR), Orchestra Tax Relief (OTR), and Museums and Galleries Exhibition Tax Relief (MGETR) for 2 additional years.
- International traders will get a more streamlined customs process, giving them six additional days to submit forms after border crossings. This will reduce admin burdens for business, as well as fewer authorisations and financial guarantees.
- SMEs for which qualifying R&D expenditure constitutes at least 40% of total expenditure will be able to claim a higher payable credit rate of 14.5%.

Implications for South Yorkshire

- Given that the rise in corporation tax is estimated to impact 10% of businesses nationwide, it is unlikely given the business landscape of SY that many companies will be impacted by this increase.

External commentary

"We commend the Chancellor for sticking to his promise of increasing Corporation Tax to 25% in this budget, despite pressures to scrap this measure. Taxes are a necessary function of a healthy economy"

- Women's Budget Group

"The most recent BCC [British Chamber of Commerce] survey on investment found that only a fifth of firms were increasing investment and a similar number were reducing it. This budget looks unlikely to change that dynamic"

- British Chambers of Commerce

"We are investing far too little. The fifth major reform to corporation tax in just two years is set to deliver a temporary 3 per cent boost to investment, when what we need is a permeant 30 per cent boost to catch up with France, Germany and the US."

- Resolution Foundation

EMPLOYMENT & SKILLS

Key announcements

- Introduction Universal Support programme to support people with disabilities and long-term sickness into work. The programme will ensure they are supported to enter and stay in work by funding the necessary training and workplace support.
- Work Capability Assessment will be abolished.
- 'Returnships' are a new offer targeted at the over 50s to encourage re-entry to the workforce. They will promote accelerated apprenticeships, Sector-Based Work Academy Programme placements and Skills Bootcamps.
- £63 million for an additional 8,000 Skills Bootcamps places in 2024-25 in England, and 40,000 new Sector-Based Work Academy Programme placements across 2023-24 and 2024-25 in England and Scotland.
- £3 million over the next 2 years to pilot an expansion of the Supported Internships programme to young people entitled to Special Educational Needs support who do not have an Education Health and Care Plan.

Implications for South Yorkshire

- SY will benefit most from the policies around encouraging people with disabilities and long- term illness back to work as this is the main cause for our economic inactivity. This includes the Universal Support programme and the abolishment of the Work Capability Assessment.
- SY less likely to benefit from the over 50s bootcamp policy as our rate of involuntary inactivity is much higher than voluntary forms of inactivity which includes early retirement.

External commentary

"Scrapping the Work Capability Assessment is step in the right direction, because it recognises that living with a disability no longer implies a binary distinction about whether a person is able to work or not. If the changes are managed well, they should mean that benefit claimants with a disability who want to try working are able to do so without fear of losing their benefit entitlement"

- Resolution Foundation

"The success of the approach ['Returnships'] will rely on managers changing their attitudes towards hiring older workers. Our research shows that just four out of 10 (41%) of managers are open to hiring people aged between 50 and 64 'to a large extent'. We need businesses to shake off this stigma and embrace the opportunity to bring in a new wealth of talent."

- Anthony Painter, Director of Policy & External Affairs, Chartered Management Institute