Implications of Budget ’09 on regeneration

Tony Travers
London School of Economics

Budget ’09 – bad numbers, badly received

- The Chancellor’s second attempt (after PBR ’08) to forecast growth, borrowing and debt
- Major cut in GDP growth forecasts
- Consequent rise in borrowing and accumulating government debt
- Strong sense that this was the very end of the line for the post-2000 public spending ‘splurge’

What the future holds…

- Continuing uncertainty
  - *Budget '09* GDP forecasts much criticised
  - 'V'; 'U' or 'L' shaped growth pattern?
  - Inflation: deflation or high inflation or both?
  - Possible further shocks to financial system
- Unpredictability for the public sector
  - CSR07 settlements only till 2010-11
    - Could 2010-11 funding be revised down after election?
  - Steve Bundred's 'Armageddon' article
  - SR09 likely to be delayed till 2010

An increasingly difficult future for the public sector

- Public funding settlements from 2011-12
  - Revenue funding for all services to increase at 0.7% pa in real terms – far below recent average
    - Zero (cash) grant increases for many councils?
    - NHS funding down to 2 or 3% cash per year
    - Schools only 1 or 2%?
  - Council tax capping to be tightened?
- Pressures to hold or cut public sector pay
- Pension costs
  - Challenge to public sector pensions

Budget (and recent) initiatives with implications for regeneration - 1

- Capital allowances for new investment increased to 40%, April ’09 for one year
- £750m ‘strategic investment fund’ to support advanced industrial projects
- Additional finance for SMEs
- NNDR
  - Spread of April ’09 increase over 3 years
  - Transitional relief end: 3-year spread

Budget (and recent) initiatives with implications for regeneration - 2

- Capital spending brought forward from 2010-11 to 2008-09 and 2009-10, eg
  - £775m for 'housing and regeneration' (mostly housing)
  - £700m for transport (mostly roads)
  - £800m for schools/£442 F&HE
  - Also PFI debt-finance unit created
- Sharp drop in 2010-11?
- Public sector capital spending to fall from 3.1% of GDP to 1¼% by 2013

Regeneration initiatives – some new

- Greater Manchester and Leeds city region ‘pilots’
  - Strategy-setting for skills and investment, to be agreed with government
- ‘Total Place’ – bring together all local expenditure within a locality
- Reading and Birmingham New Street station redevelopment; Thameslink
- ‘Assess possibility’ of using increased tax yield of development to fund its capital cost

Possible next steps

- Major move to outsourcing within LG to save money
- ‘Total Place’ joint provision by many local authorities and/or with other public service providers
- Major OEP-led demand for efficiency
- May be the only way to release significant resources to avoid cuts

‘Regeneration possibilities’

- Need for LG to take pre-emptive action to secure financial position
  - Councils have good financing position
- Possibility of using investments and reserves?
- New role in housing development for some councils – HCA as key funder
- Buy assets/land while cheap?

Conclusions

- The recession will follow an unknown path and may last several years
- The public finances are in a poor condition
  - Public borrowing; PE as % of GDP to 50%?
  - Likelihood of 10 years of constraint
- Regeneration will depend on public finance till 2010-11, then far more on private investment
- By 2012, privately-funded regeneration will be dominant again
- Need for flexible public sector management

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