West Midlands
Combined Authority

Briefing note – Summary of Spring Budget 2023

15 March 2023

Background

On 15 March 2023, the Chancellor of the Exchequer presented his Spring Budget to the House of Commons. The Budget sets out the Chancellor's view of the state of the national economy, as well as changes to government spending and taxation, alongside making a range of other policy announcements.

The following webpage contains the Budget Report and other useful supporting information: https://www.gov.uk/government/publications/spring-budget-2023

Devolution Deals

The Trailblazer Deeper Devolution Deals with the West Midlands Combined Authority (WMCA) and Greater Manchester Combined Authority (GMCA) were published on the gov.uk website after the Chancellor finished his speech:

WMCA deal:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1143002/West_Midlands_Combined_Authority_Trailblazer_deeper_devolution_deal.pdf

GMCA deal:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1143001/Greater_Manchester_Combined_Authority_Trailblazer_deeper_devolution_deal.pdf

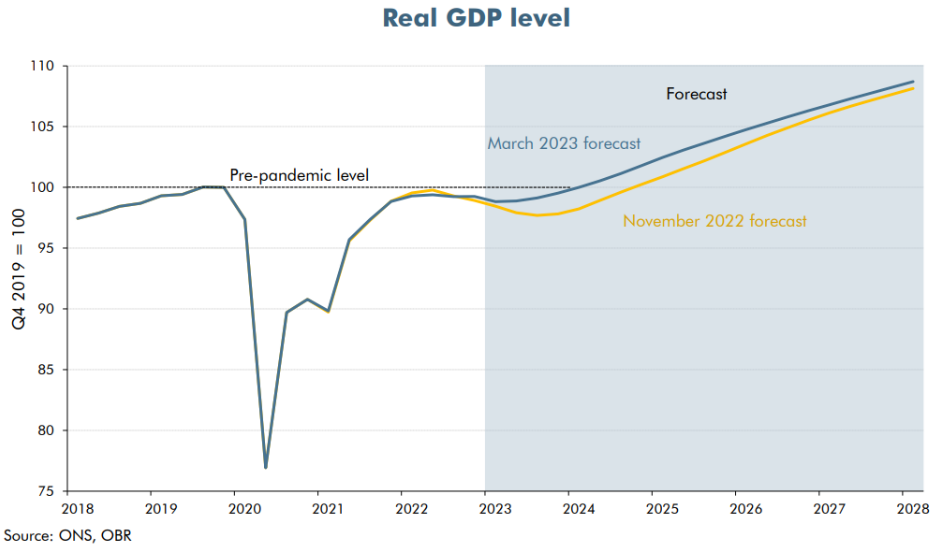
A summary of the WMCA Trailblazer Deeper Devolution Deal can be found here: devo-summary-doc-v62a8ca647685f3c098ba9b795cf662df684b9ca9fd4577929e7322d8343e9be66.pdf (wmca.org.uk)

Summary

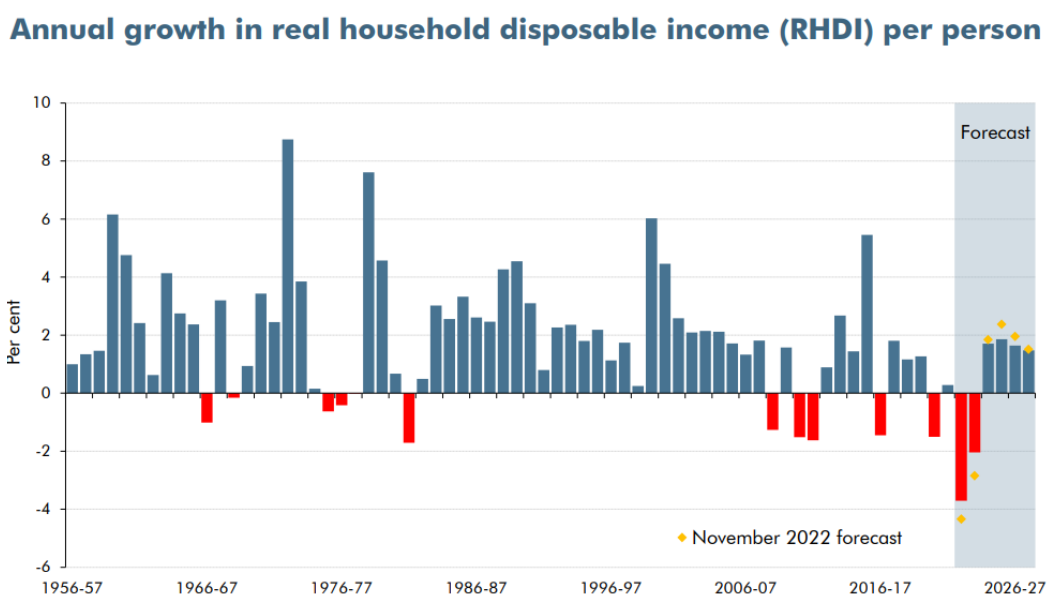
The below summarises the impact of the Budget announcement on key policy areas covered by the WMCA:

Economic Growth

- The Chancellor presented a slightly more positive macroeconomic outlook than in the Autumn Statement. No recession is currently forecast, with **economic output** projected to return to its pre-pandemic size in Q4 2023; three quarters sooner than previously thought.

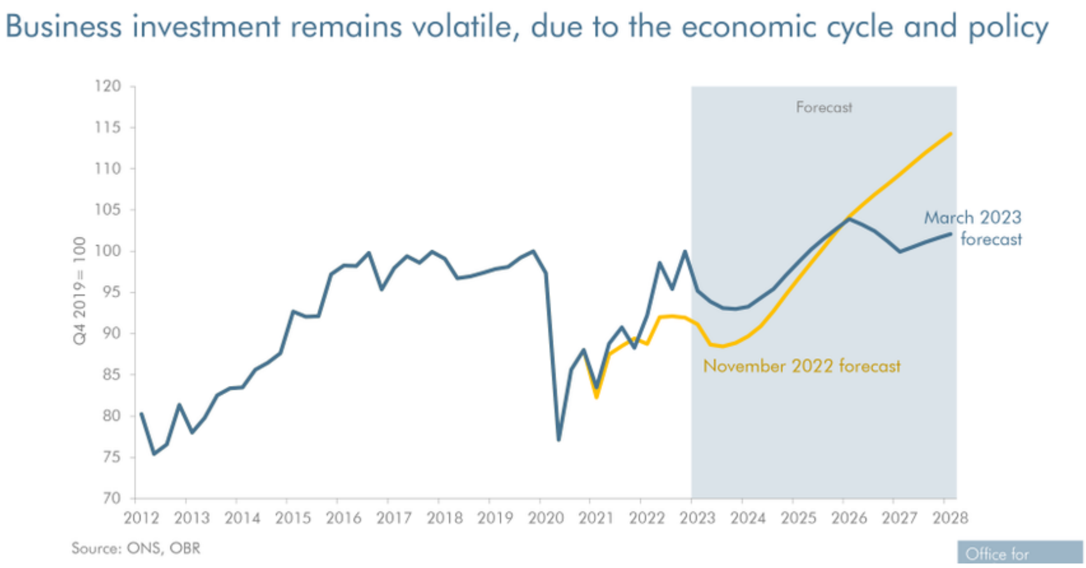


- The Office for Budget Responsibility (OBR) suggests **inflation** has peaked and is set to fall sharply during 2023. However, the next two quarters are set to see the largest falls in real household disposable income since records began in the 1950s: at -5.7% over the next two years. This is 1.4 points less than forecast in November and will be a drag on consumer and business confidence.

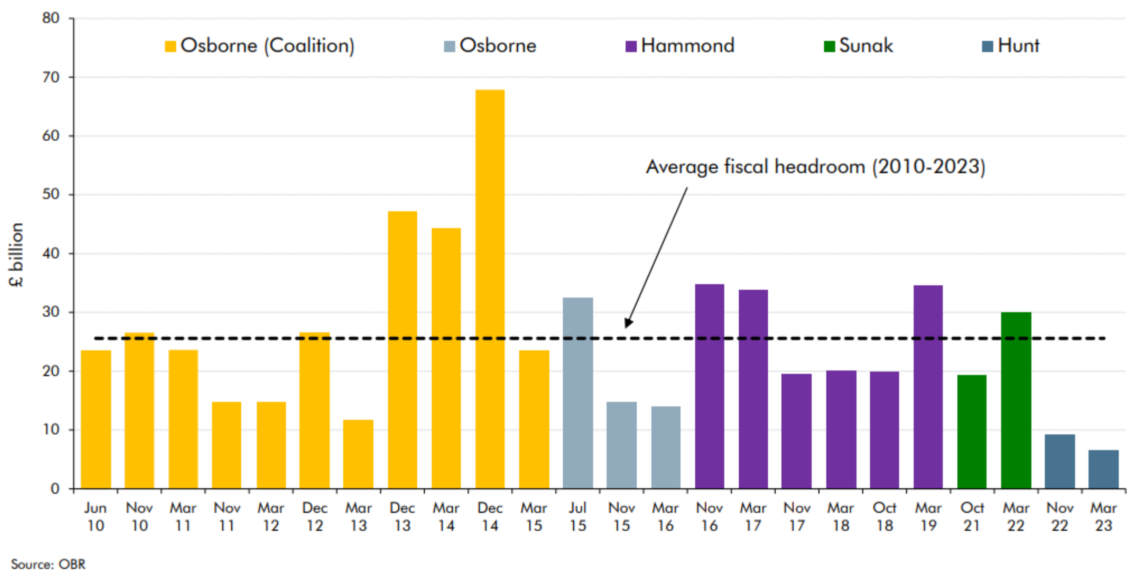


- On business tax and investment, the Chancellor confirmed the increase in Corporation Tax to 25%, but there was no change to the business rates regime. The super-deduction, which saw 130% of investment relief, ends on 31 March and will be followed by a "full expensing" policy for 3 years which allows businesses (particularly capital-intensive industries) to make tax-efficient investments if they have large corporation tax liabilities, meaning only around

1 in 10 firms are likely to pay the full 25% level. However, three years is relatively short-term for business investment and the overall outlook is “volatile” and likely to hamper aspirations of returning to consistent 2+% productivity growth.



- For the **public finances**, the Chancellor has historically low levels of fiscal headroom as a result of higher interest rates and indexed spending.



Transport

- We welcome the commitment to a second round of City Region Sustainable Transport Settlement (CRSTS) from 2027/28, worth £8.8bn over the next Spending Review period. This funding will support the continued development and delivery of transport programmes across the WMCA area.

- It is unclear whether WMCA will be able to bid for the additional £200m pothole repair funding as highway maintenance is allocated to constituent highway authorities via CRSTS.

Housing and Regeneration

- The Budget focussed primarily on new regeneration schemes, as opposed to housing.
- The Chancellor announced Levelling Up Fund Round 3 will proceed later in 2023 with a further £1 billion to level up places across the UK- Local Authorities and MCAs will be eligible to bid for this.
- Government will provide over £400m to roll out new Levelling Up Partnerships in 20 places in England which will provide investment for place-based regeneration. This will include Partnerships with Sandwell and Walsall.
- £200m was also announced for 16 regeneration projects in England. £20m was announced for Wolverhampton, £20m for Sandwell (the Chancellor specifically mentioned a project in Tipton town centre), and £9.8m was announced for Telford and Wrekin.

A note on terminology:

- **Investment Zones** are a government programme – refocused from the Truss administration – to catalysing a small number of high-potential clusters in areas in need of levelling up to boost productivity and growth. They will require a holistic approach and must be rooted in partnership between central government, local government, research institutions and the private sector. There will be 8 in England with one identified for the West Midlands. The location has not yet been agreed.
- **Levelling Up Zones** are a West Midlands concept which we persuaded government to include as part of our Devolution Deal. There will be up to 6 of these and they will be locally-designated but they will need to be negotiated with government in order to unlock their commitment to provide 25-years of Business Rates Retention for designated sites.
- **Levelling Up Partnerships** are a set of 20 places (lower tier local authorities) that have been identified by government who will receive a share of a £400m fund to drive economic growth and inward investment. Sandwell, Walsall and Stoke-on-Trent have been identified in the West Midlands area.

We will need to work closely together as a region to maximise the synergies between the places ultimately chosen for these different initiatives.

Energy and Environment

- The Chancellor's announcements focused on energy over environment, with initiatives more relevant to coastal areas than to the challenges faced in the West Midlands.
- Several tax relief measures were announced to assist with rising energy bills and address homeowner, business and community facility financial sustainability.
- The £2,500 energy price cap extension for a further year will support households in the region experiencing fuel poverty and the fact that pre-payment premiums will be brought to an end is very positive announcement for vulnerable customers.
- The Chancellor confirmed that UK domestic Heat Network customers on non-domestic heating contracts will receive a higher rate of relief, set at a level to ensure they do not face disproportionately higher energy bills than consumers under the Energy Price Guarantee (EPG). This is important business protection, particularly as the Government advocates heat network zoning going forward (WMCA has two trials in Birmingham and Coventry – which in 2025 will require businesses in heat network zones to connect).

Skills and Employment

- The Chancellor made a number of announcements aimed at increasing economic participation amongst groups such as those with additional support needs, care leavers, parents, over 55s. The Universal Support scheme could provide up to £4k per person for 50,000 places a year to help find work. Supported internships for care leavers is a positive development. We are looking at the figures to understand how many people this might support in the WMCA area and doing further work to understand which of these new schemes will fall under the new co-working arrangements set out in the Devolution Deal;
- The Chancellor made a number of announcements aimed at increasing labour market participation. This includes the expansion of Mid-Life MOTs and the introduction of Returnerships to support the over 50s to re-enter or stay in the labour market, an expansion of supported internships for care leavers, a learning and employment support offer for Ukrainians, and an extension to Train and Progress, DWPs programme to support people to train full-time while still remaining eligible for Universal Credit. We are working with DfE to understand the implications of this for the region, including how provision will be funded and delivered.
- Employment support measures also include a new voluntary Universal Support programme to help disabled people into work, a scrapping of the Work Capability Assessment to enable disabled people to return to work without threat of losing their benefits, and a £400k investment in mental health and musculoskeletal resources. Significant investment is also made in childcare and wrap around support for school aged children to help parents return to the labour market.

R&D and innovation

- The Chancellor announced public approval of the 3 Innovation Accelerators, including in the West Midlands as determined by the West Midlands Innovation Board.
- He also invited eight Mayoral Combined Authorities, including WMCA, to participate in the co-creation of Investment Zones to grow high-potential innovation clusters focused on either digital, life sciences, creative industries, advanced manufacturing or green technology. If successful in gaining this designation, Investment Zones will receive a funding envelope of £80m over five years, which can be used flexibly (see here for details: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1142995/Investment_Zone_Policy_Prospectus.pdf).
- On R&D tax credits, the Chancellor confirmed that from 1 April 2023, the rate of R&D Expenditure Credit (RDEC) would be increased from 13% to 20%, providing generous tax relief for large companies. For R&D intensive SMEs, the Government will introduce an increased rate of relief for loss-making R&D intensive SMEs. Eligible companies will receive £27 from HMRC for every £100 of R&D investment, with further sector-specific tax reliefs (e.g. for audio-visual firms) and regulatory reviews into creative industries and advanced manufacturing to stimulate innovation and growth.

Culture, Digital, Sport and Civil Society

- Funding support was announced across these areas that will likely be of benefit organisations in the West Midlands. We expect Government to announce further details of how these funds will be administered and what criteria will be applied to them in due course.
- A £63m Swimming Pool Support Fund was announced to support public swimming pools to carry out repairs, manage cost pressures and improve energy efficiency.
- A £100m fund was announced for charities and community organisations. It will be targeted at organisations at most financial risk due to increased demand from vulnerable groups for their services and from higher delivery costs. It will also support greater energy efficiency.
- Support measures for creative industries were also announced, with audiovisual tax reliefs being reformed into expenditure credits with a higher rate of relief, and the expenditure threshold for high-end TV remaining at £1 million per hour.
- Government will extend the temporary higher rates of theatre, orchestra, and museums and galleries tax reliefs for 2 further years from April 2023.
- The Chancellor also announced a commitment towards a project to accelerate new health and medical technologies, led by the University of Birmingham, which dovetails with the Deeper Devolution Deal measures around the West Midlands' secure health research system and sharing of health data.