Yorkshire Universities Briefing

Spring Budget 2023

Introduction

This report provides a briefing on the 2023 Spring Budget Statement. The briefing summarises the areas of the Budget that have the most direct impact on YU member institutions, and their involvement with place-based work in the region, with reference to: levelling up and devolution; enterprise and innovation; inflation support; and education and skills. Therefore, some large announcements, such as measures to boost employment, are not covered in detail.

Background and Overview

On 15 March, the Chancellor of the Exchequer, Jeremy Hunt MP, delivered the Spring Budget to the House of Commons.[1] The Government wants the Budget to deliver on the priorities set out by the Prime Minister to halve inflation, grow the economy, and get debt falling. Hunt presented his approach as a four-pillar 'Industrial Strategy' covering: enterprise, employment, education and everywhere.

One of the major focuses of the Budget was the announcement of significant measures to boost employment among working parents, those with health conditions, and older workers.

There was very little in the Budget to address public sector pay, transport, social care, housing, or climate. On public services, Resolution Foundation analysis suggests that overall plans for departmental spending would see unprotected Government departments' budgets facing 10% cuts to real day-to-day spending per capita by 2027-28.[2] This rises to 14% spending cuts if the newly-announced aspiration for Defence spending to rise to 2.5% of GDP is met over the next parliament.[3] There were no announcements on public sector pay, and the IFS have suggested that it is very likely that additional money will have to be made available for this, as it is not possible to keep public sector pay reducing in real terms, and relative to the private sector, "without consequences for recruitment, retention, service delivery, morale and strikes."[4]

Headline figures

- **Inflation** is expected to reduce from 10.7% in Q4 2022 to 2.9% by the end of 2023.
- The OBR expect a contraction in **GDP** of 0.2% in 2023, avoiding a technical recession. Growth is forecast at 1.8% in 2024; 2.5% in 2025; 2.1% in 2026; and 1.9% in 2027.
- **Unemployment** is expected to rise by 1% to 4.4%, but this is less than the Autumn 2022 forecast.

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[1] Hunt, J. 2023. Spring Budget 2023 speech. HM Treasury.
[2] Bell, T., Brewer, M., Broome, M., Cominetti, N., Corlett, A., Fry, E., Hale, S., Handscomb, K., McCurdy, C., Murphy, L., Odamtten, F., Pacitti, C., Pittaway, S., Shah, K., Smith, J., Thwaites, G,. & Try, L. 2023. We're going on a growth Hunt. Resolution Foundation.
[3] Bell, T. et al. 2023. We're going on a growth Hunt. Resolution Foundation.
[4] Paul Johnson. 2023. Spring Budget 2023: IFS analysis. IFS.

- The Government confirmed that overall **departmental spending** will increase by 1% in real terms, and capital budgets will stay at the level set at the 2022 Autumn Statement.

Levelling up and Devolution

Hunt framed the announcements around Levelling Up and Devolution under the 'everywhere' pillar. This included information on: 12 Investment Zones; 20 Levelling Up Partnerships; 16 regeneration projects; and Trailblazer Devolution Deals for the Greater Manchester and West Midlands Mayoral Combined Authorities.

Investment Zones

South Yorkshire Mayoral Combined Authority and the West Yorkshire Combined Authority were announced as places to host 'refocused' Investment Zones, which will be able to attract up to £80m of public support. Each cluster will drive the growth of at least one of five key future sectors - green industries, digital technologies, life sciences, creative industries and advanced manufacturing. Key aims of the Investment Zones, include bringing investment into areas which have underperformed economically; boosting UK competitiveness in high-potential industries; and using innovation to drive long-term productivity and prosperity. The Government has set out further details in the Investment Zone Prospectus.

Benefits: Local government and research institutions will be able to tailor their Investment Zone plan to local circumstances across a maximum of 3 sites totalling 600 hectares. The £80m of support can be used flexibly between spending and a single five-year tax offer consisting of:

- £35m flexible spend, split 40:60 between resource and capital spending, to use across a portfolio of interventions. Funding can be used for:
  - Research and Innovation, e.g., grants for projects.
  - Skills, e.g., Skills Bootcamps, stimulating demand for apprenticeships.
  - Local Infrastructure.
  - Local Enterprise and Business Support, e.g., sector-specific tailored support for start-ups and SMEs that leverages local research strengths and facilities.
  - Planning and Development.
- Tax incentives, which can cover up to 600ha across up to 3 sites, lasting for 5 years. Where places do not opt for the maximum tax offer of 600ha, tax incentives can be exchanged for a greater amount of spend.

Additional benefits include 100% retention of the business rates growth in specific designated sites, above an agreed baseline for 25 years, and access to support and guidance from Government on core policies such as export support, planning and infrastructure.

Process: Plans will be developed collaboratively by Mayoral Combined Authorities (MCAs) – working in partnership with local universities, councils and businesses – and Government (DLUHC and HM Treasury). Government will first aim to agree the priority sector and cluster within each of the chosen Investment Zones, followed by a structured conversation to agree outcomes. There is an ambition for the Government to **agree the**

first proposals by summer and the **rest by the end of the year** ahead of **funding starting from April 2024**.

Role of universities: The Prospectus emphasises the expectation of strong collaboration between industry and research institutions. Participating universities will be expected to "adopt best in class standards to increase the volume of innovative R&D and adoption", including supporting local talent, knowledge networks, commercialisation, scaleups, adoption of innovations and spinouts. The main expectation is that this will **involve partnerships with research institutions in the same functional economic area**. However, it is also specified that there is potential for **additional collaborations over a longer distance**. At a minimum, a relevant local research institution should co-sign the final proposal. Wider stakeholder engagement is encouraged, and it is specified that this should include representatives of **local research institutions and education and skills providers.** Although the Government's proposals are heavily focused on harnessing research strengths, the involvement of education and skills providers opens up opportunities to include a broader network of HEIs with varying levels of research focus.

Location: The Government have specified that the shortlist of locations "will be kept under review with a view to adding other places to it where they have clear potential to host an Investment Zone in one of the five priority sectors, subject to the overall fiscal envelope of the programme". DLUHC has also published the selection methodology for England. The criteria aims to identify areas with significant unmet productivity potential where existing research strengths in priority sectors could be leveraged to increase opportunities for local communities. Commentary has often pointed out the potential risk of displacement effects.[5]

Trailblazer Devolution Deals

New Devolution Deals have been agreed with the Greater Manchester and West Midlands Combined Authorities, which will give both city-regions greater control over local transport, skills, employment, housing, innovation and net zero priorities, as well as single funding settlements at the next Spending Review. This is seen as a positive step forward for devolution, which could be extended to other MCAs, such as **West Yorkshire and South Yorkshire**. It has been reported that **SYMCA and WYCA** are set to start talks for new advanced Devolution Deals later this year.[6] The Government will also negotiate a new wave of Deals across England, which it hopes will include Hull and East Yorkshire.

Following reports about increased scrutiny of devolved leaders, that would come with increased powers, the Government has published an English Devolution Accountability Framework and is due to publish a 'Scrutiny Protocol' in summer 2023.[7]

Local Enterprise Partnerships (LEPs)

The responsibilities of LEPs will be transferred to local government, which is likely to be Combined Authorities or County Councils, where applicable. The integration of LEPs into MCAs was already underway, but this clarifies the future of LEPs in other areas of

[5] Adam, S., Cribb, J., Delestre, I., Emmerson, C., Farquharson, C., Johnson, P., Joyce, R., Levell, P., Miller, H., Phillips, D., Stockton, I., Waters, T., & Zaranko, B. 2023.Spring Budget 2023 response. IFS.
[6] Boycott-Owen, M. 2023. Yorkshire mayors to begin new devolution talks this year. Yorkshire Post.
[7] DLUHC. 2023. English Devolution Accountability Framework.

England. There will be consultation on the proposals, and the Government will publish an updated policy position to confirm next steps by the summer.

Levelling Up Partnerships

Levelling Up Partnerships will provide over £400 million of investment in 20 areas across England, including **Hull, Wakefield and Doncaster**. This investment will be made over 2023 and 2024-25, on a case-by-case basis, to address the biggest barriers to levelling up as identified through collaboration between the Government, local leaders and broader stakeholders.

Regeneration

Sixteen regeneration projects will receive over £200 million of Government funding, including **£5.6 million in Kirklees, £20 million in Rotherham** and **£20 million in North East Lincolnshire.** IPPR North Director Zoë Billingham suggests that the Chancellor's adoption of Canary Wharf as a model for this mode of regeneration is peculiar because Tower Hamlets, where Canary Wharf is based, has the highest rate of child poverty in the UK. The transformation of London Docklands was also predicated on significant, long-term public transport and infrastructure investment – something that has thus far been largely absent in the north of England.[8]

The Chancellor also confirmed **that a third round of Levelling Up Funding** would commence in 2023, worth £1billion. New projects under the **Community Ownership Fund** Round 2 Window 2 were also confirmed on the day of the Budget.[9]

Over £100 million of **support was announced for local charities and community organisations.** WonkHE suggests that "it's not beyond the realm of possibility that SUs or even universities might be able to apply to pass on some help, although detail isn't known yet."[10]

Enterprise and Innovation

The Government announced **'full expensing',** which will allow companies to write off the full cost of qualifying plant and machinery investment for 3 years, from 1 April 2023. This is expected to boost business investment in the short term, but OBR analysis suggests this could just bring investment forward without producing overall improvements in the long run due to the temporary nature of the measure.[11] The announcement of another short-term policy does not address the need for a long-term strategy and clarity on corporation tax, which would support business confidence to invest.[12] The IFS has pointed out that, as the first £1m can already be expensed, this change will only be the largest companies that can reach over this threshold, meaning this will not benefit SMEs. The IFS has also argued that this approach will provide a big subsidy and incentive for debt-financed investment.[13]

[8] Billingham, Z. 2023. IPPR North responds to the Budget. IPPR
[9] DLUHC, 2023. Community Ownership Fund: successful bidders.
[10] WonkHE. 2023. What's in the 2023 spring budget for higher education?
[11] OBR. 2023. Economic and fiscal outlook March 2023. P. 21.
[12] Paul Johnson. 2023. Spring Budget 2023: IFS analysis. IFS.
[13] Paul Johnson. 2023. Spring Budget 2023: IFS analysis. IFS.

The Government announced it will make up to £20 billion available for **Carbon Capture, Utilisation and Storage (CCUS)**, and plans to extend the Climate Change Agreement scheme for a further two years to encourage energy efficiency. This could generate specific benefits for **Yorkshire and the Humber where there is considerable potential for the development of CCUS on the Humber**. The Government also announced a renewed focus on nuclear including small modular reactors, which some **universities in Yorkshire** have world-leading expertise in.

The Government partially reversed the reduction in **R&D tax credits** by making provision for an enhanced credit for firms spending over 40% on R&D to be able to receive 27% relief. There is further relief for some firms in Life sciences and creative industries of 34% - 39%.

The Government outlined an ambition for competitive deregulation of growth sectors. From 2024, there will be automatic sign off for medicines and medical technologies already approved in the US, Canada and EU to develop faster market access.

On **digital technologies**, the Government also provided confirmation that it has accepted all 9 of the recommendations in the Pro-innovation Review of Technologies (Vallance Review). A National Quantum Strategy is designed to direct £2.5 billion of investments into Quantum over ten years. The Government will invest around £900 million to build an exascale supercomputer and to establish a new AI Research Resource, with initial investments starting this year. The Government will award a £1m 'Manchester Prize' every year for the next ten years to researchers that drive progress in critical areas of AI.

The Government also announced a plan to bring forward a Long-term Investment in Technology and Science (LIFTS) scheme pensions investment scheme, detail will be announced at the Autumn Statement. The **British Patient Capital** programme has been extended for another ten years to 2033-34 and increased its focus on R&D intensive industries. This is expected to bring at least £3 billion Government investment across key industries and crowd in private capital.

Support for Inflation and Cost of Living

While the projections for inflation are not as dire as in autumn last year, prices will continue to rise, just not as rapidly, and the cumulative impact on living costs and standards remains severe. The OBR notes that, even with the improvements to the forecast, real household disposable income (RHDI) per person is expected to fall by a cumulative 5.7% over the two financial years 2022-23 and 2023-24, which would be the largest two-year fall since records began in 1956-57. The freezing of income tax and NICs allowances and thresholds will cost most basic-rate taxpayers £500 next year and higher-rate payers £1000.[14]

There was no direct support for students announced in the Budget. Students will continue to struggle to absorb rising costs, as maintenance loans are rising at a much lower rate than inflation, and many have lost out on their loan entitlement due to the parental earnings threshold to receive the full loan being frozen at £25,000 since 2008. If the parental earnings threshold had risen in line with average earnings, it would be around £34,000 now and

[14] Adam, S. et al. 2023.Spring Budget 2023 response. IFS.

double the number of students would be eligible for the full loan.[15] However, students who pay bills directly will be able to benefit from continued energy support.

The Energy Price Guarantee (EPG) will be maintained at £2,500 for a further three months from April 2023, until June 2023. The Government will also align charges for comparable direct debit and Pre-Payment Meter (PPMs) customers, ensuring that those on PPMs no longer pay a premium for their energy costs and saving them an average of £45 a year. However, energy costs will remain an issue for households with the ECIU reporting that even with the energy price guarantee being maintained average energy bills could still rise by £285 in the year from April 2023 compared to the previous financial year.[16] The ECIU also highlights that households are paying hundreds of pounds a year more than needed due to slow progress on improving energy efficiency.[17] These energy measures are particularly important for residents in **Yorkshire and the Humber** as the region has the lowest proportion of dwellings in the top three rating levels for energy efficiency (EPC Band C or above) of all English regions.[18] Fuel duty will also be maintained at current levels for the next 12 months, including keeping the 5p cut in place.

The increase in Draught Relief may provide some help Student Union bars facing inflationary pressures.

Education and Skills

There was limited focus on Education and Skills in the Budget, with the main new policy announced being the introduction of 'Returnerships' targeted at the over-50s, bringing together existing skills programmes supported by £63 million of additional funding. No further details were provided on the Lifelong Loan Entitlement. An update on the Government's response to the public consultation on the Lifelong Loan Entitlement (LLE) is available in another briefing on the YU website.

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[15] IFS. 2022. Government uses high inflation as cover for hitting students, graduates and universities.
[16] ECIU. 2023. April Fools: Household bills will rise even if price freeze stays fixed.
[17] ECIU. 2023. April Fools: Household bills will rise even if price freeze stays fixed.
[18] ONS. 2022. Energy efficiency of Housing, England and Wales, country and region. Table 1f