Autumn budget 2017

Briefing for North East LEP board

Background

The Chancellor of the Exchequer, Philip Hammond MP, presented his budget to the House of Commons on 22 November 2017. This briefing aims to summarise the key economic data and proposals.

Alongside, the Government has indicated that it will publish the expected Industrial Strategy White Paper on Monday 27 November.

Positioning

The Budget was positioned as ***preparing the UK economy for the future***, building on existing strengths and preparing for a new relationship with EU by "*supporting families and business in the near term; setting a path to a prosperous, more open Britain; and building an economy that is fit for the future.*"

Economic context

As part of the Budget process, the Office for Budget Responsibility (OBR) has published its *Economic and fiscal outlook*. This forecasts that UK GDP will grow by 1.5% in 2017, 1.4% in 2018, 1.3% in 2019, 1.3% in 2020, 1.5% in 2021 and 1.6% in 2022. These forecasts are lower than those projected by the OBR in March 2017 – suggesting that there is a ***slowing in GDP growth compared to what was expected***. In terms of the components of GDP, there has been a particular slowing of expectations in relation to business investment.

More positively, the OBR forecasts that employment will continue to increase year-on-year to 2022. The employment forecasts are higher than in March 2017. Whilst the forecasts for the unemployment rate are also more positive than in March 2017 (with, for example, unemployment forecast to be 4.3% in 2018 compared to 4.9% in previous forecast), it is worth noting that the forecasts expect unemployment to increase between 2018 and 2020.

Outlook for public finances

Borrowing is forecasting to be £8.4 billion lower in 2017/18 than previously forecast, reflecting both higher receipts and lower spending.

However, borrowing will be £12.2 billion higher by 2020/21 due to receipts being £13 billion lower (due to the weaker economic outlook outlined above) and public spending being £0.7 billion higher.

The government has allocated an additional £3 billion to ensure the Government can prepare effectively for EU exit.

Building an economy fit for the future

A key focus of the Budget was on generating opportunities for the next generation – with boosting productivity seen as central to creating better paid, highly skilled jobs and raising wages and living standards.

One of the key actions outlined was to increase the previously announced National Productivity Investment Fund (NPIF) from £23 billion to £31 billion. Within this, there are plans to:

- Invest an additional £2.3 billion in R&D.
- Establish a £1.7 billion Transforming Cities Fund to improve local transport connections. 50% will be allocated to the 6 combined authorities with Elected Mayors, with other 50% allocated through a competitive process.
- Commit £385 million to projects to develop next generation 5G mobile and full-fibre broadband networks.
- Fund specific improvements in the Tyne and Wear Metro and rail/road connections in Cambridge-Milton Keynes-Oxford corridor.

Other actions include:

- Establishing a new partnership with employers and trade unions to deliver a National Retraining Scheme to help people to adapt to changing world of work. In the first instance, this will focus on construction and digital skills.
- Providing £8.5 million over next 2 years to Union Learn.
- Undertaking a range of activities in education including supporting the development of mathematics skills, ensuring every secondary school has a qualified computer science GCSE teacher and investing £20 million to help prepare for introduction of T levels.
- Stimulating investment into high growth, innovative businesses – with aim to attract £20 billion additional investment. This includes the establishment of a new £2.5 billion Investment Fund to co-invest (bringing forward total investment of £7.5 billion), doubling the allowance for investment in knowledge-intensive companies through the Enterprise Investment Scheme (EIS), investing in a series of 'funds of funds of scale', backing new and emerging fund managers through the Enterprise Capital Fund and backing overseas investment through DIT.
- Extending the British Business Bank's Enterprise Finance Guarantee.
- Introducing a new guarantee to improve exporters' access to capital.
- Introducing new regulatory frameworks to stimulate the adoption of Artificial Intelligence (AI) and driveless cars and attract companies working in these areas.
- Support the roll-out of charging infrastructure for ultra-low emissions vehicles.
- Increasing the R&D expenditure credit from 11% to 12%.

Building the homes our country needs

There was also a strong focus on addressing challenges in the operation of the housing market and to "*restore the dream of home ownership for a new generation*" with ambition to build 300,000 houses per annum by end of Parliament. Key actions include:

- Making available £15.3 billion of new financial support for housing over the next five years, bringing total support for housing to at least £44 billion over this period.
- Introducing planning reforms that will ensure more land is available for housing and that better use is made of underused land in cities and towns. This includes consulting on deallocating sites from plans where there is no prospect of a planning application being made, considering intervention in 15 areas where there has a failure to progress Local Plans consulting on introducing an expectation that local authorities will grant permission outside their Plan for first-time buyer led developments, increasing housing density in urban areas, strengthening the Housing Delivery Test, expecting local authorities to bring forward 20% of their housing supply as small sites, reviewing build out and developing a central register of residential planning permissions.
- Providing £204 million of funding for innovation and skills in the construction industry.
- Exempting first time buyers from stamp duty for properties up to £300,000, with purchasers benefiting on homes up to £500,000.
- Actions to tackle homelessness and support rents (including consultation on longer, more secure tenancies).

Supporting people, businesses and the NHS

This section had two main elements – supporting the NHS and supporting individuals given the challenges caused by rising prices (by boosting wages, reducing costs of living and supporting businesses). Key actions include:

- Committing an additional £6.3 billion of funding for the NHS in England – plus additional funding for pay awards that are agreed as part of the Agenda for Change contract.
- Adopting a series of amendments that will reduce the waiting time to receive Universal Credit for claimants and a commitment to rolling out Universal Credit more gradually that previously planned.
- Increasing the basic State Pension by 3% under the triple lock with the Standard Minimum Guarantee in Pension Credit and full new State Pension also increased by triple lock.
- Increasing the National Minimum Wage for all age groups.
- Increasing the income tax personal allowance to £11,850 and the higher rate threshold to £46,350.
- Freezing fuel duty for 2018/19 and duty rates on beer, cider, wine and spirits.

- Providing £2.3 billion of support to businesses to reduce the burden of business rates, including bringing forward to 1 April 2018 the planned switch in indexation from RPI to CPI and legislating retrospectively to address the 'staircase tax'. Local government will be fully compensated for the loss of income resulting from these measures.
- Improving public sector productivity including through piloting a new Public Value Framework, creating GovTech Catalyst to help businesses address public sector challenges, committing £20 million to GovTech Fund for public bodies to procure innovative products, launching a review of Balance Sheets to make better use of assets and reduce cost of liabilities, building capacity in workforce planning, establishing a Public Service Leadership academy and reviewing public sector pay through the Pay Review Body.

North East specific announcements

- "***North of Tyne devolution deal** – The government has agreed a 'minded to' devolution deal with the North of Tyne authorities, which will be subject to the consent of local partners. This will see £600 million of investment in the region over 30 years and create a new mayor elected in 2019 with powers over important economic levers including planning and skills.*"

- "***Tyne & Wear Metro** – The government will invest £337 million from the NPIF to replace the Tyne & Wear Metro's nearly 40-year-old rolling stock with modern energy-effcient trains. The new feet will cut running costs while boosting performance and reliability for the 38 million passengers that use the system annually.*" *There will be funding of* £25 million in 2019/20, £35 million in 2020/21 and £265 million in 2021/22.

- "***Tech Nation** – To secure the UK's world-leading position in digital innovation, the government will invest £21 million over the next 4 years to expand Tech City UK's reach – to become 'Tech Nation' – and support regional tech companies and start-ups to fulfil their potential. Tech Nation will roll out a dedicated sector programme for leading UK tech specialisms, including AI and FinTech. Regional hubs will be located in: Cambridge, Bristol and Bath, Manchester, Newcastle, Leeds and Sheffield, Reading, Birmingham, Edinburgh and Glasgow, Belfast, and Cardiff.*"

- "***Intervention where there is a failure to progress Local Plans** – DCLG has begun the formal process of considering intervention in 15 areas where the local authority has failed to put an up-to-date plan in place. The government will shortly activate powers that will enable it to direct local planning authorities to produce joint statutory plans and undertake an assessment of where they should be used.*" The 15 areas include Northumberland (https://www.gov.uk/government/news/more-homes-delivered-as-government-outlines-housing-vision).

Impact of announcements

The Budget represents an increase in spending and a reduction in tax revenues in each year except 2020/21 – i.e. there will be a loosening of fiscal policy.

The OBR estimates that the measures outlined in the Budget will result in an increase of GDP growth of 0.1 percentage points in 2018 and 2019 – and a decrease in GDP growth of 0.1 percentage points in 2020 and 2021. These are incorporated in the forecasts outlined above.