

Member briefing: Budget 8 March 2017

Introduction

On 8 March 2017 Chancellor Philip Hammond presented his first [Spring Budget](#) (also his last, as future Budgets will be presented in the autumn to allow for scrutiny and planning before changes take effect in the next financial year, supported by a shorter statement in spring). He said the Budget focused on preparing Britain for a global future post-Brexit, equipping young people with the skills they need, supporting public services, and helping ordinary working families in an economy that works for everyone. Whilst he highlighted positive economic signs, he also reiterated concerns about Britain's relatively low economic productivity performance.

Headline messages for South East councils

- The Budget contains no specific announcements on infrastructure or other specific local funding powers/freedoms/devolution opportunities in the South East; while the Chancellor emphasised the importance of all areas' economic success, his focus on specific actions to drive up performance of other parts of the country could disappoint South East ambitions for strategic investments that can offer the Treasury very high levels of return.
- SEEC and SESL have called on Government for fuller recognition of the need to tackle the South East's infrastructure deficit (estimated at £15.4bn over the next 15 years), which in turn would also support economic success nationally given the South East's high return on public investment – contributing £80bn more to the Treasury than it received in public spending during 2002 to 2012: the largest net contribution of all UK regions/devolved nations, and income which helps the Treasury invest in other areas.
- Proposals for Business Rate changes could have implications for Business Rate collection by South East local authorities (£3.5bn in 2015-16).
- Care funding announcements are important given the South East has the UK's largest older population with over-75s nearly doubling to 1.5m by 2039 and a major challenge funding the services needed. However LGA figures indicate Budget announcements will not be sufficient to fill the care funding gap, estimated at £2.6bn nationally by 2020.

Economic forecasts and funding

Office of Budget Responsibility (OBR) figures update forecasts for key economic factors. Whilst GDP (economic) forecasts for 2021 are broadly the same as at Autumn Statement 2016, recent strength in the economy is reflected in short-term growth increases:

- **UK GDP** grew by 1.8% last year. This year's forecast is 2% (revised from 1.4%), slowing to 1.6% in 2018, then rising back to 2.1% by 2021.
- **Debt as a share of GDP** is forecast at 86.6% this year, peaking at 88.8% in 2017-18, and falling to 79.8% by 2021-22.
- The **deficit** is forecast to have been cut by almost three-quarters from its peak of 9.9% of GDP in 2009-10 to 2.6% in 2016-17, and is forecast to fall to 0.7% of GDP by 2021-22.
- **Borrowing** is forecast at £51.7bn in 2016-17 (£16.4bn lower than forecast in the autumn) and forecast at £58.3bn in 2017-18, falling to £16.8bn in 2021-22.
- **Unemployment** claimants nationally are at the lowest level for 11 years. The **South East** had 59,785 claimants in November 2016, higher than the North East, East, East Midlands and South West.
- **Inflation** – OBR estimate 2.4% this year, then 2.3% in 2018 and 2% in 2019.
- In 2010 **public spending** was 45% of GDP. It is now 39.3% and forecast to drop to 37.9% by 2021-22.
- Raising **productivity** growth remains the central long-term economic challenge facing the UK. Growth forecasts are 1.6% in 2017, 1.5% in 2018, gradually rising to 1.9% in 2021.

Business rates and corporate taxation

The Chancellor acknowledged concerns from some in the business community over the possible effects of proposed business rates revaluation, but made clear that the £25bn per year raised nationally – all of which by 2020 he emphasised will be going to fund local government – meant business rates could not be abolished. He announced a £450m package of business rate reliefs and said better ways of taxing the digital part of the economy are needed. Budget documents say local government will be fully compensated for the loss of income as a result of business rate reliefs. *In 2015-16 South East local authorities collected £3.5bn in business rates.* Specific Budget proposals include:

- Reiteration of Budget 2016 proposals to deliver more frequent **revaluations** of properties, at least every 3 years; Government will set out its preferred approach at Autumn Budget 2017 and will consult ahead of next revaluation in 2022.
- **Business rate rises are capped** at £50 a month for those leaving small business rate relief.
- A **£300m discretionary relief fund** will help local authorities to tackle issues in their areas - this fund will be allocated to local authorities by formula, and details will be set out in due course.

- The 90% of pubs that fall below a rateable value of £100,000 will get a **£1,000 discount on business rates**.
- From April this year, the **corporation tax main rate will be cut to 19%** – the lowest rate in the G20 – and will fall to 17% by 2020.

Infrastructure & economic growth

The Budget announced no South East specific infrastructure commitments, although reference is made to progressing findings from the study into south-west M25 congestion. *SEEC-SESL research shows a South East infrastructure funding gap estimated to be £15.4bn over the next 15 years, which must be tackled to support the South East's ongoing success for UK plc.* Budget announcements include:

- Confirmation of **£23bn National Productivity Investment Fund** for 2017-2022 (announced in Autumn Statement), including:
 - Support market roll-out of the fast and reliable **full-fibre broadband connections** – including £16m for a new 5G mobile technology hub; and £200m for local projects to leverage private sector investment in full-fibre broadband networks.
 - Tackle congestion and ensure the UK's **transport networks** are fit for the future – including £690m competition for local authorities to tackle urban congestion and get local transport networks moving (further details to be announced); and £90m transport funding for the North and £23m for the Midlands from a £220m fund to address pinch-points on the national road network.
 - Enhance the UK's position at the forefront of **technological progress** globally - including £270m Industrial Strategy Challenge Fund to keep the UK at the forefront of disruptive technologies like biotech, robotic systems and driverless vehicles.
 - Accelerate new **housing** supply – although there were no specific Budget announcements on this key issue.
- The Government has completed a strategic study on relieving congestion in the **south-west sections of the M25** and will develop options ahead of the next Road Investment Strategy.

Devolution

The Budget announced no South East devolution deals, but made announcements about London and elsewhere:

- Government has agreed a Memorandum of Understanding on **further devolution to London** with the Greater London Authority (GLA) and London Councils. This includes exploring scope for locally-delivered criminal justice services; action to tackle congestion; piloting a new approach to funding infrastructure; options for devolving greater powers and flexibilities over administration of business rates; options for greater local influence over careers services and employment support services. A 2nd Memorandum of Understanding will be agreed on Health and Social Care. *SEEC and SESL have also called for new approaches in the South East to support infrastructure funding, including localisation of business rates and retention of stamp duty.*
- The Government is also in discussions with **Greater Manchester** on future transport funding.
- Following launch of the **Northern Powerhouse Strategy last Autumn Statement, the Midlands' Engine Strategy** will soon be published addressing productivity barriers.
- Reiteration of Government's support for **elected mayors**, with 6 to be elected in May outside the South East.

Education & skills

Detailed Budget documents highlight a number of forthcoming changes to education and skills provision. *Ensuring sufficient school places is a key issue for the South East, where pupil numbers are expected to continue to rise from over 1.1m pupils in 2014/15, to nearly 1.3m by 2019/20 – almost 115,000 extra pupils. Population projections in the South East also indicate demand for places will continue to rise longer term, with 5-18s expected to increase by nearly 180,000 to almost 1.7m between 2016 and 2039.* Budget announcements include:

- **Free school transport** to be extended to all pupils on free school meals to their nearest selective school.
- Funding for an extra **110 new free schools nationally**, including specialist schools; and an extra £216m for **school maintenance**.
- **New T-Level qualifications** for 16-19 year olds to be introduced, increasing the amount of time students spend receiving technical training by 50% with over £500m per year funding. *The South East faces key skills gaps which this may help tackle eg. SEEC contributed to a 2014 London Chamber of Commerce and Industry report that identified a need for 20% more construction workers across London and the South East by 2017.*
- From 2019-20 technical students will have access to **maintenance loans** like traditional university students.
- £300m to further **develop the UK's research talent**, including through creating an additional 1,000 PhD places.
- **Maintenance loans** for part- time undergraduate and doctoral students in any subject.
- New £5m fund for **supporting retraining/upskilling for people returning to work**.
- A new £5m fund for **projects to celebrate the centenary of voting rights being extended to women** to educate young people about its significance.

Health & care

The Chancellor announced additional funding and action around health and social care, including:

- **Additional £2bn to councils in England over the next 3 years** to spend on adult social care services. £1 billion of this will be provided in 2017-18. *The South East has the UK's largest older population with over-75s nearly*

doubling from 805,000 to 1.5m by 2039 (2nd highest is North West, rising from 601,000 to 1m over this period), putting pressure on care budgets. LGA figures indicate Budget announcements will not be sufficient to fill the care funding gap, estimated at £2.6bn nationally by 2020.

- A **Green Paper** will be published later this year setting out Government thinking on the future funding and sustainability of social care.
- New **£325m fund for the first round of Sustainability and Transformation Plans** to support local proposals for delivering improvements.
- Measures to identify and support authorities which are struggling with **delayed discharges from hospitals** due to a lack of social care support, and to ensure more joined up working with the NHS.
- An extra £100 million to the NHS in England in 2017-18 for **capital investment in A&E departments** and setting up triage projects.
- Government commitment to maintaining the **£1bn allocation to schools for health education** from expected revenue of the Soft Drinks Industry Levy despite a reduction in revenue.

Personal taxes and other initiatives

The Chancellor said that £140bn has been raised since 2010 by tackling tax avoidance, evasion and non-compliance and the top 1% of earners now pay 29% of all income tax. He announced a number of measures designed to ensure fairness between individuals by bringing the tax treatment of the self employed and those working through companies into line with employees, including:

- From April the **personal tax-free allowance** will rise by £500 to £11,500 alongside a £2,000 increase to the higher rate threshold.
- From April 2018, the Government will raise **Class 4 NIC contributions** for self employed people from 9% to 11%. Alongside the previously announced abolition of Class 2 NICs, this will mean that only self employed individuals with profits above £16,250 will have to pay increased NIC contributions, but at the new higher rate. *The South East has 717,400 self employed residents.*
- The **tax free dividend allowance** for shareholder-directors will fall from £5,000 to £2,000 from April 2018.
- Increases in **duties** on alcohol (in line with RPI) and tobacco (RPI + 2%) will go ahead as planned and the Chancellor introduced a new 'minimum excise tax' on cigarettes of £5.37 for a pack of 20.
- A new **NS&I bond** will be available from April and will pay 2.2% on deposits up to £3,000.
- The Government will introduce the **Lifetime ISA** on 6 April this year, which allows younger adults to save up to £4,000 per year and receive a bonus of up to £1,000 a year on contributions.
- **Tax free childcare policy** launches in April; and from September, parents will be eligible for 30 hours a week of free childcare. Government will spend £6bn a year on childcare by 2020.
- Building on the Tampon tax – revenues from which are already used to support women's charities – the Government will provide an additional £20m over this Parliament to **tackle domestic violence and abuse**.
- Green Paper to be published later in 2017 outlining **greater protection for consumers**, including simplifying terms and conditions.