

Member briefing: Budget 29 October 2018

Introduction

On 29 October 2018 Chancellor Philip Hammond presented his third Budget. The announcement focused on measures to help hard working families and ensure the UK economy is ready for the future. The Chancellor announced that improvements in public finances had enabled him to allocate some increases in public sector spending this year, in advance of a full Spending Review in 2019.

Headline messages for South East councils

- **Local government funding.** There will be additional short-term funding for local authorities in areas such as social care, road maintenance and high street revitalisation. There may be concerns that other changes could offset some of this, for example reductions in business rates. However, the Budget 'Red Book' states that local authorities will be fully compensated for the loss of income as a result of these measures.
- **2019 Spending Review expected to increase funding.** Next year's spending review is expected to see an annual 1.2% increase in public sector budgets, compared to a reduction of 1.3% in the 2015 review.
- **South East investment.** Funding has been announced to take forward plans for improved transport links between Oxford and Cambridge and a 'Digital Catapult' in the South East to help develop and market new hi-tech ideas. Nationally, the Housing Infrastructure Fund will be increased by £500m to £5.5bn. Greater funding is welcome, although SEEC and SESL estimate the South East alone has an infrastructure funding gap of £15.4bn by 2030.
- **Unused Planning Permissions.** Sir Oliver Letwin's review of unimplemented planning permissions was published alongside the Budget. His recommendations call for greater variety in type and tenure of homes on large building sites to speed up delivery. He did not find evidence of large scale land banking by major developers.
- **Simplifying office-residential conversions.** The Chancellor announced plans to simplify conversion of commercial buildings into homes. This has previously raised concerns in the South East about the lack of infrastructure funding contributions and the quality of homes resulting from such conversions.
- **Unemployment** is falling nationally, although the South East has seen an increase in unemployment claimants.
- **Social care.** An extra £410m is available for English local authorities in 2019-20. The green paper on long-term social care funding options is due shortly.
- **Personal tax allowances.** Changes to increase allowances have been brought forward a year to April 2019.

Economic forecasts

Office of Budget Responsibility figures set out increased forecasts for economic growth for the coming years and faster than expected reductions in borrowing. Real terms wage growth is forecast for the next 5 years.

- **UK GDP** is expected to grow by 1.6% next year compared to the previous forecast of 1.3%. Future estimates are 1.4% in 2020 and 2021, 1.5% in 2022, and 1.6% in 2023.
- **Borrowing** is forecast to fall from £31.8bn next year to £19.8bn in 2023-24, which would allow the Government to meet its target three years early.
- **Deficit** as a percentage of GDP is expected to fall to 1.4% next year and to 0.8% in 2023-24. This compares to 10% in 2010 and would allow the Government to meet its deficit reduction target three years early.
- **Employment** is growing. Compared to 2010 an extra 3.3m people are in work and a further 800,000 jobs are forecast by 2023. Unemployment at 4% is the lowest since 1975. However SEEC figures show an increase in unemployment claimants in the South East up to 77,540 in April 2018 from 65,475 in April 2017 – an 18% increase.

Public spending increases

In advance of a full Spending Review next year, the Chancellor announced a number of short-term funding increases for the public sector, including:

- An extra £410m for English local authorities for adult and child social care in 2019-20, an extra £55m for Disabled Facilities Grant and £84m over 5 years for up to 20 local authorities to help more children stay at home safely with their families. This is very welcome but more detail is needed on allocations to help meet high demand in the wider South East, which has high and fast growing demand for care services. For example, the South East population aged over 75 is the UK's highest, expected to reach 1.5m by 2041. A longer term decision on funding will be considered in next year's spending review.
- £420m for local highways authorities to tackle potholes.
- £400m for schools to buy capital equipment.
- £1bn for the Ministry of Defence this year and £160m in 2019-20 for counter terrorism. There will also be a review of Police funding.
- £10m for the Armed Forces Covenant to support military veterans with poor mental health and £1.7m for schools to educate pupils about the 75th anniversary of the liberation of Bergen-Belsen concentration camps.
- £10m for the Air Ambulance service.

- Extra funding for the NHS was announced in the summer but the Chancellor has now confirmed that part of the money will help fund the extension of mental health services, including a 24-hour hotline, support for young people and a crisis service in all major A&E departments.

Infrastructure Investment

Transport announcements included:

- £28.8bn (2020-25) National Roads Fund for the new major roads network and large local major roads schemes.
- Draft £25.3bn Roads Investment Strategy 2 (2020-25) for strategic roads, including Oxford-Cambridge Expressway and the Lower Thames Crossing.
- £420m for councils in 2018-19 to tackle potholes, repair damaged roads, and invest in keeping bridges open and safe; and £150m for councils for small improvement projects such as roundabouts.
- An extension of the Transforming Cities Fund to 2022-23, including £440m for city regions shortlisted for competitive funding, including Portsmouth & Southampton.
- £90m for Future Mobility Zones to trial new transport modes, services, and digital payments and ticketing.
- Government is considering the recommendations of the Independent Affordability Review of Crossrail 2, and will consider the case for the project at the Spending Review.

On **wider infrastructure issues**:

- £200m for pilot projects to deliver full fibre internet in rural locations, starting with primary schools.
- Government will respond in full to the National Infrastructure Commission's (NIC) 'National Infrastructure Assessment' through a National Infrastructure Strategy to be published in 2019. An interim response is expected shortly. A new NIC study has also been commissioned on improving resilience of UK's infrastructure in light of technological advances and future challenges such as climate change.
- Alongside the Budget, Government [responded](#) to the NIC's report on the Cambridge – Milton Keynes – Oxford Arc. The Government supports the NIC's ambition to deliver up to 1 million new homes in the Arc by 2050 to maximise sustainable economic growth and a new East West Rail company will be established to accelerate delivery of the central railway section between Cambridge and Bedford. The Government is providing a further £20m to develop a strategic outline business case for the railway.
- To support entrepreneurs and businesses to access and adopt cutting-edge technologies, £115m confirmed for the Digital Catapult, with centres in the South East, North East, and Northern Ireland.

Skills announcements included:

- Reforms to strengthen the role of employers in the apprenticeship programme; and a review to look at operation of the levy scheme and future strengthened role of apprenticeships post-2020.
- £100m for the first phase of the National Retraining Scheme (NRS).
- £38m capital funding to support implementation of the first three T levels in 2020 across 52 providers.
- Government review into the post-18 education and funding system in England to ensure that all students are given a genuine choice between high-quality technical, vocational and academic routes.

Housing

The Budget sets out actions aimed at fixing the broken housing market and moving towards the target of 300,000 new homes a year and greater affordability:

- Alongside the Budget, **Sir Oliver Letwin's review** of the gap between housing completions and the amount of land allocated or permissioned has been [published](#). It concludes that greater diversity in the types and tenures of housing on large sites would increase market absorption rates of new homes – which it sees as the main constraint on build out rates on large sites. The Government will respond to the recommendations in February 2019. SEEC has called for a wider package of tools for councils to help incentivise developers to deliver the growing backlog of at least 60,000 unimplemented SE homes.
- Consultation on **new permitted development rights** to allow upwards extensions on commercial and residential properties, including flats, and to allow commercial buildings to be demolished and replaced with homes.
- The Government will [introduce](#) a **simpler system of developer contributions**, aiming to provide more certainty for developers and councils, while enabling local areas to capture a greater share of uplift in land values for infrastructure and affordable housing. The reforms include: simplifying the process for setting a higher zonal Community Infrastructure Levy in areas of high land value uplift; removing all restrictions on Section 106 pooling towards a single piece of infrastructure; a new Strategic Infrastructure Tariff for Combined Authorities and joint planning committees with strategic planning powers. In the wider South East there is interest in whether Land Value Uplift Capture could contribute to funding improved or new infrastructure.
- The **Housing Infrastructure Fund** will increase by £500m to a total £5.5bn nationally, unlocking up to 650,000 new homes.
- **£10m capacity funding** to support ambitious housing deals with authorities in areas of high housing demand to deliver above their Local Housing Need (Government is also [consulting](#) on revised need methodology).
- **£8.5m to help up to 500 parishes** allocate or permission land for homes to be sold at a discount where there are Neighbourhood Plans/Orders.
- The British Business Bank will deliver a new scheme providing guarantees to support up to **£1bn of lending to SME housebuilders**.
- New **Help to Buy Equity Loan** scheme will run until March 2023.
- A new five-year **strategic business plan for Homes England** will be published on 30 October 2018.

- As previously announced (and reflecting calls from SEEC), there is confirmation that the **Housing Revenue Account cap will be abolished from today** (29 October 2018), enabling councils to build around 10,000 rental homes per year nationally

Businesses and growth

- **Helping the high street** - The Government will provide £675m to create a “future high streets fund” that councils can access to help redevelop their high streets. There will also be mandatory business rates relief for public lavatories, whether they are privately or publicly-owned.
- **Helping businesses** - The Government will continue the £1,500 business rates discount for office space occupied by local newspapers in 2019-20. For the next two years up to a business rates valuation, for all companies with a rateable value of £51,000 or less, the business rates will be cut by one third, a saving of up to £8,000 for 90% of shops, restaurants and cafes. This might help local businesses and communities adapt to change rather than reverse it. Local authorities will be fully compensated for the loss of income as a result of these business rates measures.
- **Small businesses and apprenticeships** - The contribution paid by smaller firms to the apprenticeship levy will be halved from 10% to 5% in a £695m package to support apprenticeships.
- **Entrepreneurs and new businesses** – The minimum qualifying period for entrepreneurs’ relief will be increased from 12 months to 2 years. The Government will contribute £200m to the **British Business Bank** if needed to replace the role played by the EU Investment Bank.
- The **new enterprise allowance** will be extended, as will access to the services of the **financial ombudsman**.
- **Open for business** - The Government plans to make e-passport gates at Heathrow and other airports available to visitors from the US, Canada, New Zealand, Australia and Japan as well as EEA citizens. This is something that SESL recently raised with the Secretary of State for Transport after its meetings with airport operators.
- The Chancellor plans to introduce a **UK Digital Services Tax**. This will be subject to consultation before it comes into effect in April, 2020, and is likely to be ahead of international agreements on the tax affairs of global companies. It is not a tax on goods bought online. Profitable digital tech giants with at least £500m a year in global revenues will be taxed 2% on the money they make from UK users. It is expected to raise more than £400m a year.

Environment and waste

- £20m additional funding will be allocated to support more local authorities to meet their **air quality** obligations.
- A Government pilot scheme will make available up to £1m to the Environment Agency to work with partners to clear the worst **abandoned waste sites** that blight local communities.
- Subject to consultation on the detail and timetable, the Government will impose a new tax on the manufacture and import of **plastic packaging** that contains less than 30% of recycled plastic. This forms part of the Government’s wider strategy to address plastics waste, with further detail expected in the Resources and Waste Strategy later this year. There will be no special levy on disposable plastic cups.
- The Government will provide £20m through a **Plastics and Waste Innovation Fund** to support measures to boost recycling and reduce litter.
- The Government will reform the Packaging Producer Responsibility System, aiming to increase producer responsibility for the costs of their packaging waste. These measures will encourage the design of packaging that is easier to recycle and penalise the use of difficult to recycle packaging.
- The Government will set up a **Woodland Carbon Guarantee** scheme which will support the planting of around 10 million trees by purchasing up to £50m of carbon credits for qualifying tree planting. The Government will also provide £10m between 2019-20 and 2022-23 for community tree-planting.
- To support the UK’s **fishing** sector, the Government will invest £10m from UK Research and Innovation to establish an innovation fund to help transform the industry and ensure the UK is a world leader in safe, sustainable and productive fishing.
- The Government will provide £15m to charities and others to distribute **surplus food** for good use rather than going to waste.

Cost of living

- **Fuel duties** will be frozen for the 9th consecutive year. The **duty on beer, cider and spirits** will also be frozen, except for the duty on white ciders which will increase at a higher rate. Tobacco duty will increase as planned at the rate of inflation plus 2%.
- Short-haul **Air Passenger Duty** rates for 2020-21 will not rise, remaining at the level they have been at since 2012. Long-haul rates will increase in line with RPI – increases of £2 for long-haul economy, £4 for premium economy, business and first class, £13 by private jet.
- From April 2019 the **National Living Wage** will rise by 4.9% from £7.83 to £8.21.
- The Personal **Income Tax** allowance will rise to £12,500 from April 2019. At the same time, the threshold for higher rate tax will rise to £50,000.
- The Government will assist the transition to **Universal Credit** by injecting £1bn over five years for implementation. In addition, there will be an increase of £1.7bn in UC payments. The aim of these additional sums is to reduce hardship from the reconstruction of the welfare system.