

Member briefing: Spring Statement 13 March 2019

Introduction

On 13 March, 2019, Chancellor Philip Hammond presented his second Spring Statement. The Government now focuses major financial announcements in the Autumn Budget, allowing time to implement changes before the end of the tax year. The Spring Statement reports on economic forecasts from the Office for Budget Responsibility (OBR), addresses immediate issues and outlines proposals where Ministers will be seeking consultation responses.

This year the Chancellor reported the UK economy – the world's fifth largest – is fundamentally healthy, but he warned of short-term economic uncertainty and disruption if the country leaves the EU without a deal. He said achieving a deal would release a 'Brexit dividend' to invest in future public spending.

Headline messages for South East councils

- The Chancellor indicated the 2019 Spending Review should be launched before summer recess and report at the Autumn Budget, but timing could vary depending on the type of Brexit agreed.
- Consultation on supporting private investment in infrastructure has been launched, running until 5 June.
- £81m will be invested in a national Extreme Photonics Application Centre in Oxfordshire (laser technology).
- Funding for South East authorities includes a share of £445m Housing Infrastructure Funding to unlock housing (including Didcot) as part of the Oxford-Cambridge Arc; 'Transforming Cities' funding for Southampton (£5.7m) and Portsmouth (£4m); Local Full Fibre Network funding for the Isle of Wight (£800,000).
- Reforms of Permitted Development Rights maintain some greater changes of use to residential from other uses, and some residential extensions. Other reforms include mandatory biodiversity net gains from development. South East authorities have raised concerns about the impacts of both of these and called for greater local discretion.
- An immediate £100m has been allocated to the police to help tackle knife crime.

Economic forecasts

OBR figures update forecasts for key economic factors. Based on OBR data, the Chancellor reported 9 consecutive years of economic growth since 2010. Growth is also forecast every year for the next 5 years.

- **The UK economy** is forecast to grow by 1.2% in 2019, 1.4% in 2020 and then 1.6% for each of the next 3 years.
- **Debt, as a share of GDP**, is forecast at 82.2% in 2019-20, then expected to fall each year to 73% in 2023-24.
- **Borrowing** is estimated to be £22.8bn this year (1.1% of GDP). This is some £3bn lower than estimated in the Autumn Budget. Current forecasts indicate borrowing will fall to 0.5% of GDP by 2023-24.
- **Employment** has increased by 3.5m since 2010. OBR predicts there will be a further 600,000 new jobs by 2023. Unemployment at 4% is at its lowest since 1975 and is forecast to remain low for the next 5 years.
- **Wages** are forecast to rise 3% or more each year for the next 5 years, with **inflation** at or close to its 2% target.

Spending Review 2019

The Chancellor expects to launch a Spending Review this summer, to conclude by the Autumn Budget 2019. It will set departmental and 3-year resource spending budgets if an EU exit deal is agreed. The overall focus will be to support a high-growth economy with effective public services. It will include a Zero-Based Review of capital spending to help deliver maximum returns.

Brexit

- **EU exit and access to finance** – the Government is ready to provide additional funding to the British Business Bank for venture and growth capital.
- **Economic boost** - the Chancellor pledged to spend £26.6bn to boost the economy, if MPs vote to leave the European Union with a deal, vowing to free up money to cut taxes and spend on public services.
- **Border controls** – use of e-gates to enter the UK will replace paper landing cards at airports and Eurostar terminals. This will apply to citizens of US, Canada, New Zealand, Australia, Japan, Singapore and South Korea.

Infrastructure and housing

Announcements included:

- **Oxford-Cambridge Arc** - £445m from the Housing Infrastructure Fund to unlock 22,000+ homes, and [publication](#) of a shared vision for the Arc. The Chancellor mentioned housing at Didcot in his Statement.
- **Transforming Cities Fund** – £60m nationally for 10 successful bids for transport improvements, including Portsmouth £4m and Southampton £5.7m.
- **Infrastructure finance** - [consultation](#) launched on how the Government can support private infrastructure investment given the UK's changing relationship with the European Investment Bank. The review will be supported by an expert panel.

- **National Infrastructure Strategy** – due to be published alongside the Autumn Budget. This is part of Government's commitment to publishing comprehensive priorities for economic infrastructure.
- **Local Full Fibre Networks** - £53m nationally for 9 successful local bids from the third wave of the challenge fund, including Isle of Wight £800,000.
- **Future of Mobility: Urban Strategy** – publication is expected soon of the Government's response to significant changes in transport technology, such as electric and autonomous vehicles.

On housing and planning, the Government remains committed to increasing housing supply by the end of this Parliament to 300,000 a year. A [Written Ministerial Statement from MHCLG on planning reform](#) has also been published today. Actions expected soon include:

- Planning guidance to support housing diversification on large sites following Sir Oliver Letwin's review to tackle delivery barriers. SEEC members have [called for this to be extended to smaller sites to assist South East authorities](#).
- The Government's response to consultation on planning reforms confirms extension of some Permitted Development Rights (PDR), such as upward extensions. PDR changes from storage to residential will end in June 2019, while others will be kept under review. There will be further consultation on tools to help local areas support high streets, including use of Compulsory Purchase Orders. [South East authorities have raised concerns about PDR](#) around the quality of homes being delivered and the fact that PDR sites do not contribute to infrastructure costs.
- There will be a Green Paper on how to improve capacity, capability and performance to speed up the planning process.
- An Affordable Homes Guarantee Scheme is being introduced, with up to £3bn of borrowing nationally for housing associations to deliver 30,000 affordable homes.
- Linking to other announcements on the environment, the Government is expected to mandate biodiversity net gains in new developments. While many South East authorities support the principle of biodiversity [they have called for greater local discretion on applying rules](#).

Environment

Announcements included:

- **Clean growth** - the Government will set out details of a review to assess the economic value of biodiversity and identify actions that will enhance biodiversity and deliver economic prosperity. The review will report in 2020.
- **A Future Homes Standard** will be produced by 2025, future-proofing new homes with low carbon heating and world-leading levels of energy efficiency.
- **Greening the gas grid** – the Government will consult on how to reduce carbon in gas supplies by increasing the proportion of green gas in the grid.
- **Air quality** – the Government will publish a summary of responses to its call for evidence on red diesel and air quality.
- **Offshore oil and gas decommissioning** – the Government will consider what should be done to strengthen the UK's position as a global hub for safe, environmentally-friendly decommissioning that meets cost reduction targets.
- **Travel and carbon offsetting** – Government will launch a call for evidence on offsetting transport emissions and whether transport providers should be required to offer carbon offsetting to their customers.

Economy, business & technology

Announcements included:

- **National Living Wage** – the Chancellor confirmed the Low Pay Commission will have a new remit from 2020 onwards. Published today are Terms of Reference for a review of international evidence on minimum wages.
- **Financial services legislation** – the Government will consult and legislate to maintain world-leading regulatory standards; remain open to international markets; and realise new trading opportunities. It will set out its approach to consulting on how to ensure the framework adapts to life outside the EU.
- **Scientists and researchers** – immigration rules will be revised to exempt PhD-level occupations and prevent penalising researchers looking to settle in the UK.
- **UK Export Finance** – will provide flexible short-term support to UK exporters. Government will also consult on rule changes re foreign content in export transactions.
- **Competition** – the Competition and Markets Authority will, subject to an orderly exit from the EU and therefore resources, review how regulation affects competition in the UK business environment. The authority will also be asked to carry out a study of the digital advertising market as soon as possible.
- **International education** – the Government will launch a strategy to help strengthen the UK's position at the forefront of global education.
- **Science and innovation** – the Government launched a review of frameworks for overseas collaboration to inform an International Research and Innovation Strategy so that the UK is a global partner of choice for science and innovation.
- **Science and technology** – the Chancellor allocated over £200m of investment to support science, innovation and industry including:

- £81m to the national Extreme Photonics Application Centre in Oxfordshire to help understand the composition of new materials and how they behave (eg. laser technology).
- £45m to upgrade data storage cloud computing infrastructure at the European Bioinformatics Institute in Cambridgeshire to drive gene research.
- £79m to a new supercomputer (ARCHER 2) providing a fivefold increase in computing capacity.
- setting aside £60m for the Joint European Torus (JET) fusion programme in Oxfordshire to become a UK asset in case the EU does not renew its contract with JET.

Taxation round-up

The [Chancellor's Ministerial Written Statement](#), accompanying the Spring Statement, highlighted a range of actions to be taken, including:

- **Tax avoidance, evasion and non-compliance** - since 2010 the Government has secured and protected over £200bn of tax that would otherwise have gone unpaid. Consultation is expected soon on preventing abuse of Research and Development Tax Relief for small and medium-sized enterprises.
- **Making Tax Digital** – mandatory digital VAT record keeping for businesses over the £85,000 VAT threshold comes into force from 1 April 2019.
- **Structures and Buildings Allowance** – draft legislation on a new allowance for investments in non-residential structures and buildings.
- **Aggregates Levy** – launch of a [review](#).
- **National Insurance Contributions (NICs) Employment Allowance draft regulations** – consultation due soon to implement reforms restricting the allowance to businesses with an employer NICs bill below £100,000.
- **VAT simplification and the public sector** – consultation expected on reform to VAT refund rules for central Government, to reduce administrative burdens and improve public sector productivity.
- **VAT Partial Exemption and Capital Goods Scheme: Simplification** – a call for evidence will be published in the coming months.
- **Worldwide harmonised Light Vehicles Test Procedure (WLTP) and company car taxes** – the Government's response to a recent review is expected soon.
- **Social Investment Tax Relief** – a call for evidence is expected soon, including why it has been used less than anticipated, and the impact on access to finance for social enterprises.