SOUTH EAST ENGLAND COUNCILS & SOUTH EAST STRATEGIC LEADERS

Member briefing: Budget 22 November 2017

Introduction

On 22 November 2017 Chancellor Philip Hammond presented his second Budget. It follows his decision in March that future Budgets would be presented in the autumn to allow for scrutiny and planning before changes take effect in the next financial year. The Autumn Budget focused on making Britain 'fit for the future' by supporting economic growth, skills and increasing housebuilding.

Headline messages for South East councils

- **Housing:** Increased focus on build-out of unused planning permissions, including 66,000+ in the South East. However Budget proposals still lack tools for councils to ensure developers deliver, such as the ability to charge fees on unused permissions as set out in SEEC's 'Unlock the housing blockers'.
- **HRA borrowing:** Potential for councils to bid for an increase in Housing Revenue Account borrowing in areas of high affordability pressure, so they can build more council homes.
- **Infrastructure:** Some recognition of infrastructure needed to support South East housing growth. This includes a housing deal in Oxfordshire - as part of wider support for the Cambridge–Milton Keynes–Oxford corridor - and potential to link developer contributions to land value increases.
- **Skills:** The Budget responds to South East calls for better targeting of skills training to fill gaps in the economy – for example in construction. But the measures stop short of giving councils greater control of skills funding as advocated by SEEC and SESL.
- **Unemployment:** South East unemployment has risen over the past year in contrast to a national decrease.
- **Health & care:** It is disappointing that there are no measures to address social care funding problems facing South East authorities.
- **Devolution:** There were no devolution deals for the South East, although enhancements to existing devolution arrangements were announced for areas including the West Midlands and North East. Extra funding was announced for Wales (£1.2bn), Scotland (£2bn) and Northern Ireland (£660m), with potential for growth deals in all 3 areas. A £1.7bn Transforming Cities fund will be split 50/50 between city mayors and other cities but it is not clear whether the South East will be eligible.

Economic forecasts and funding

Office of Budget Responsibility figures set out reduced GDP forecasts, although strong employment growth is expected to continue. Public finances have performed well, with borrowing lower than forecast and continuing to fall:

- UK **GDP** is expected to grow by 1.5% in 2017 and to average 1.4% growth until 2022-23.
- **Debt** will peak at 86.5% of GDP this year, falling to 79.1% in 2022-23.
- **Borrowing** is forecast at £49.9bn in 2017-18 (£8.4bn lower than forecast at the Spring Budget), falling to £25.6bn in 2022-23.
- **Deficit** as a percentage of GDP is expected to fall from 2.4% this year to 1.1% in 2022-23.
- **Public spending** will peak in 2017-18 at 38.9% of GDP, falling to 37.7% in 2022-23.
- Nationally **unemployment** fell 0.5% last year and now stands at 4.3% – the lowest since 1975. However SEEC figures show the South East had 64,340 claimants in September 2017 – an 8% increase on September 2016.
- The fall in sterling has driven higher **inflation** – peaking at 3% this quarter and expected to fall to 2% in 2022-23.
- **Productivity** growth is expected to remain flat in 2017 before increasing to 1.3% in 2022-23.

Housing & supporting infrastructure

Taking forward its Housing White Paper, the Government aims to fix the "broken housing market" and see more homes built, while protecting Green Belt. Affordability is a key issue in the South East, with average prices 10x earnings, rising to 12.5x in some places. Latest figures show the South East built 17% of England's 217,000 homes in 2016-17, some 36,526.

Planning system

- Government intervention where there is a failure to progress Local Plans, and powers to direct local planning authorities to produce joint statutory plans.
- To focus development in urban areas, there will be consultation on minimum densities for housing in city centres/around transport hubs, support for use of compulsory purchase powers, and making it easier to convert retail and employment land into housing.

Improving build-out

- Review panel to investigate the gap between housing completions and the amount of land allocated or permissioned - interim report for Spring Statement 2018 and full report at Budget 2018. SE had at least 66,751 unimplemented permissions in March 2016.
- Strengthening the new Housing Delivery Test on councils.
- Expecting local authorities to bring forward 20% of housing supply as small sites.
- A central register of residential planning permissions from local authorities, including progress towards build-out.

Developer contributions for infrastructure

- Consultation on allowing Section 106 pooling, and allowing authorities to set rates which better reflect the uplift in land values between a proposed and existing use.
- Giving Combined Authorities and Planning Joint Committees with statutory plan-making functions the option to levy a Strategic Infrastructure Tariff (SIT), similar to London Mayoral CIL (providing funding towards Crossrail).

Investment in housing and supporting infrastructure

- Aim to build five new garden towns, including in areas of high demand such as the South East eg. in Shepway.
- Support for 'housing deals' in the South East, to ensure that investment is well-targeted and helps grow the economy where housing need is most acute. Government has agreed a deal with Oxfordshire for a joint statutory spatial plan and 100,000 homes in the county by 2031 in return for 5 year package of Government support, including £30m pa for infrastructure and further support for affordable housing. This forms part of wider strategic investment in the Cambridge-Milton Keynes-Oxford corridor.
- Lift Housing Revenue Account borrowing caps for councils in areas of high affordability pressure, so they can build more council homes. Local authorities will be invited to bid for increases in their caps from 2019-20, up to a total of £1bn by the end of 2021-22.
- Strengthen Homes and Communities Agency (to be renamed Homes England) investment and planning powers to intervene more actively in the land market.
- Increase the Housing Infrastructure Fund (part of National Productivity Investment Fund - NPIF) to £5bn nationally, to support new housing in high-demand areas.
- £630m through the NPIF to accelerate the building of homes on small, stalled sites, by funding on-site infrastructure and land remediation.
- £1.5bn for the Home Building Fund, providing loans for SMEs who cannot access the finance they need to build; and explore options to create £8bn of new guarantees to support housebuilding.
- Where measures are essential to make a building fire safe post-Grenfell Tower, Government will make sure current restrictions on the use of local authority financial resources will not prevent them going ahead.

Cambridge–Milton Keynes–Oxford corridor

- Following the National Infrastructure Commission's report, Government supports an integrated programme of infrastructure, housing and business investment. This includes East-West Rail and Cambridge-Oxford road Expressway (as called for in the SEEC-SESL report Missing Links) and building up to 1m new homes by 2050.

Homeownership

- Price at which a property becomes liable for stamp duty raised to £300,000 for first-time buyers in the South East.
- To encourage owners of empty homes to bring their properties back into use, local authorities will be able to increase the vacant property council tax premium from 50% to 100%.

Economy, Business & Skills

To provide certainty for the economy, the Chancellor committed £3bn over 2 years for a Brexit implementation plan. This supplements £700m already allocated. He also supported development of hi-tech industries and better skills.

Investing for growth

- An extended National Productivity Investment Fund (NPIF) for housing, infrastructure and R&D with £23bn extra, taking the total to £31bn by 2022. This is welcome but as a national fund it will still leave gaps as the South East infrastructure deficit of £15.4bn by 2030 is around half the fund allocated nationally.
- R&D – extra £2.3bn investment and R&D tax credits increased to 12%.
- An action plan to unlock over £20bn investment to help UK businesses scale-up, including £2.5bn public money via the British Business Bank.

Digital and hi-tech

- £500m for hi-tech initiatives such as 5G, full fibre broadband and artificial intelligence (AI).
- £540m for electric vehicle charging infrastructure and R&D. From 2018 drivers who charge electric cars at work will be exempt from benefit in kind taxation.
- The Centre for Data Ethics and Innovation will set standards for using AI and data to allow the UK to lead the world in developing practical uses for the technology.

Skills

- £20m to help FE colleges prepare for introduction of T-level technical qualifications.
- Encouraging maths skills with £40m to train teachers and £600 for every pupil who takes A level maths.
- Tripling the number of computer science teachers to 12,000.
- A national retraining scheme for construction and digital skills. There is £30m for digital skills, £34m to scale up innovative construction training models and £170m through the Industrial Strategy Challenge Fund. These measures are welcome but the South East had called for councils to have a role to target skills spending to meet local needs.

Business taxes

- In 2018, up-rating of business rates will switch from RPI to CPI, 2 years earlier than planned. Future revaluations will be every 3 years instead of 5 yearly, reducing the size of changes.
- Business rate reductions of £1,000 for pubs with rateable values over £100,000 will continue for a further year.
- Indexation of corporate capital gains tax will freeze in January 2018 to align with personal capital gains taxation.
- The VAT threshold for businesses is frozen at £85,000 for 2 years but consultation will consider whether changes could incentivise growth. Online marketplaces and their sellers will become jointly liable for VAT.

- From April 2019 digital businesses based in low tax countries will have to pay UK income tax on royalties relating to UK sales, raising around £200m.

Environment

- First year road tax rates for **diesel cars** that do not meet the latest standards will rise one band in April 2018. This will raise £220m to support local air quality plans. Vans, lorries and buses are exempt.
- Government will seek views on reducing **single-use plastics** waste, for example via taxes or charges. Disposable plastics like coffee cups, toothpaste tubes and polystyrene takeaway boxes damage the environment.

Health & care

- There will be **£6.3bn of new funding for the NHS nationally**. £3.5bn of this will be invested in upgrading NHS buildings and improving care, while £2.8bn will go towards improving A&E performance in England - £335m immediately to address pressures this winter, £1.6bn for 2018-19 and the remaining £900m in 2019-20. There will be a further **£3.5bn of new capital funding for the NHS**.
- Despite calls for the Government to address funding gaps, the Chancellor made no mention of **social care**. The increase in the National Living Wage will exacerbate existing funding pressures. The lack of additional funding will undermine the effectiveness of the extra funding for the NHS. This is a major issue facing South East authorities, who have the largest and fastest growing population of over 75s in the UK.

Personal taxes and benefits

- From April 2018, the **National Living Wage** (aged 25 and over) will increase from £7.50 to £7.83 per hour benefitting over 2 million people. For a full-time worker, it means a pay rise of over £600 a year.
- Hourly rates for the **National Minimum Wage** will also increase to £4.20 for 16-17 year olds; £5.90 for 18-20 year olds; £7.38 for 21-24 year olds; and £3.70 for apprentices.
- The **tax-free personal allowance** will rise to £11,850 from April 2018 and the **higher-rate tax threshold** will increase to £46,350.
- The **State Pension** will rise by 3% in April 2018 - £3.65 per week.
- **Fuel duty** will remain frozen for an eighth year.
- The Government will work with the rail industry to introduce a **new railcard** for 26-30 year olds from spring 2018.
- **Duty on beer, wine, cider and spirits** will be frozen but cheap, high-strength cider will be subject to a new band of duty. **Duty on tobacco** will rise by 2% above inflation on cigarettes and 3% above inflation on hand-rolling tobacco.
- **Air Passenger Duty** will be frozen for all economy passengers and all short-haul flights (95% of all passengers). It will rise for premium fares on long-haul flights and on private jets.
- Households applying for **Universal Credit** (UC) will be able to access a month's worth of support within five days, via an interest-free advance, from January 2018, to be repaid over 12 months. Claimants will be eligible from the day they apply, rather than after a week. Housing Benefit will be paid for 2 weeks after a claim for UC. Low-income households in areas where private rents have been rising fastest (which could include parts of the South East) will receive an extra £280 on average in Housing Benefit or UC.