Briefing: 43

Autumn Statement 2016

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Summary:

This year's Autumn Statement was much shorter and higher level compared to previous years and more focused on fiscal priorities. This was reflected in the Chancellor's surprise announcement that it would be both his first and last Autumn Statement: a Budget will take place in Spring 2017, but from Autumn 2017 the government will produce its annual budget in Autumn and release a fiscal statement in Spring.

It is the first post Brexit statement and the Chancellor revealed the immediate impact of the UK's decision to leave the European Union (EU). He announced that the Office for Budget Responsibility (OBR) have downgraded their latest macro-economic forecasts for the short and medium term and that they estimate that the referendum result will cost the UK £60bn in additional borrowing over the next 5 years. Whilst there is an opportunity for the UK to strike a favourable deal at the negotiation table, there evidently remains a great deal of uncertainty over the outcome.

As a direct response to this more challenging economic environment, the tone of the statement was centred upon both economic responsibility and building resilience into the economy to ensure that it is 'water tight.' The Chancellor has relaxed the need for the UK public finances to be in surplus by 2020, yet his focus upon economic responsibility has meant that he has not let up on the continued commitment to departmental spending plans outlined in the 2015 Spending Review (including the spending limits for social care and the NHS), nor to the overall commitment to reform the welfare system. The thrust of many of the announcements was on the need to build economic resilience into the economy by tackling long-term weaknesses, particularly around the productivity gap. This included a commitment to additional infrastructure and digital spend and the creation of a £23bn National Productivity Investment Fund.

There were a handful of measures targeted at the just about managing families ("jams") including a rise in the National Living Wage which should disproportionately benefit GM residents, as GM is a relatively low paying city region. Caution must be taken in interpreting the extent to which these measures will really benefit low and middle income groups however, as the Resolution Foundation has calculated that just 7% of the losses imposed by the benefit freeze and the cut in Universal Credit work allowances announced in April this year will be undone by the Chancellor's announcements.

For Greater Manchester, there were significant announcements on the devolution of the budget for the forthcoming national Work and Health Programme and the beginning of talks on future transport funding. The Northern Powerhouse also received a boost with the launch of Northern Powerhouse Strategy.

Economic outlook

Following the vote to leave the EU, the OBR have revised down their forecasts for growth and earnings and revised up their forecast for inflation. They do not expect these impacts to be as large as some other forecasters, but it has contributed to a big hit on the public finances. GDP growth was revised down by 0.8 percentage points to 1.4% in 2017 and by 0.4 percentage points to 1.7% in 2018. Inflation was revised up to 2.3% in 2017 and 2.5% in 2018, although this is lower than the Bank of England's projection. Partly as a result of the increase in inflation, real earnings are now forecast to be flat in 2017-18 and rise only slightly (0.5%) in 2018-19. Further analysis by the Institute for Fiscal Studies (IFS) revealed that real wages will still be lower than their 2008 levels in 2021. Business investment was also revised down significantly, by 4.7 percentage points in 2016 and 6.3 percentage points in 2017, as businesses respond to uncertainty around the results of the UK's renegotiation of its relationship with the EU.

This slower growth and lower earnings contributes to a cumulative increase in government borrowing of £122bn between 2016-17 and 2020-21. Stripping out other factors, the OBR estimate that the referendum result will cost the UK £60bn in additional borrowing over the next 5 years. The administrative costs alone of exiting the EU are currently estimated to require £400m in extra funding over the next four years. It means that the surplus of £10.4bn which had previously been forecast for 2019-20 is now a deficit of £21.9bn. Public sector debt is forecast to peak at 90.2% of GDP in 2017-18, a large increase on the previous forecast.

Despite the more challenging economic climate, the government has confirmed that departmental spending plans outlined in the 2015 Spending Review will remain in place, with spend increasing in line with inflation and further detail is required to understand what impact this might have for GM. The exception to this is the Ministry of Justice, which will receive urgent investment due to prison safety issues with commitment to fund 2,500 additional prison officers, as well as further wider reforms to the justice system. There were no announcements of increases in funding for social care or the NHS.

There were few tax changes in the Autumn Statement. The main measures were a freeze in Fuel Duty in 2017-18, paid for by a 2 percentage point increase in Insurance Premium Tax. There was the usual package of measures tackling tax avoidance, including disguised remuneration where employees pretend to be self-employed to get tax advantages. The Government are also funding a couple of minor Business Rates changes (costing £10m in 2016-17 rising to £25m in 2017-18), which are relief for new full-fibre infrastructure and increasing rural rates relief.

Infrastructure spend

The Chancellor's speech included a commitment "to prioritise high-value investment, specifically in infrastructure and innovation that will directly contribute to raising Britain's productivity" and that between 1% and 1.2% of GDP will be invested in delivering the recommendations of the National Infrastructure Commission (compared to 0.8% of GDP as at present).

The £23 billion National Productivity Investment Fund (NPIF) flagship programme announced will be targeted at four areas that are critical for improving productivity: Housing, Transport, Digital Communications and Research and Development (R&D) over the next five years. Further infrastructure spend included an additional £1.1bn earmarked to upgrade local roads and public transport, including £220 million to tackle road safety and congestion on Highways England routes, and £450 million to trial digital signalling on railways. £1bn was announced for digital infrastructure, which will support the market to roll out full-fibre connections and future 5G communications.

Devolution

The government remains committed to devolving powers to local areas but only limited further announcements were made in this Autumn Statement. Most importantly for GM, the Chancellor confirmed that the budget for the forthcoming national Work and Health Programme will be devolved to Greater Manchester (and also to London), subject to meeting certain conditions, including on co-funding. The Work and Health Programme will replace the Department for Work and Pension's current Work Programme, albeit with a much more targeted approach and significantly reduced budget. The government will also begin talks on future transport funding with Greater Manchester.

The Chancellor announced that £556 million of the total £1.8 billion pot available for the third round of Growth Deals to Local Enterprise Partnerships will go to the North of England and the allocation for individual LEPs will be announced in the next few weeks. Government has also committed to giving GM and other mayoral combined authorities powers to borrow for their new functions allowing them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury. Consultation will also take place on lending local authorities up to £1 billion at a new local infrastructure rate of gilts + 60 basis points for three years to support infrastructure projects that are high value for money.

Northern Powerhouse

Alongside the 2016 Autumn Statement, Government published a Northern Powerhouse (NPH) Strategy. The NPH Strategy builds on the work GM has been undertaking with Northern Core Cities and identifies the "Prime Capabilities" that will drive productivity across the North. It highlights the four key areas of connectivity, skills, innovation and trade as priorities for further work.

The strategy reconfirms commitments to the NPH including £13bn for transport in the North over the course of this Parliament, £60m development funding for Northern Powerhouse Rail, £235m for the Sir Henry Royce Institute, £38m for the National Graphene Institute, £15m for Northern Powerhouse trade missions and £78m for the Factory. It also identifies a number of areas for further work, including continued joint work between the Department for International Trade and Northern stakeholders to develop a collaborative, unified approach to promoting the Northern Powerhouse to foreign investors and a range of additional work on skills. This includes: working with northern city regions to explore options for improving delivery of early years outcomes; working with the North to ensure that local priorities are fed into the provision of careers advice, so that it is employer-led, integrated and meets local needs; and working with northern city regions to support them to work with employers and providers to develop an ambitious, locally-owned plan for promoting the take-up of apprenticeships.

The introduction of the Northern Powerhouse Strategy is a positive development, however further work is required to ensure that it brings trade, people and place together through policy decisions made at the level of functional economic areas if it is to deliver for the North and the UK as a whole.

Skills and Employment

There were a handful of measures targeted at the just about managing families (the so-called "jams") including the Chancellor's decision to lift the National Living Wage (NLW) from £7.20 to £7.50 next April. Up to 50,500 jobs in GM could gain from this decision which represents a 4.2% pay rise for low income people over 25. As a relatively low paying city region, each lift in the NLW disproportionately benefits GM, as the bottom 10% of the workforce is paid close to the legal pay floor; the government is by far the biggest local wage-setter in GM. The other minimum wages for younger people and apprentices have seen lower rates of increase. For 21-24 year olds, minimum hourly pay will rise to £7.05 next April (a 1.4% rise); 18-20 year olds will receive at least £5.60 an hour (0.9% - a real terms pay cut); 16-17 year olds move to £4.05 (1.3%); and apprentices to £3.50 (a 2.9% rise). However, £7.50 is lower than anticipated were the government to hit the initial ambition for an NLW of £9 an hour by 2020 (£7.65 would have kept it on track). The budget documents do not refer to this target, aiming for the more easily attainable objective of a NLW worth 60% of average earnings by 2020, suggesting the headline-grabbing '£9 an hour' is being quietly superseded. Enforcement of these pay floors is to be stepped up with an additional £4.3m put into helping HMRC pay inspectors.

The personal tax allowance will also rise next April to £11,500 from £11,000. This measure, ostensibly aimed at lifting the very lowest paid out of tax, has been criticised in the past as being regressive in that the greatest beneficiaries of the policy are not the low paid who pay little or no tax, but higher earners who gain more from keeping more of their earnings through the larger allowance. However it does mean that a worker on the new NLW (£7.50) should be able to work for 30 hours without paying any tax after next April. That said, any low income workers upping their hours to 35 or 40 a week face the prospect of creeping into the tax bracket, thus limiting work incentives. It remains the case that the low paid are still liable for national insurance contributions.

The Chancellor also used the Autumn Statement to soften the impact of changes to Universal Credit by reducing the taper rate – in effect the rate of benefit withdrawal that applies as people move into work or increase their hours – from 65% to 63%. Potentially, this could affect a substantial proportion of the 15,100 people in work who receive universal credit in GM (39,600 are on Universal Credit in GM in total). The move takes some of the edge off Universal Credit reductions, but the wider cuts remain.

The Autumn Statement was light on significant skills and education announcements. Skills was excluded from the new £23bn National Productivity Investment Fund, however there were some announcements in the NPH strategy aimed at tackling the north-south skills divide, including a pilot in the north of campaigns to attract and retain high quality teachers. On schools, grammar school expansion will be supported through a £50 million capital programme. Elsewhere, a modest £13 million will be targeted at the UK's longstanding difficulties with management and leadership skills, following the Mayfield review of business productivity. It is unclear at the moment how this fund will operate and how local businesses can tap into it and further detail is awaited.

Business and Innovation

The Chancellor was keen to emphasise that "Britain is open for business." No firm timetable was released for the much talked about Industrial Strategy, but government did reveal that an Industrial Strategy Challenge Fund, a new cross-disciplinary fund, will be set up to support collaborations between business and the UK's science base. This will set identifiable challenges for UK researchers to tackle and will be managed by Innovate UK and research councils. More details on the Industrial Strategy will emerge in the coming weeks. The government has also selected eight areas for the second wave of Science and Innovation Audits including a focus on the Bioeconomy of the North of England, as well as for Leeds City Region and Liverpool City Region +.

A number of other announcements were targeted at businesses, including commitment from the British Business Bank to invest an additional £400 million in venture capital funds to unlock up to £1 billion of new investment in innovative firms planning to scale up. The government will provide additional support through UK Export Finance (UKEF) in removing the financial barriers to exporting. The NPIF also includes provision for additional investment in R&D, rising to an extra £2bn per year by 2020/21. This funding will go towards R&D of science and technology such as robotics and artificial intelligence.

Housing and Planning

In addition to the much-trailed lettings agent fees ban, the Autumn Statement has promised increasingly flexible money for affordable housing delivery. The £2.3bn new Housing Infrastructure Fund forms part of the NPIF, and is allocated to "provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest." Close attention will need to be paid to the development of the criteria for 'need' to ensure that the announcement supports GM to reach its house building aspiration as outlined within the Greater Manchester Spatial Framework.

Government has also announced that it will "relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost ownership, to meet the housing needs of people in different circumstances and at different stages of their lives. The NPIF will provide an additional £1.4 billion to deliver an additional 40,000 housing starts by 2020-21." Again this is positive and could be a partial starting point for the flexible resource for housing delivery in GM, but further detail is needed. The government will also publish a Housing White Paper shortly, setting out a comprehensive package of reform to increase housing supply and halt the decline in housing affordability.

Finally, a further £1.7bn has been announced to accelerate construction on public sector land, and whilst few details are available at present it is envisaged that the GM Land Commission, along with its dedicated delivery arm GM Place, will be ideally placed to access such funding given its role in assembling and preparing sites, facilitating planning processes and ensuring that development progresses at pace without compromising on the quality and place-shaping benefits of new development.