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**Summary:**

The 2017 Budget was delivered against a backdrop of economic resilience since the vote to leave the EU last June, but still heightened uncertainty as the Government prepares to invoke Article 50 in the coming weeks. Having moved the date for future Budgets to the Autumn, the Chancellor broadly held true to his promise that this would be a low key final Spring Budget. He did, however, respond to widespread concerns about the pressures on the health and social care system, with an additional £2 billion for adult social care allocated over the next 3 years. A number of tax changes were announced including to the rate of National Insurance Contributions (NICs) paid by self-employed workers and income tax on dividends. The much trailed calls to ease the burden of steep rises in business rates for some companies were partially acknowledged with the Chancellor announcing extra help for some small firms affected by the revaluation of properties this year. The Budget also confirmed the Government's ongoing discussions with Greater Manchester (GM) in relation to future transport funding and announced the allocation of £90 million to the North to ease road congestion.

**Economic Outlook**

The Chancellor was able to find some headroom to fund the new commitments made in the Budget without changing the broad thrust of Government spending plans announced in the Autumn. Some of that headroom was created through additional income measures, but it was mainly the result of revised forecasts produced by the Office for Budget Responsibility (OBR). Their growth forecasts have been revised up, to 2% in 2017 from 1.4%, but the OBR do expect slower growth over the course of the next three years. The OBR's Economic and Fiscal Outlook suggests that the outlook for public finances in the medium term remains largely unchanged but a number of one-off factors now means that Government borrowing for 2016-17 will be lower than projected, falling to 0.7% of GDP by 2021-22.

The UK's exit from the EU is expected to squeeze real pay as Sterling falls and inflation rises. The OBR's forecast revised up average earnings slightly in 2017 to 2.6%, but revised them down in each of the following four years. Inflation (as measured by the CPI) is also revised up slightly to peak at 2.4% in 2017, but down in the following two years as it returns to the Bank of England's target rate of 2%. Overall, real earnings are forecast to grow every year of the forecast, but only slowly over the next couple of years (0.2% in 2017 and 0.4% in 2018). There have also been concerns about the impact of Brexit on business confidence and, while the level of business investment was revised up for 2016 and 2017, is expected to fall by 0.4% in 2018 and 1.2% in 2019.

**Health and Social Care**

Additional funding for the health and social care system, which has been increasingly stretched in recent years, was the main public spending announcement in this Budget. An additional £2 billion was allocated to councils in England over the next 3 years to spend on adult social care services, of which £1 billion will be provided in 2017/18 (this is on top of existing powers for councils to

increase Council Tax by 2% to support social care). Spending on social care by councils across England was £14.3bn in 2014/15, so this investment represents an increase in funding of approximately 5% over the three year period, which many commentators have said is welcome, but not sufficient. It has since been confirmed that GM will receive £118 million of this additional funding over the three year period. A green paper will also be published later this year to look at the ongoing sustainability of the social care system. Additional health and social care announcements include: capital funding to support transformation of the health and social care estate, £100m in 2017/18 specifically to reduce pressure on A&E departments, and a further £325m over the next 3 years to support wider transformation proposals in the Sustainability and Transformation Plans (for GM this is the Taking Charge document).

### **Taxation**

Two of the headline announcements affect the self-employed, with increases in the rate of National Insurance Contributions (NICs) paid by self-employed workers and increases in income tax on dividends – including for those working through a company. Together, these measures will raise nearly £1.5bn a year by 2021-22. The main rates of NICs for the self-employed (Class 4) will increase from 9% to 10% in April 2018 and to 11% in April 2019. This is partially offset by the abolition of their flat-rate Class 2 NICs contributions, which had already been announced and will come into force in April 2018. The move may make self-employment less attractive for workers and employers alike. For GM, whilst rates of self-employment remain lower than the UK, the rapid increase in this type of employment locally means that 12% of all GM employees (155,000 people in 2016) will be affected. Another variant of self-employment – people turning themselves into a business through incorporation – are also to be taxed more. The amount that they can take tax free as a dividend will be reduced from £5,000 to £2,000 from April 2018. In GM, this measure is likely to affect approximately 13,100 people. Following the initial Budget announcement the Government has confirmed that it will delay legislating to implement the national insurance rise for self-employed workers until the Autumn after senior Conservatives expressed concerns about the proposal.

The Chancellor recognised concerns about the impact on Business Rates bills of the revaluation in some parts of the country, announcing three measures to help: a discretionary support fund for local authorities to help businesses in their areas of £300m from 2017-18 – the allocations to local authorities have now been announced and GM will receive nearly £8 million of this pot; targeted support to hold down the increases in Rates bills for businesses who lose Small Business Rate Relief because of the revaluation; and a £1,000 discount from the bills of smaller pubs from 2017-18. The changes will ensure that the impact of the revaluation is softened for some businesses, and it is welcome that Local Government will be compensated for the loss of income as a result of these measures.

### **Northern Powerhouse / Devolution**

The Budget reaffirms the Government's commitment to the Northern Powerhouse (NPH). Adding to announcements made with the publication of the NPH Strategy in the Autumn Statement, the Budget announced that £90 million has been allocated to the North from the £220 million National Productivity Investment Fund (NPIF) to tackle pinch points on the strategic road network. Building on its regional approach to growth, the Government has published the Midlands Engine Strategy. This sets out plans for significant investment in skills, connectivity and local growth. The Government has also agreed a Memorandum of Understanding on further devolution to London. On transport, most pertinent to GM is the reference the Budget makes to the Government's ongoing talks with GM on future transport funding. More generally, £690 million from the £1.1 billion NPIF is to be competitively allocated to local authorities to tackle urban congestion and get local transport networks working more effectively, with £490 million made available by early autumn

2017. £90 million has been allocated to the North from the £220 million NPIF investment to tackle pinch points on the strategic road network. Details of individual schemes will be announced by the Department for Transport shortly.

### **Business, science and innovation**

The Budget also announced a number of science and innovation investments to be made via the NPIF. This includes £90m for an additional 1,000 PhD places in STEM subjects and a further £160m for new fellowships for early and mid-career researchers – both in areas aligned to the Industrial Strategy. £50m is ring-fenced for fellowship programmes to attract global talent and over £50m from existing international funds will support fellowships that attract researchers to the UK from emerging research powerhouses such as India, China, Brazil and Mexico. These initiatives align with GM's ambitions around commercialisation and exploiting GM's core strengths and fast growth opportunities set out in the GM and Cheshire East Science and Innovation Audit, which also align with the Industrial Strategy priorities.

The Government will introduce changes to the Research and Development Expenditure Credit to increase the certainty and simplicity around claims. New Economy's research shows that take up of R&D tax credits in the North West is lower than we would expect, so these changes are welcome. However, more work is needed to understand regional disparities in take up, including looking at barriers other than awareness among SMEs, if we are to maximise the effectiveness of this policy.

The Industrial Strategy Challenge Fund will initially invest £270 million in 2017-18 to kick-start the development of disruptive technologies. Amongst the first wave of challenges funded will be the next generation of electric vehicles, artificial intelligence and robotics systems and new medicine manufacturing technologies, which will help to improve public health. These areas align with the prime and supporting capabilities which have been identified across the NPH and include some of the areas of excellence and opportunities identified in the Science & Innovation Audit for investment in those capabilities where there are core strengths and fast growth opportunities.

On digital infrastructure, the Budget contains some announcements which reflect GM's response to the Government Call for Evidence for Fibre networks. A full fibre-based competitive digital infrastructure that delivers as much bandwidth as needed, 'on tap', everywhere in GM, is essential to deliver the conurbation's economic and social ambitions. The confirmation of £740 million investment in digital infrastructure by 2020-21 to support mobile and broadband communications is therefore welcome. GM has been at the forefront of calling for and actively pursuing the approaches the Government announced in the Budget to leverage patient private investment in new fibre networks, including aggregating public sector demand and market testing. In addition, the Government is looking to trial and demonstrate 5G applications. Initial trials will be focused in secondary UK cities. However, GM will have the opportunity to secure funding for future trials which will be awarded on a competitive basis. The Government will invest £200 million (of the £740m) to fund a programme of local projects to test ways to accelerate market delivery of new full-fibre broadband networks. This is half the £400m figure stated in the Autumn Statement for the Digital Infrastructure Investment Fund. It is not clear as yet where the other £200 million will go.

### **Skills and education**

A key skills announcement was new funding for 16-19 year old technical education or 'T-Levels' from 2019, a replacement for the thousands of technical education qualifications currently in existence (the Chancellor referred to over 13,000, but previous estimates have put the total at 21,000). This builds on last year's Post-16 Skills Plan following the Sainsbury Review of technical education. Instead, T-Levels will offer '15 routes to skilled employment extending from level 2 and

level 3 up to higher skill levels, with a streamlined set of valuable qualifications'. The number of programme hours of learning on technical routes will increase to over 900 hours a year on average, including a high quality industry work placement. The aspiration for parity between academic and technical qualifications was reiterated, but there was no confirmation that one T-level would equal one A-level. These reforms will be worth £500m 'once fully implemented' and could help GM to increase the skills of its population and help more people into work. A number of technical route pathfinders will be trialled from September 2019. It has not yet been confirmed whether funding will be made available prior to full implementation to support development activity.

The Chancellor confirmed plans to use £320 million to fund up to 140 free schools, some of which will be grammar schools. This programme will cost over a billion pounds over the next five years. An additional £216 million will also be available for school maintenance. The Budget also confirmed that maintenance loans will be extended to further education learners and part-time students and the terms for doctoral loans were confirmed. In addition, education industry partnerships will be set up, and funds to enable children who receive free school meals to travel to selective schools further away will be established. A new idea of 'returnships' was also put forward, to help people who return to work after lengthy career breaks (£5m of new funding). The Government also announced lifelong learning pilots (worth £40m by 2018/19) which aim to test different approaches to how to upskill people through their working lives as the possibilities of automation grow. These investments will help support in-work skills development and career progression, tackling issues around GM's low pay, low productivity economy.

### **Low Carbon, Waste and Environment**

There was little mention of the future of Britain's green economy, although the Government remains committed to carbon pricing to help decarbonise the power sector. Currently, UK prices are determined by the EU Emissions Trading System and Carbon Price Support. Starting in 2021-22, the Government will target a total carbon price and set the specific tax rate at a later date, giving businesses greater clarity on the total price they will pay. Further details on carbon prices for the 2020s and changes to the Levy Control Framework, are to be set out at Autumn Budget 2017.

The Budget also detailed a set of new packaging recycling and recovery targets, in line with the Packaging Directive. The Government set out proposals to, by 2020, increase recycling targets for paper to 75.0%, aluminium to 64.0%, steel to 85.0% and for wood packaging to 48.0%. Targets for overall packaging recycling will increase to 75.4% (from 72.7%) and for recovery to 82.0% (from 79.0%) by 2020. In addition, the value of the Landfill Communities Fund (LCF), widely used by NGOs to support local environment projects, will remain unchanged for 2017-18, at £39.3m, and the cap on contributions by landfill operators will be increased to 5.3%.

### **Planning and Housing**

There were no new announcements directly related to planning and housing in the Budget, following the publication of last month's White Paper 'Fixing our Broken Housing Market'. This set out Government consultation on reforms to the planning system, and maintained a focus on affordable homeownership, an acknowledgment of the need to increase affordable renting options, a commitment to diversifying the market through support for SME builders and encouraging new methods of construction.