Wednesday 23 November 2016

London Councils

Autumn Statement 2016

London Councils: On The Day Briefing

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

Overview

On 23rd November 2016, Chancellor Philip Hammond delivered his first Autumn Statement. In it he made a number of policy announcements including confirmation that the Autumn Statement will be abolished and the Budget will be moved to the autumn. The 2017 Budget (in March) will therefore be the last spring Budget, and there will be a further Budget in the autumn of 2017. The Government will, however, continue to respond to the OBR's economic forecasts in the spring in a "Spring Statement" from 2018.

In addition to the policy announcements, the Chancellor also provided the usual updates on the public finances, and the overall economic outlook. At this stage, it is too early to confirm what the exact impact on local government will be and more detail is likely to emerge over time. The key headlines for London Local government are summarised below.

Key Headlines

- **Overall borrowing figures:** worse than forecast in March Budget by a cumulative £122 billion over 5 years.
- **Housing** - £3.15 billion affordable housing funding confirmed for the GLA.
- **London Devolution deal:**
  - devolution of the Adult Education Budget (subject to readiness conditions) and the Work & Health Programme were confirmed.
  - the government will "continue to work with London to explore further devolution of powers over the coming months".
- **Business rates reliefs:**
  - the preferred option for the Transitional Relief scheme confirmed – with the cap for large businesses reduced from the planned 45% to 43% in 2017-18 (benefiting London businesses by £46 million against rates increases of around £1 billion)
  - new 100% rural rate relief and 100% relief for "fibre optic infrastructure"
- **Local Government funding:** No changes to local government funding. No increase to social care funding as had been anticipated.
- **Local Growth Fund:** previously announced fund worth £1.8 billion to be allocated to LEPs (£492 million for London & South East).
- **Housing Infrastructure Fund:** of £2.3 billion by 2020-21, funded by the National Productivity Investment Fund (NPIF) and allocated to local government on a competitive basis.
- **Reform of offpayroll working rules** in the public sector (IR35) is confirmed from April 2017 – impacting on Local authorities as employers.

Economic Outlook

Alongside the Autumn Statement, the independent Office for Budget Responsibility (OBR) published new forecasts for the economy and the public finances. In addition, the Chancellor announced that the *Charter for Budget Responsibility* will be amended in order to revise the government's three formal fiscal objectives:

- **The new fiscal mandate** will be "a target to reduce cyclically-adjusted public sector net borrowing to below 2% of GDP by 2020-21"[1], replacing the previous requirement to deliver a budget surplus by the end of 2019/20. The government's objective will be to deliver a budget surplus "at the earliest possible date in the next parliament".
- **The new supplementary target** will be "a target for public sector net debt as a percentage of GDP to be falling in 2020-21", replacing the previous requirement for net debt as a % GDP to fall in every year of this parliament
- **The new welfare cap** limits a subset of 2021/22 welfare spending at cash levels within "a predetermined cap and margin set by the Treasury at Autumn Statement 2016". This 2021/22 cap has been set at £126 billion, replacing welfare caps set previously for every year of the current parliament.

The OBR'S "central forecast shows the new targets all being met", in the context of significant uncertainty over the forecast period. The OBR assesses that the government's three existing fiscal targets "would all be missed by considerable margins".

Key Economic & Fiscal Indicators

Projected public sector net borrowing has increased by £122.1 billion since the March forecast over the relevant forecast period (2016/17 to 2020/21). Table 1 below outlines the key economic and fiscal indicators underpinning the Autumn Statement. Driven by lower income tax receipts and new policy measures, public sector net borrowing will fall more slowly than anticipated. Reflecting the relaxed fiscal mandate, the budget deficit will fall to £21.9 billion by the end of the Parliament in 2019/20, compared to a forecast surplus of £10.4 billion in the March 2016 forecast. Public sector net debt is forecast to peak at 90.2% in 2017/18 before falling each year to 81.6% in 2021/22.

Table 1 – Key Economic & Fiscal Indicators

	2015	2016	2017	2018	2019	2020	2021
Gross domestic product (GDP) (%)	2.2	2.1	1.4	1.7	2.1	2.1	2.0
Public sector net borrowing (£bn)	76.0	68.2	59.0	46.5	21.9	20.7	17.2
Public sector net borrowing (deficit % of GDP)	4.0	3.5	2.9	2.2	1.0	0.9	0.7
Public sector net debt (% of GDP)	84.2	87.3	90.2	89.7	88.0	84.8	81.6
LFS unemployment (% rate)	5.4	5.0	5.2	5.5	5.4	5.4	5.4
Employment (millions)	31.3	31.7	31.8	31.9	32.0	32.2	32.3
CPI Inflation (%)	0.0	0.7	2.3	2.5	2.1	2.0	2.0

Source: HMT – Autumn Statement 2016; OBR - Economic & Fiscal Outlook, November 2016

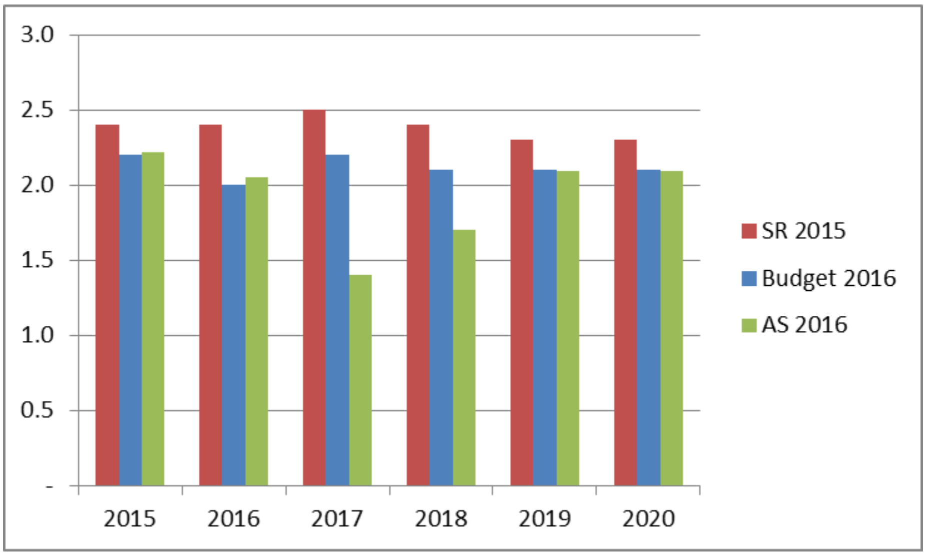
[1] Charter for Budget Responsibility: autumn 2016 update (HMT) - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571443/charter_for_budget_responsibility_autumn_2016_web.pdf

Primarily driven by the knock-on effect on import prices from a weaker pound, the CPI measure of inflation is forecast to rise to 2.3% in 2017, higher than the 0.7% forecast in March 2016. Slower than anticipated GDP growth has led to an upwards revision of the forecast unemployment rate, which is now expected to peak at 5.5% in 2018 before levelling off at 5.4% in subsequent years.

Growth

Gross domestic product (GDP) is expected to grow by 1.4% and 1.7% in 2017 and 2018 respectively, revised downwards from forecasts of 2.2% and 2.1% in March 2016. The downwards revision has primarily been driven by a weaker outlook for investment and productivity growth. Forecast growth of 2.1% in both 2019 and 2020 remains unchanged since March.

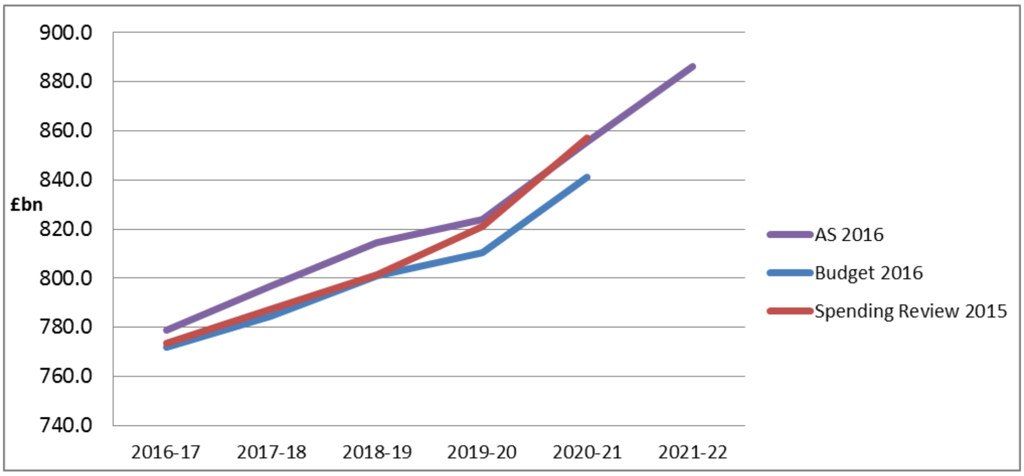
Chart 1 - Change in GDP growth forecasts since Spending Review 2015



Source: Office for Budget Responsibility; Economic and Fiscal Outlooks

Key Announcements

Chart 2 – Total Managed Expenditure Forecasts (£bn) – change Budget 2016 to Autumn Statement 2016



Note: Figures are outturn rather than real terms

Public Spending

- Overall public spending **- Total Managed Expenditure - will be £14.5 billion per annum higher than previously forecast in Budget 2016** by 2020-21 (see Chart 2).
- As announced at Budget 2016, the government intends to identify **£3.5 billion of efficiency savings** in 2019-20. £1 billion of these savings will be reinvested to “priority areas” (no further detail).
- Government will report on progress in autumn 2017.

Business Rates

- The preferred option for the **Transitional Relief scheme** has been confirmed – with the cap for large businesses being reduced from 45% to 42% in 2017-18 and from 50% to 32% in 2018-19 (compared with the government’s original preferred option). This benefits London businesses by £46 million in 2017-18 and £33 million in 2018-19 (against aggregate increases of around £1.1 billion a year).
- **100% relief announced for new full-fibre infrastructure** for a 5 year period from 1 April 2017.
- **Rural rate relief will double to 100%** from 1 April 2017.
- Government reconfirmed the **Business tax road map** – including reducing business rates by £6.7 billion over the next 5 years (previously announced at Budget 2016).

Devolution

- There was no specific announcement relating to fiscal devolution for London, however the government did confirm it will **“continue to work with London to explore further devolution of powers over the coming months”.**
- The budget for the **Work and Health Programme will transfer to London**, and to Greater Manchester, subject to the two areas meeting certain conditions, including on co-funding.
- **Affordable housing settlement -** The government confirmed the **GLA’s affordable housing settlement be £3.15 billion**, to deliver over 90,000 housing starts by 2020-21**.**
- **Devolution of the Adult Education Budget to London** from 2019-20 (subject to readiness conditions) – this is estimated to be around £400 million.
- Work continues on a second devolution deal with the West Midlands Combined Authority and talks to begin on future transport funding with Greater Manchester.

Housing

- **Local Housing Allowance (LHA) rates in social housing** – the implementation of the cap on Housing Benefit and LHA rates in the social rented sector will be delayed by 1 year, to April 2019. The cap will be applied to all supported housing tenancies from April 2019, and the government will provide additional funding to Local Authorities, so that they can meet the additional costs of supported housing in their area. For general needs housing, the cap will now apply from April 2019 for all tenants on Universal Credit, and to Housing Benefit tenants whose tenancies began or were renewed since April 2016.
- **Social rent downrating** – refuges, almshouses, Community Land Trusts and co-operatives will be exempt from the policy to reduce social sector rents by 1% a year for 4 years from 2016-17.
- **Affordable homes** – the government will relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost ownership.
- **Housing Infrastructure Fund** – £2.3 billion by 2020-21, funded by the National Productivity Investment Fund (NPIF) – see below for full details of NPIF - and allocated to local government on a competitive basis, to provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest. The NPIF will provide an additional £1.4 billion to deliver an additional 40,000 affordable housing starts by 2020-21
- **Infrastructure spending -** The government will examine options to ensure that other non NPIF government transport funding better supports housing growth.

- **Accelerated construction** – the government will invest £1.7 billion by 2020-21 through the NPIF to speed up house building on public sector land in England.
- **Right to Buy** – The government will fund a regional pilot of the Right to Buy for housing association tenants enabling over 3,000 tenants to access discounts (worth £250 million over 5 years). There has been no further detail about the disposal of high value assets which is supposed to fund the wider roll out of this policy.
- **Pay to Stay** – As announced by DCLG on 21 November 2016, the government has decided not to implement Pay to Stay, but intends to ensure that social housing is occupied by those who need it most through other measures including fixed term tenancies.
- **Housing White Paper –** This is to be published "shortly".

Transport & infrastructure

- **National Productivity Investment Fund (NPIF) -** £23 billion from 2017-18 to 2021-22, to support high-value investment, principally four areas considered critical for productivity: transport, digital communications, R&D and housing. (A number of detailed announcements within this £23 billion fund are set out below).
- **Strategic Infrastructure -** The fiscal remit invites the National Infrastructure Commission (NIC) to set out recommendations on the assumption that spending on infrastructure will lie between 1% and 1.2% of GDP each year from 2020 to 2050.
- **Investment -** Annual central government investment in economic infrastructure (transport, energy, flood defences, water, waste, and digital communications) will increase by almost 60% from £14 billion in 2016-17 to £22 billion in 2020-21. (Includes NPIF)
- **Local roads and transport –** The NPIF will provide an additional £1.1 billion by 2020-21 in new funding to relieve congestion and deliver upgrades on local roads and public transport networks.
- **Strategic roads -** an extra £220 million will be invested to tackle key pinch-points. The government will recommit to the National Roads Fund announced at Summer Budget 2015.
- **Future transport –** The NPIF will invest a further £390 million by 2020-21 to support ultra-low emission vehicles (ULEVs), renewable fuels, and connected and autonomous vehicles (CAVs). This includes £80 million for ULEV charging infrastructure, and £150 million in support for low emission buses and taxis.
- **Rail:** From 2018-19 to 2020-21, the NPIF will allocate an additional £450 million to trial digital signalling technology, to expand capacity, and improve reliability, and "is looking forward to receiving a business case for Crossrail 2".
- **Local Enterprise Partnerships (LEPs) -** The government will award £1.8 billion to LEPs across England through a third round of Growth Deals, including **£492 million to London and the South East**. Awards to individual LEPs will be announced in the coming months.
- **Infrastructure lending:** The government will also consult 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.
- **Infrastructure lending:** The government will give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury.
- **Digital communications:** the government will invest over £1 billion by 2020-21, including £740 million through the NPIF, targeted at supporting the market to roll out full-fibre connections and future 5G communications.
- **Flood defence and resilience:** The government will invest £170 million in flood defence and resilience measures.

Employers

- **Insurance Premium Tax (IPT)** – The standard rate of IPT will rise to 12% from 1 June 2017. IPT is a tax on insurers and so any impact on premiums depends on insurers' commercial decisions. This will raise around £4 billion over 5 years.
- **National living wage**: the government will **increase the National Living Wage** (NLW) by 4.2% from £7.20 to £7.50 from April 2017.
- **Off-payroll working rules**: the government has confirmed it will **reform the offpayroll working rules in the public sector from April 2017** by moving responsibility for operating them, and paying the correct tax, to the body paying the worker's company. The 5% tax-free allowance will be removed for those working in the public sector, reflecting the fact that workers no longer bear the administrative burden of deciding whether the rules apply.

Education & children's services

- **Grammar schools:** £50 million a year will be made available from 2017/18 to introduce a new **grammar school capital fund** to support the expansion of existing grammar schools.
- **Tax-free childcare:** will be introduced gradually from early 2017, with full roll-out taking place at the end of a trial period.

Welfare

- The government will deliver welfare savings already identified **but has no plans to introduce further welfare savings measures in this Parliament beyond those already announced.**
- **Welfare Cap**: To maintain control of welfare spending the government is introducing **a new medium-term welfare cap** and will apply to welfare spending in 2021-22. Performance against the cap will be formally assessed by the OBR in 2020-21. In the interim years, progress towards the cap will be managed internally, based on the OBR's monitoring of forecasts of welfare spending.
- **Universal Credit taper –** From April 2017, the taper rate that applies in Universal Credit will be reduced from 65% to 63%. The government estimates that 3 million households will benefit from this change.
- **Universal Credit roll out –** The Autumn Statement provides funding for the welfare announcement made by the Secretary of State for the Department for Work and Pensions (DWP) on 20 July 2016, which included policy changes and revisions to the Universal Credit roll out schedule.
- **Personal Independence Payment (PIP)** – The Autumn Statement accounts for the government's previously announced decision not to go ahead with changes proposed at Budget 2016 to PIP.
- **Support for refugees –** refugees and their family members will be exempted from the Past Presence Test, meaning that they will no longer have to be resident in the UK for 2 years before they can receive disability benefits.

Appendix A – Public Spending Figures

Overarching figures have been updated since Budget 2016 (see Table A1 below). It is estimated that TME will fall from 39.9% of GDP in 2016-17 to 37.8% of GDP by 2021-22. Under the current plans, Resource AME continues to rise (from £370.2 billion in 2016-17 to £439.8 billion in 2021-22). Overall Government Resource DEL[2] will increase from £329.6 billion in 2016-17 to £340.4 billion in 2021-22 in cash terms.

Table A1 – Total Managed Expenditure – 2016-17 to 2021-22

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Resource AME	370.2	386.9	400.3	407.2	421.1	439.8
Resource DEL excl. dep	309.0	304.2	306.3	305.6	311.5	317.6
Depreciation	20.6	21.9	22.8	23.3	21.9	22.8
RDEL incl. depreciation	*329.6*	*326.1*	*329.1*	*328.9*	*333.4*	*340.4*
Public sector current expenditure	**699.8**	**713.0**	**729.4**	**736.2**	**754.5**	**780.1**
Capital AME	26.6	26.7	25.8	27.3	30.4	32.0
Capital DEL	52.3	57.2	59.2	60.2	70.6	74.2
Public sector gross investment	**79.0**	**84.0**	**85.1**	**87.5**	**101.1**	**106.3**
TOTAL MANAGED EXPENDITURE	**778.8**	**797.0**	**814.5**	**823.7**	**855.6**	**886.4**
TME as % GDP	*39.9%*	*39.8%*	*39.1%*	*38.0%*	*38.0%*	*37.8%*

Source: Autumn Statement 2016 (Table 1.5) p.17

Potential impact on local government funding

It is not expected that the policy changes announced will impact in local government funding. The final 2016-17 Local Government finance settlement set out four year funding allocations for local government in February. The £3.5 billion of additional public spending reductions from the “departmental efficiency review” announced in the Sending Review will report in 2018. The government has indicated that £1 billion of this will be reinvested to support “priority areas”, but this will not impact local government funding.

[2] Includes depreciation