Manchester City Council
Report for Information

Report to: Resource and Governance Scrutiny Committee – 8 December 2016
The Executive – 14 December 2016

Subject: Autumn Statement and Spending Review 2016

Report of: Chief Executive and City Treasurer

Summary

This report provides an overview of the key announcements within the Chancellor of the Exchequer's 2016 Autumn Statement which sets out the next stages of the government's long term economic plan

Recommendations

Members are asked to note the report.

Wards Affected: All

<table>
<tr><th>Manchester Strategy outcomes</th><th>Summary of the contribution to the strategy</th></tr>
<tr><td>A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities</td><td rowspan="5">The Autumn Statement provides an update on government taxation and spending plans, based on the economic projections provided by the Office of Budget Responsibility (OBR).

The OBR publishes its estimates for the country's economic growth, including inflation and unemployment projections, and government finances.</td></tr>
<tr><td>A highly skilled city: world class and home grown talent sustaining the city's economic success</td></tr>
<tr><td>A progressive and equitable city: making a positive contribution by unlocking the potential of our communities</td></tr>
<tr><td>A liveable and low carbon city: a destination of choice to live, visit, work</td></tr>
<tr><td>A connected city: world class infrastructure and connectivity to drive growth</td></tr>
</table>

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue and Capital

There will be revenue implications as a result of these announcements. These have yet to be quantified.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

2016 Autumn Statement document is available on the Government's website (www.gov.uk).

Introduction

1. On 23 November 2016 the Chancellor of the Exchequer, Philip Hammond, delivered his first budget statement following the EU referendum which sets out the next stages of the government's long term economic plan.

2. As expected, this year's Autumn Statement is different in style to previous years: comparatively high level, streamlined and focused on fiscal priorities, whilst paving the way for further announcements. Details of any Greater Manchester settlement will follow over the coming weeks and months, with announcements made over time, and involving relevant Government Departments.

3 The Chancellor also announced that this would be the final Autumn Statement in its current form. In future years the main budget statement will be made in November with a supplementary statement in March.

4 While this year's Autumn Statement does provide some announcements of particular interest to Manchester, the direct implications for the council's revenue budget will not be known until the Local Government Financial Settlement is announced. This is expected in mid December. This report provides an overview of the key announcements and Annex 1 details the wider economic context.

Overview

5. The Autumn Statement outlined the Office for Budgetary Responsibility's (OBR) forecasts for economic growth and government borrowing during this parliament. The OBR forecast that uncertainty caused by the EU referendum result means that potential growth in the current Parliament will be 2.4 percentage points lower than forecast in March. As a result government finances are forecast to be £122bn worse off by 2020/21 than was predicted in March 2016.

6. The revised OBR forecasts in the Autumn Statement predict growth of 1.4% in 2017 rising to 2.1% by 2019/20. The deficit is now forecast to be £68.2bn in 2016/17, up from the £55.5bn cited in the Budget in March 2016.

7. Consequently, the Government has now withdrawn its plans to achieve a budget surplus in 2019/20. Instead the Autumn Statement announced three new fiscal rules:
   - To achieve a balanced budget as soon as is practical in the next Parliament, with Public Sector Net Borrowing down to 2% of GDP in this Parliament
   - Public sector net debt as a share of GDP must be falling by the end of this Parliament
   - Welfare spending must be within a cap, set by the Government and monitored by the OBR.

Productivity and Infrastructure

8. The Chancellor announced a new National Productivity Investment Fund (NPIF) worth £23bn over five years, which will be targeted at four areas that it regards as are critical for improving productivity: housing, transport, digital communications and innovation.

9. The NPIF will add £23bn of investment up to 2020/21, including an increase in Research and Development investment of £2bn per year by 2020. The NPIF will also provide an additional £1.1bn by 2020/21 in new funding to relieve congestion and deliver upgrades on local roads and £220 million to relieve congestion on the Highways England road network..

10. The Government has indicated that the £1.1 billion allocated for local roads is intended to fulfil at least one of the following objectives:

- Easing congestion of important national, regional or local routes;
- Unlocking economic and job creation opportunities; or
- Enabling the delivery of new housing developments.

11. The Statement also referred to the intention to allocate £70 million of funding from the “Pothole Action Fund” by formula to local highway authorities in 2017/18.

12. Of particular interest to Greater Manchester however is a specific reference to “talks on future transport funding with Greater Manchester.” This is a direct response to Greater Manchester’s ask within its Autumn Statement submission to open discussions regarding the establishment of a second GM Transport Fund. Government has also announced that it will make funding available to enable the business case for an extension of the Metrolink network from its current terminus at the Airport Rail station to serve the Airport’s Terminal 2.

13. The Autumn Statement also indicated that construction of HS2 Phase 1 will start next year.

14. The Government will invest over £1bn by 2020/21, including £740 million through the NPIF, targeted at supporting the market to roll out full-fibre connections and future 5G communications. A Digital Infrastructure Investment Fund will contribute £400m, match funded by private finance and supported by 100% business rates relief for new full-fibre infrastructure for a five year period from 1 April 2017.

15. The Government will commit to spending between 1.0% and 1.2% of GDP from 2020 on economic infrastructure - by comparison, it is currently spending 0.8%.

Housing

16. The Chancellor announced £7.2bn from the NPIF for housing. Within this overall allocation the Chancellor announced the establishment of a **£2.3 billion Housing Infrastructure Fund** to be allocated to local government on a competitive basis. The Fund will "provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest" and will deliver up to 100,000 new homes. Whilst this is a welcome announcement, it will be necessary to probe the reference by the Chancellor to a focus on "areas of high demand" and its relationship to emerging national engines of growth such as Greater Manchester.

17. The Chancellor has also announced funding of £1.4 billion to deliver an additional 40,000 affordable housing starts by 2020/21 and of particular significance is a commitment to "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." This responds directly to one of the asks of Greater Manchester's Autumn Statement submission, which sought a "lighter regulatory framework that would allow local areas to adjust tenure to accommodate real demand in the marketplace."

18. 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 Greater Manchester 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.

19. The Government will also relax restrictions on grant funding to allow registered housing providers to deliver a mix of homes for affordable rent and low cost ownership.

20. The Government will fund a large-scale regional pilot of the Right-to-Buy for housing association tenants in undetermined locations. Over 3,000 tenants will be able to buy their own home with Right-to-Buy discounts under the pilot.

21. The Government has also committed to publishing a Housing White Paper later this year setting out measures to speed-up the supply of new homes and seek to halt the decline in housing affordability.

22. The Government has announced a ban on letting fees for tenants, to come into effect as soon as possible. Letting fees have already been banned in Scotland, where research has shown that landlords have been no more likely to increase rents than elsewhere in the UK.

23. A further announcement doubles the size of the current Rough Sleeping Fund from £10 to £20 million per annum.

Northern Powerhouse and Devolution

24. In addition to and alongside the 2016 Autumn Statement, Government has also published a Northern Powerhouse (NPH) Strategy. This is good news, and responds to the work that Greater Manchester has undertaken over recent months to ensure that the Northern Powerhouse is fully recognised and embedded within the Government's policy framework.

25. The NPH Strategy builds on the work that has been undertaking with Core City colleagues to identify the "Prime Capabilities" that will drive productivity across the North, and highlights the four key areas of connectivity, skills, innovation and trade as priorities for further work.

26. The Strategy explicitly recognises existing Government commitments to the Northern Powerhouse including, amongst others, £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.

27. The Strategy references many of the announcements set out in the Autumn Statement, particularly those relating to the National Productivity Investment Fund and Local Growth Fund allocations. However, the Strategy 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.

28. Such additional work 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;
   - 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;

29. Whilst ensuring that national strategy reflects local priorities is a step forward such commitments to further work fall well short of Greater Manchester's asks to integrate such services at place level.

30. Further detail is required from Government on their approach to underpin their commitments on inclusive growth, the Industrial Strategy and the NPH Strategic Framework. Greater Manchester's submission to the Autumn Statement process, and the proposals put forward by the Northern Core Cities set out an integrated approach to driving growth and productivity during the period of uncertainty resulting from Britain's decision to withdraw from the EU, whilst improving social and economic inclusion, tackling high levels of worklessness and disconnection from the labour market, which have remained

stable for a decade or more. Greater Manchester still needs to work hard to ensure that Government embraces the place-based approach that has been advocated (and implemented) for many years.

31. Whilst the introduction of the Northern Powerhouse Strategy is welcome further work is required to ensure that it brings together 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.

32. The Government will award £1.8bn to Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals. £556 million of this will go to the North of England. Awards to individual LEPs will be announced in the coming weeks. This funding is for local infrastructure and is intended to improve transport connections, unlock house building, boost skills, and enhance digital connectivity.

33. The Government has committed to give Mayoral Combined Authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure.

Work and Pay

34. Universal Credit operates a constant withdrawal rate on net earnings – the taper rate. The current rate of 65% means that once claimants earn above the work allowances in Universal Credit, their income will be withdrawn at a rate of 65 pence for every extra £1 earned. From April 2017, the taper rate that applies in Universal Credit will be reduced from 65% to 63%. It has been predicted that many families will gain no more than c£200 pa. from this change.

35. From April 2017 employers and employees who use benefits in kind schemes, known as salary sacrifice, will pay the same tax as everyone else with some exceptions, including for childcare, cycling and low emission cars. This will impact Manchester’s current offerings, which are under review and include a car parking scheme.

36. National living wage for over 25’s will increase from £7.20 per hour to £7.50 in April next year, which equates to an increase of 4%.

37. In 2017 the tax-free personal allowance will rise to £11,500. The Government is still committed to increasing the allowance to £12,500 by the end of this parliament.

38. From April 2018 termination payments over £30,000 and subject to income tax will also be subject to employer national insurance contributions. The first £30,000 of a termination payment will remain exempt from income tax and national insurance.

39. Following consultation, the government will reform the off-payroll working rules in the public sector. From April 2017 responsibility for operating them and paying the correct tax will transfer to the body paying the worker's company (i.e. the public sector body). Government believe public sector bodies have a duty to ensure that those who work for them pay the right amount of tax. The Government's view is that this reform will help to tackle the high levels of non-compliance with the current rules and means that those working in a similar way to employees in the public sector will pay the same taxes as on-payroll employees. In addition the 5% tax-free allowance will be removed for off-payroll employees working in the public sector, reflecting the fact that these workers no longer bear the administrative burden of deciding whether the rules apply.

Business

40. The Chancellor announced that £400m would be injected into the British Business Bank to then be placed with venture capital funds. It is hoped that this will unlock £1bn of new finance for firms planning to scale up and tackle the problem of growing British technology firms being bought by bigger international companies.

Brexit

41. The Government has set aside up to £412 million of additional funding over the course of this Parliament to help the Civil Service prepare for Brexit.

42. The OBR has provided an appendix to the Autumn Statement detailing the potential financial impact of Brexit as £58.7bn up to 2020/21.

Social Care

43. There were no announcements on social care spending to recognise the demand pressures being experienced nationally.

Recommendations

44. Members are asked to note the report.

Annex 1: Autumn Statement 2016 – Summary

1 Introduction

1.1 The purpose of this annex is to provide more detail on the economic context and the impact on Local Government finances following the Chancellor of the Exchequer's Autumn Statement 2016 announcement.

2 Economic Context

Growth

2.1 The table below shows the growth forecasts contained within the Autumn Statement 2016 announcement, in comparison to the same forecasts contained within the Autumn Statements and the Budgets in 2016, 2015, 2014 and 2013:

UK GDP growth	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Autumn Statement 2016	2.1%	1.4%	1.7%	2.1%	2.1%	2.0%
Budget 2016	2.0%	2.1%	2.1%	2.1%	2.1%	-
Autumn Statement 2015	2.4%	2.5%	2.4%	2.3%	2.3%	-
Summer Budget 2015	2.3%	2.4%	2.4%	2.4%	2.4%	-
Budget 2015	2.3%	2.3%	2.3%	2.4%	-	-
Autumn Statement 2014	2.2%	2.4%	2.3%	-	-	-
Budget 2014	2.6%	2.6%	2.5%	-	-	-
Autumn Statement 2013	2.6%	2.7%	2.7%	-	-	-

2.2 The growth forecast for 2016 has been increased to 2.1% since the Budget, with growth in 2017 forecast at 1.4%, a 0.7% decrease from the Budget. The longer term prospects for growth have increased for 2018 and again in 2019, remaining static beyond that.

2.3 Several of the other forecasts provided by the OBR have been updated from the Budget 2016. The latest forecasts predict that the net borrowing amount will reduce year on year, falling to £20.7bn by 2020-21 removing the targeted surplus by the end of the current Parliament.

Other forecasts from Autumn Statement 2016	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Public Spending Net Borrowing (% of GDP)	3.5%	2.9%	2.2%	1.0%	0.9%	0.7%
Public Spending Net Borrowing – Deficit/(surplus) (£bn)	68.2	59.0	46.5	21.9	20.7	-
Public Spending Net Debt (% of GDP)	87.3%	90.2%	89.7%	88.0%	84.8%	81.6%
Unemployment (%)	5.0%	5.2%	5.5%	5.4%	5.4%	5.4%

Inflation

2.4 The forecasts for CPI show it will rise from 0.7% to 2.3% in 2017-18 increasing to 2.5% in 2018-19 before falling back down to 2.1% in 2019-20.

Inflation forecasts from Autumn Statement 2016	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
CPI Inflation	0.7%	2.3%	2.5%	2.1%	2.0%	2.0%
RPI Inflation	1.8%	3.2%	3.5%	3.2%	3.1%	3.2%

2.5 The OBR expects average earnings to grow faster than CPI inflation throughout the forecast period, with 2.2% in 2016-17, 2.4% in 2017-18 rising to 3.7% in 2021-22.

3 <u>Departmental Funding beyond 2016-17</u>

3.1 The Autumn Statement 2016 sets out the following Resource Departmental Expenditure Limits (RDEL) allocations for 2016-17 to 2021-22.

Resource DEL ***Autumn Statement 2016***	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Total Resource DEL (£ billion)	309.0	304.2	306.3	305.6	311.5	317.6
Year on year change in total resource DEL (£ billion)		-4.8	2.1	-0.7	5.9	6.1
Change in total DEL from Budget 2016	**-7.1**	**-21.0**	**-21.3**	**-21.4**	**-22.1**	

Resource DEL ***Budget 2016***	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Total Resource DEL (£ billion)	316.1	325.2	327.6	327.0	333.6	
Year on year change in total resource DEL (£ billion)		9.1	2.4	-0.6	6.6	

3.2 Comparing the projected Departmental Expenditure Limits (DEL) as at Budget 2016 to the Autumn Statement 2016 shows a worsening position each year to 2020/21. However, the SIGOMA authority focus group state it is not possible to draw absolute conclusions from this as it could be attributable to changes to the Scottish devolved budget and as individual DELs are not provided it is not possible to tell.

3.3 It should also be noted that the 2019-20 total DEL includes a £3.5bn planned efficiency target that has not, as yet, been allocated to any Departments.

3.4 Government remains committed to the overall plans for departmental resource spending set out at the Spending Review 2015. All new spending initiatives announced in the Autumn Statement, with the exception of the National Productivity Investment Fund, are fully funded.

3.5 The announced departmental resource spending will grow with inflation through to 2021-22.

3.6 The government will continue to constrain public spending into the next Parliament to reach a balanced budget and live within its means.

4 Other announcements impacting Local Government Funding

4.1 The Government will increase the National Living Wage from £7.20 to £7.50 from April 2017 with employee and employer National Insurance thresholds to be equalised at £157 per week from April 2017.

4.2 Government will remove the tax and NICS from salary sacrifice arrangements with the exception of arrangements relating to pensions, childcare, Cycle to Work and ultra-low emission cars.

4.3 The Government will fund a large scale regional pilot of the right to buy for housing association tenants.

4.4 There will be a National Productivity Investment Fund of £23bn to be spent on innovation and infrastructure.

4.5 An additional £2bn per year will be available for research and development funding.

4.6 £556 million to Local Enterprise Partnerships in the North of England via Local Growth Fund, which is used to fund projects that benefit the local area and economy.

4.7 An additional £1.4bn to deliver 40,000 additional affordable homes.

Business rates and taxes

4.10 The Government will allow a new 100% business rate relief for new full-fibre infrastructure for a 5 year period from 1 April 2017.

4.11 Rural rate relief is to be doubled to 100% as from 1 April 2017 onward. Rates income foregone because of rural and fibre relief will be reimbursed via a Section 31 grant.

4.12 There was reference to “reducing the burden of business rates by £6.7 billion over the next 5 years.” It is thought that this relates to existing policy changes relating to small business rates relief from April 2017.

4.13 Business rates relief for other companies will be announced by Secretary of State for Communities and Local Government.

4.14 There was no mention of an increase in the Social care precept for council tax.

4.15 Corporation Tax will reduce to 17% by 2020 the lowest in the G20.

4.16 Insurance Premium Tax (IPT) is to be increased from 10.0% to 12.0% from next June.

Personal Taxes

4.17 The Personal Allowance is to increase to £12,500 and the higher rate threshold to £50,000 by the end of this Parliament. For 2017/18 the personal tax allowance will rise to £11,500 and the higher rate threshold to £45,000.

4.18 Fuel duty to remain frozen for seventh year.