

**Manchester City Council
Report for Resolution**

Report to: Resources and Governance Scrutiny Committee – 6 December 2018

Subject: Chancellor's Autumn Budget update – implications for Manchester

Report of: The City Treasurer

Summary

This report provides an overview of the key announcements within the Chancellor of the Exchequer's 2018 Autumn Budget outlining the Government's fiscal agenda, and the implications for Manchester.

Recommendations

Members are asked to note the report.

Wards Affected:

All wards

Contact Officers:

Name: Carol Culley
Position: City Treasurer
Telephone: 0161 234 3406
E-mail: c.culley@manchester.gov.uk

Background documents (available for public inspection):

2018 Autumn Budget document is available on the Government's website
<https://www.gov.uk/government/publications/budget-2018-documents>

1 Introduction

- 1.1 On 29 October 2018 the Chancellor of the Exchequer, Philip Hammond, delivered his Budget statement which set out the next stages of the Government's long term economic plan. This is the last Autumn Budget before Brexit.
- 1.2 This is a briefing on the content of the Autumn Budget 2018 outlining the Government's fiscal agenda, and the implications for Manchester.

2 Overview

- 2.1 The Budget headline is that this is "the end to austerity". According to the Chancellor, economic forecasts are improving, the deficit is falling, and he expects to meet his fiscal targets. The Office for Budget Responsibility (OBR) has announced an upgrade in growth forecasts which have in turn resulted in improved forecast budget deficits. There is no clear definition of "austerity", a reasonable assumption is that public spending should stop falling in real terms and start to increase in line with growth in the economy.
- 2.2 Of most immediate interest to local authorities is the announcement of new or additional funding, for which further detail is awaited in a number of instances:
- £650m additional grant funding for social care in 2019/20, £240m of which is the continuation of previous Adult Social Care funding in 2018/19, together with a further £410m which has been allocated for both adults and children's social care. For Manchester the indicative total grant is £7.2m.
 - £55m for Disabled Facilities Grant in 2018-19, of which the estimate is £0.814m for Manchester. This is generally a capital grant.
 - £84m for 5 years on the children's service programme in 20 areas from 2019/20.
 - £420m in 2018/19 for potholes that will be allocated directly to highways authorities and must be spent prior to 31 March 2019. The allocation for Manchester is £1.686m;
 - £675m Future High Streets Fund in 2019-20 to support local areas to improve access to high streets and town centres
 - £10m capacity funding made available to support housing deals with authorities in areas of high housing demand to deliver above their Local Housing Need.
- 2.3 Whilst welcome, the funding announcements are unlikely to have a fundamental impact on the Council's budget strategy for 2019/20. However, the additional Social Care funding could meet some of the pressures faced.

3 Brexit

- 3.1 The budget includes an additional £500m of support to government departments, preparing for exiting the EU, and this brings the government's investment in EU exit preparations to over £4bn since 2016.

- 3.2 The Chancellor said the Budget forecasts used were based on an "average-type free trade deal" being agreed between the two sides. Should the government be unable to reach a Brexit deal with the EU, there would need to be a "different response", with "fiscal buffers" being maintained to provide support for the economy.
- 3.3 The Chancellor will upgrade the **2019 Spring Statement** to a full fiscal event if required which could include further tax or borrowing measures.

4 The Wider Economy

- 4.1 It should be noted that the Office of Budgetary Responsibility (OBR) has not attempted to predict the precise outcome of negotiations with the EU. Instead, it has made broad assumptions, which have not changed since the Autumn Statement 2016.
- 4.2 The OBR said there had been a "*significant improvement in the underlying pace of deficit reduction*" and that the government had been on course to achieve a balanced budget by 2023-24. However, it added that this improvement had been offset by the extra spending promised for the NHS by the prime minister in June 2018. "*The Budget spends the fiscal windfall rather than saving it*".
- 4.3 The **budget deficit** is forecast to continue falling, it is expected to be less than 1.4% next year and would fall to 0.9% by 2022-23. Net borrowing in 2018-19 is expected to be £11.6bn lower than forecast at the 2018 Spring Statement. Medium term forecasts now suggest that net borrowing will level-out at about £20bn in 2022-23 and 2023-24. This is an improvement on the forecasts in the last two fiscal announcements (Autumn Budget 2017 and Spring Statement 2018). Much of the improvement has been as the result of better-than-expected taxation receipts. It now seems that Government is content to operate with a small budget deficit and is not going to seek to balance the budget during the next spending review period.
- 4.4 **Debt as a percentage of GDP** remains high at about 80% of GDP and is forecast to stay near this level for the foreseeable future, which is considerably higher than the pre-recession level of 40% of GDP. It peaked at 85.2% in 2016-17 and is expected to be 83.7% in 2018-19 before falling to 82.8% in 2019-20, 79.7% in 2020-21, 75.7% in 2021-22, 75.0% in 2022-23, and 74.1% in 2023-24.
- 4.5 An increase in taxation receipts in 2018-19 and forecast increases to 2023-24 have enabled the Chancellor to fund increases in public spending without large increases in taxation. Such an increase in taxation receipts shows the difficulty in forecasting the performance of the economy and growth in GDP.
- 4.6 The **growth forecasts** continue to be moderate, with the OBR saying growth over the next few years will never go above 1.6% barely an increase from the

forecasts back in March - Forecast of 1.3% growth for 2018, then 1.6% in 2019, 1.4% in 2020, 1.4% in 2021, and 1.5% in 2022 and 1.6% in 2023.

- 4.7 **Inflation** - Consumer Price Index (CPI) forecasts are slightly higher now in the Autumn Budget than in previous fiscal statements (2.6% rather than 2.4%) but the medium-term forecast remains at about 2.0%. The OBR forecasts average earnings to grow by 2.6% in 2018 and 2.5% in 2019, before rising to 2.8% in 2020. Average earnings growth is then forecast to increase further to 3.2% in 2023.

5 Public Spending 2020/21 onwards

- 5.1 The growth in taxation receipts feeds-through into an increase in departmental expenditure limits (DELS) and annually-managed expenditure (e.g. benefits, pensions, debt). The Budget provides an indicative 5-year plan for public spending which shows expenditure is materially higher in 2019-20 and in every subsequent year compared to recent forecasts. The trajectory of growth is also greater. Expenditure is now expected to grow at 1.2% per year in real terms from 2019-20 onwards (contrasted to an average cut in real-term funding in the 2015 Spending Review of -1.3%).
- 5.2 The 2019 Spending Review will decide on the balance of funding between departments. Much of the increase will be allocated to the NHS as the budget confirmed the Prime Minister's announcement that by 2023-24 spending on the NHS will be £20.5bn higher in real terms per year. Paul Johnson (from the Institute of Fiscal Studies) said *"total day-to-day spending on public services is planned to rise by about 8% between now and 2023-24, but spending outside of protected areas is "essentially flat"*. He stated that health spending will have risen from 23% of public service spending in 2000 to 29% in 2010, and is set to reach 38% by 2023-24.

6 Social Care Funding

- 6.1 In the short term, the Budget provides a further £240m in 2019/20 for adult social care, which equates to £2.667m each year for Manchester, this has been allocated in accordance with the Adult Social Care Relative Needs Formula (RNF).
- 6.2 The Budget also provides a further £410m in 2019/20 for adults and children's social care, described as follows *"Where necessary, local councils should use this funding to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children."*. The Government has stated its intention is to allocate this sum in accordance with the Adult Social Care Relative Needs Formula, Manchester will receive £4.555m on this basis.
- 6.3 The £2.667m is a continuation in 2019/20 of £240m winter pressure funding provided in 2018/19 to ensure that adult social care pressures do not create additional demand on the NHS. It is required to be pooled and reported on as

part of the Better Care Fund. The proposals for the City Council funding have been endorsed by the MLCO and MHCC Executive Committees and will be presented for approval to the Council's Executive in December.

- 6.4 The £4.555m is for Manchester to improve the social care offer for adults and children's social care in 2019/20. There is a need to determine how we make the most effective use of this to support the budget.
- 6.5 This additional funding is ahead of reviewing spend requirements in next year's spending review and there is no information on what will happen to these grants. There was an acknowledgement that the long awaited social care Green Paper will contain some difficult choices. The Green Paper is now expected before the end of this calendar year.
- 6.6 There is also an additional £55m of capital funding in 2018/19 for the Disabled Facilities Grant (DFG), a fairly significant increase of 11.7% on the current £468m grant. At present the Council receives £6.9m of DFG, and if the additional funds are allocated on the same basis a further £814k would be expected.
- 6.7 Children's services were allocated £84m over five years for up to 20 local authorities to help more children to stay at home safely with their families. This investment builds on the lessons learned from successful innovation programmes in Hertfordshire, Leeds and North Yorkshire. There are no details on how the 20 authorities will be chosen.

7 Transport and Highways

- 7.1 Local authorities will receive £420m to fix potholes on roads and renew bridges and tunnels for local highways maintenance. This additional resource is being allocated using the highways maintenance funding formula and is for the repair of roads (including potholes), bridges and local highways infrastructure generally. The conditions are awaited from DfT; but this funding must be spent by the end of March 2019. The Council is expected to receive £1.69m. There will be an additional £150m to improve local traffic hotspots such as roundabouts.
- 7.2 The Chancellor also announced funding of £37m towards supporting the development of Northern Powerhouse Rail. The £37m of development funding is the only major rail announcement for the North of England in the Budget.
- 7.3 This project is of key importance to the City and officers continue to work closely with DfT, Transport for the North (TfN) and TfGM to ensure the optimum solution is delivered.
- 7.4 There is also a £28.8 billion National Roads Fund, paid for by road tax to provide long-term certainty for roads investment, including the new major roads network and large local major roads schemes.

7.5 Announcements relating to transport in Combined Authority areas are discussed below at paragraph 13.2.

8 Business Rates and the high street

8.1 Business rate will be reduced for small businesses, bills will be reduced by one-third for retail properties with a rateable value below £51,000, benefiting up to 90% of retail properties, for 2 years from April 2019, subject to state aid limits. The £1,500 local newspaper discount will be extended for another year. The losses in income will be refunded through Section 31 grant payments to local authorities.

8.2 In terms of the impact on Manchester based on the retail relief scheme in 2014-15 and 2015-16 it is expected around 1,700 properties will receive the Retail Relief. Manchester does not have any newspaper producing properties.

8.3 Local authorities will be able to award mandatory business rate relief to public lavatories, whether publicly or privately owned. There are 10 buildings described as public conveniences in the city.

8.4 In the longer term, to support a sustainable transformation of high streets, the plan includes a £675m Future High Streets Fund, planning reform, a High Streets Task Force to support local leadership, and funding to strengthen community assets, including the restoration of historic buildings on high streets. The £657m funding is to help local authorities manage the changing pressures on the local high street. Local authorities will be asked to draw-up plans to change under-used retail areas to residential use, and these will be accompanied by changes in the rules of compulsory purchase orders and planning regulations governing changes of use.

8.5 The government expects to ask local areas to provide proposals setting out the overall vision that they wish to achieve for their high street and town or city centre and specific improvements that would contribute to that overall vision. There will be a competition for funding. There is also an expectation that places will partner with the private sector in developing their proposals.

9 Welfare Reform

9.1 Ahead of the further expansion of Universal Credit, the Budget announced £1bn of funding for an additional package of measures to aid the transition over five years. Specific announcements include:

- Extension of transition support to cover the income-related elements of Jobseeker's Allowance and Employment and Support Allowance, and Income Support, effective from July 2020.
- Funding for the announcements made in April and June 2018 which provided additional protections for welfare claimants, including: enhancements to transitional protection for people moving onto Universal Credit; extending existing support for non-parental carers and adopters in tax credits and Universal Credit; and enhanced protections for those

currently receiving the Severe Disability Premium.

- Extension of the 12-month grace period (the period before the Minimum Income Floor applies) to all gainfully self-employed people; giving claimants time to grow their businesses to a sustainable level. This will be introduced from July 2019 and implemented fully from September 2020.
- A reduction in the maximum rate at which deductions can be made from a Universal Credit award from 40% to 30% of the standard allowance, from October 2019.
- The scope of the surplus earnings policy in Universal Credit will also be temporarily reduced: it will continue to affect large earnings spikes (above £2,500) until April 2020, when it will revert to affecting earnings spikes of £300.

9.2 The implementation schedule has been updated, it will begin in July 2019 as planned but will now end in December 2023 which adds 12 months to the last published planned completion date and is the eight reset since 2013.

9.3 The amount that households with children, and people with disabilities can earn before their Universal Credit award begins to be withdrawn (the Work Allowance) will be increased by £1,000 from April 2019. The government estimates this will result in 2.4 million households keeping an extra £630 of income each year.

9.4 Once the detail behind these announcements is available the impact on both residents and council services will be assessed and monitored.

10 Housing Revenue Account (HRA) Borrowing cap

10.1 The HRA cap that controls local authority borrowing for house building was abolished in England from 29 October 2018. The Council had recently submitted a bid for an £15m increase in its HRA debt cap, which has been superseded by this announcement. In light of this the government will be requested to increase the Council's debt ceiling in line with any borrowing above the HRA debt cap.

10.2 The ability to borrow is still constrained as the additional borrowing costs have to be met from within the HRA, which can not run a sustained deficit.

11 Housing

11.1 **Help to Buy (HtB):** When the current HtB scheme ends in March 2021 a new scheme will run for two years before closing in March 2023. The new scheme will only be available to first-time buyers and will have regional price caps (based on 1.5 times the current forecast average first-time buyer price in each region) - this is £224,400 for the North West. As 85.5% of HtB sales in the city were below the cap in 2017-18, it is not expected that the regional cap will have a significant impact. A more pressing concern with the current HtB scheme in Manchester is its failure to operate in the apartment market, with only £186,000 of HtB funding used to facilitate apartment sales in 2017-18

(with the remaining £8m of the £8.16m total HtB funding awarded in the city used on lower density developments outside the city centre).

- 11.2 **Shared ownership stamp duty land tax (SDLT) relief:** Will be extended to first-time buyers purchasing shared ownership homes priced up to £500,000 – backdated to include those who have bought since 22 November 2017. This is not expected to have a significant impact in Manchester (or indeed nationally with the cost expected to be only £5m) but brings shared ownership in line with SDLT relief available to first time buyers on mainstream sales.
- 11.3 **SDLT foreign buyers:** Government will consult in January 2019 on the introduction of a 1% SDLT surcharge for foreign buyers which it plans to spend on tackling homelessness. This would be on top of the existing 3% SDLT surcharge on second homes purchases introduced in April 2016. The initial 3% surcharge did not have the same level of impact on sales in Manchester as it did in Central London, due in part to lower prices, attractive rental yields and devaluation of sterling following the EU referendum. It is not yet clear whether liability for the additional 1% charge would be based on the buyer's residence status or the implications if the purchaser is a company - either UK tax paying or not. SDLT receipts from residential property sales in Manchester grew from £14m in 2015/16 to £33m in 2017/18.
- 11.4 **The Housing Infrastructure Fund**, funded by the National Productivity Investment Fund (NPIF), will increase by £500m to a total £5.5bn. There will be a consultation on new permitted development rights to allow upwards extensions above commercial premises and residential properties, including blocks of flats, and to allow commercial buildings to be demolished and replaced with homes
- 11.5 The government will also make £10m capacity funding available to support housing deals with authorities in areas of high housing demand to deliver above their Local Housing Need.
- 11.6 These recent announcements make it harder for Northern authorities to access affordability funding which is increasingly focussed on London / Southern counties.

12 Health

- 12.1 The £20.5bn increase in spending on the National Health Service over the next five years had already been announced by the Prime Minister. A 10-year improvement plan will be announced later this year. The Chancellor revealed that one of the major priorities in that plan will be increased investment in a new mental health crisis service, with a minimum spend of £2bn a year.
- 12.2 On 22 November the Prime minister pledged £3.5bn a year for primary and community healthcare by 2023/24 as part of the NHS long term plan and committed to a “growing share of spending” for out-of-hospital care as part of the NHS long-term plan. This investment forms part of the NHS's £20.5bn funding over the next five years, and is intended to improve the capacity to

care for patients at home and in their community and thereby reduce hospital admissions.

- 12.3 There was an additional £10m of capital funding for the air ambulance service and £10m to support mentally ill veterans announced.

13 Combined Authorities

- 13.1 **Skills pilots** – The government will fund £20m of skills pilots. This will include:

- a new £3m pilot to help employers in Greater Manchester and surrounding areas to address local digital skills gaps through short training courses
- a £10m pilot in Greater Manchester, working with the Federation of Small Businesses, to test what forms of government support are most effective in increasing training levels for the self-employed
- £7m match funding alongside employers to provide on-the-job training to young people not currently in employment, education or training in Greater Manchester, and to move them into sustainable career paths with employers

13.2 Transforming Cities funding:

- This will be extended a further year (2022-23) for the 6 metro mayors. This is worth an additional £240m in 2022-23 (£69.5m for Greater Manchester).
- There will be a further £440m made available for the 10 eligible city regions on a competitive funding basis and the Government will shortly be announcing a further two.
- To support the Industrial Strategy Future of Mobility Grand Challenge, £90m from the National Productivity Investment Fund (NPIF) will be allocated to the Transforming Cities Fund to create Future Mobility Zones. This will trial new transport modes, services, and digital payments and ticketing.
- A further £150m will be distributed to local authorities from the National Productivity Investment Fund (NPIF) to “support projects across England that ease congestion on local routes”. It is not yet known how these funds will be distributed.

14 Other funding announcements

- 14.1 There were other important funding announcements in the Budget as follows

- Defence: £1bn extra for the Ministry of Defence in 2019/20 and 2020/21 (£200m and £800m respectively);
- Police: the Home Secretary will review police spending power and options, which will be reported in the local government finance settlement in December.
- Schools: £475m in-year increase in capital funding for each school to spend on their equipment and facilities, averaging £10,000 for a primary school and £50,000 for a secondary school.
- Justice: £60m to prisons, courts and justice system.

- To support the Clean Growth Strategy, the Government has allocated: £13m to reduce risks from floods and climate change; £20m to support local authorities in meeting their air quality obligations; and £60m to fund the planting of new trees. The distribution of these funds is not yet known.
- £20m to support measures to tackle plastics and boost recycling – £10m more for plastics research and development and £10m to pioneer innovative approaches to boosting recycling and reducing litter, such as smart bins.
- £15m to charities and others to distribute surplus food.

15 Other wider announcements

15.1 Other budget announcements include:

- The government confirms that it will introduce a simpler system of developer contributions including simplifying the process for setting a higher zonal Community Infrastructure Levy in areas of high land value uplift, and removing all restrictions on Section 106 pooling towards a single piece of infrastructure
- There will be a Strategic Infrastructure Tariff for Combined Authorities and joint planning committees with strategic planning powers.
- There will be a review into relaxing town planning rules, to ease the conversion of under-used retail units and make it easier to establish new mixed-use business models on the high street.
- Introduction of a tax on the production and import of plastic packaging from April 2022.
- Further changes to the apprenticeship levy to support employers - large businesses will be able to invest up to 25% of their apprenticeship levy to support apprentices in their supply chain
- From April 2020, large social media platforms, search engines and online marketplaces will pay a 2% tax on the revenues they earn which are linked to UK users.
- Living wage increased by 4.9% from £7.83 to £8.21 per hour.
- No tax increases on income tax, raising personal allowance thresholds to £12,500 and the higher rate taxpayers' threshold to £50,000 one year earlier than planned: April 2019.
- Fuel duty to be frozen for the ninth year in a row
- Private Finance Initiatives are abolished for future projects, the government will honour existing contracts.
- Consideration to be given to a tax on the incineration of waste, in conjunction with landfill tax, should wider policies not deliver the governments waste ambitions around maximising the amount of waste recycled.

16 Conclusions

- 16.1 The 2018 Autumn Budget set out an improved economic forecast and indicative increased public sector spending over the next five years. Expenditure is now expected to grow at 1.2% per year in real terms from 2019-

20 onwards (contrasted to an average cut in real-term funding in the 2015 Spending Review of -1.3%).

- 16.2 The 2019 Spending Review will decide on the balance of funding between departments however it is already clear that much of the additional spend will be directed to the NHS, with spending in other departments likely to remain flat.
- 16.3 Should the government be unable to reach a Brexit deal with the EU, there could be an upgrade the 2019 Spring Statement to a full fiscal event, which could include further tax or borrowing measures.
- 16.4 There were announcements for additional Local Government funding this financial year and next. Whilst welcome, they are unlikely to have a fundamental impact on the Council's budget strategy for 2019/20. However, the additional Social Care funding could meet some of the pressures faced.

17 Recommendations

- 17.1 The recommendations appear at the front of this report.