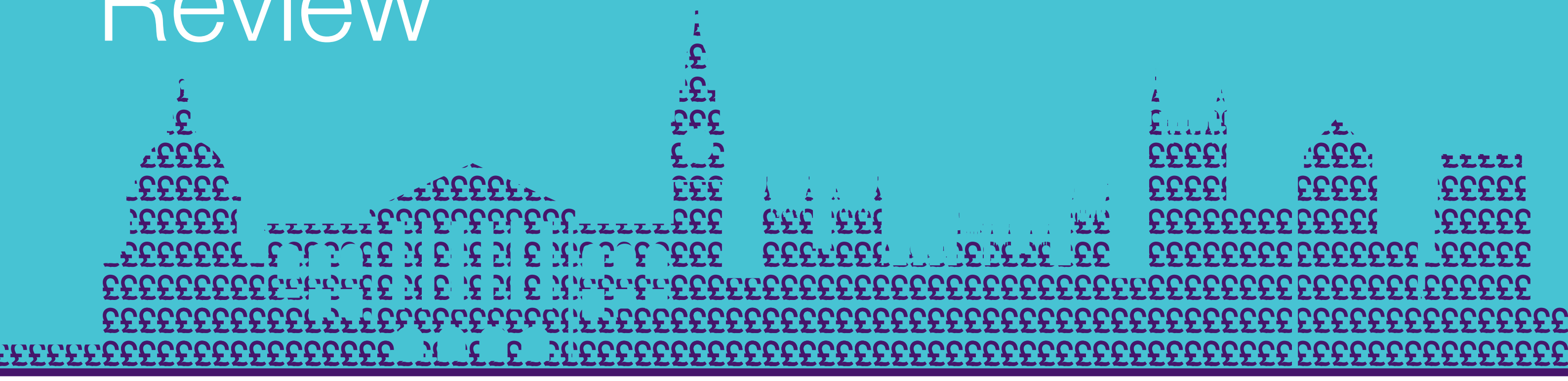
Autumn 2016 Statement Review

gleeds



The European Union (EU) Referendum, tax and the economic outlook

In his first (and last) Autumn Statement, new Chancellor of the Exchequer, Phillip Hammond, described the vote to leave the EU as presenting both opportunities and challenges.

The Office for Budget Responsibility (OBR) says there will now be a period of uncertainty as the UK negotiates its departure from the EU. Beyond that, the economy will need to adjust to new relationships with the EU and the rest of the world. The expectation is that this period of adjustment will lead to lower levels of business investment and therefore the outlook for productivity growth is weaker than previously envisaged.

Little more was said about Brexit and instead, Hammond revealed that George Osborne's plans for a surplus by 2020 were to be abandoned, following the financial instability that has ensued since the Referendum.

GDP

GDP grew 2.3% in the year to Q3 2016, with average quarterly growth of 0.5% in 2016 to date.

CPI

Inflation has risen in recent months, as fuel prices have started to increase internationally, and reached 1.0% in September 2016 before falling back to 0.9% in October. The post-referendum sterling depreciation has amplified the effect of global oil price rises, increasing the contribution of the energy and transport components to CPI inflation.

OBR Forecasts for GDP and Inflation:

	PERCENTAGE CHANGE YEAR ON YEAR (%)						
	2015	2016	2017	2018	2019	2020	2021
GDP	2.2	2.1	1.4	1.7	2.1	2.1	2.0
CPI	0.0	0.7	2.3	2.5	2.1	2.0	2.0

The weaker exchange rate has a material effect on the OBR's forecast for consumer prices. The depreciation is expected to put upward pressure on inflation, coupled in the short term with higher fuel prices.

The new Chancellor appeared to abandon his predecessor's plans to alleviate the budget deficit before the end of the parliament, instead making the admission that public finances will not reach a surplus by 2019/20. The Autumn Statement revealed that instead, a £21.9bn deficit is expected, with net borrowing expected to be £122bn higher than previously thought. The national debt is higher than forecast in Budget 2016 for every year, peaking at 90.2% of GDP in 2017/18.

Employment and taxation

The employment rate stood at a record high of 74.5% (31.8m) in the three months to September 2016. The unemployment rate was 4.8% in the three months to September 2016, its lowest in 11 years. Notably, unemployment has fallen in all regions of the UK.

The OBR forecasts that the number of people in employment will continue to increase and this is expected to reach 32.3m in 2021.

Taxation headlines:

- The National Minimum Wage will rise from £7.20 to £7.50 from April 2017, a move worth over £500 per annum to full time workers. Despite this, the OBR forecasts that real average earnings will be 3.6% lower than expected in 2021, while the Living Wage Foundation states that the true living wage should be £8.45 (£9.75 in London)
- Income tax personal allowance will rise to £11,500 next year and the higher rate tax threshold will also increase from £43,000 to £45,000. These changes are being made with the aim of reaching £12,500 and £50,000 thresholds over the next four years
- Fuel duty will remain frozen for the seventh successive year.

Productivity

The Chancellor was keen to highlight raising productivity as the central long-term economic challenge facing the UK. To do this, the Autumn Statement reiterated the approach set out in the 2015 Productivity Plan which included encouraging long-term investment in technology, innovation, infrastructure, and skills, and the creation of a dynamic economy which ensures that resources are put to their best use.

To support these aims, the Autumn Statement revealed a number of measures under the umbrella of an Investment Strategy, details as follows.

National Productivity Investment Fund (NPIF)

The announcements in November's Autumn Statement formed the strategy of the NPIF, providing £23bn between 2017/18 and 2021/22 and targeting four priority areas:

1. Housing
2. Transport
3. Digital communications
4. Research and development (R&D)

Housing

- A new Housing Infrastructure Fund of £2.3bn by 2020/21 will deliver up to 100,000 new homes by unlocking private house building in the areas where the need is greatest
- Restrictions on grant funding will be relaxed, enabling developers to deliver affordable rent and low cost ownership options
- £1.4bn will be made available to deliver an additional 40,000 housing starts by 2020/21
- A Housing White Paper will follow shortly, providing details of the plans to increase housing supply. This is expected to incentivise a greater use of modular housing
- Up to £1.7bn will be available for the construction of housing on public sector land in England through partnership with private sector developers, with the aim of speeding up construction
- Right to Buy will facilitate the purchase of 3,000 homes by housing association tenants
- The charging of unregulated letting agency fees to tenants will be banned as soon as possible and instead the landlord will be responsible for payment. This is another blow to the buy to let market following the changes to stamp duties seen in the Budget, and it remains to be seen whether landlords will attempt to absorb this by inflating rental costs

gleeds

Infrastructure

A National Infrastructure Commission (NIC) has been established to advise on specific infrastructure needs. Between 1% and 1.2% of GDP will be available for infrastructure spending each year between 2020 and 2050.

- The NIC will consult with the government on the Cambridge-Milton Keynes-Oxford corridor to strengthen transport links. Within this:
    - £27m is available in development funding for the Oxford-Cambridge expressway
    - £100m is available for the construction of the East-West Rail line western section
- The NPIF will provide £1.1bn on road upgrades and congestion relief by 2020/21
- An extra £220m will be set aside to tackle road safety and congestion on strategic Highways England roads
- A total of £390m will be available to support ultra-low emission vehicles (ULEVs), renewable fuels, and connected and autonomous vehicles (CAVs). This will include:
    - £80m for ULEV charging infrastructure
    - £150m in support for low emission buses and taxis
    - £20m for the development of alternative aviation and heavy goods vehicle fuels
    - £100m for new UK CAV testing infrastructure
- From 2018-19 to 2020-21, the NPIF will allocate £450m to trial digital signalling technology, with the aim of expanding capacity and improving reliability
- Construction of High Speed 2 Phase 1 will start next year. The government has announced its preferred route for Phase 2b and is looking forward to receiving a business case for Crossrail 2
- £5m is being invested in the development of the Midlands Rail Hub

Technology, research and development

The government will invest over £1bn by 2020-21 to support the roll out of **full-fibre connections and future 5G communications**, to include:

- £400m for a new Digital Infrastructure Investment Fund
- A new 100% business rates relief for new full-fibre infrastructure for a 5 year period from 1 April 2017

- The NPIF will provide an additional £4.7bn by 2020-21 in **R&D funding**. Measures include:
    - Industrial Strategy Challenge Fund – a cross-disciplinary fund supporting collaborations between business and the UK's science base, which will set identifiable challenges for UK researchers to tackle. The fund will be managed by Innovate UK and research councils
    - Additional funding will be allocated to increase research capacity and business innovation. Funding will be awarded on the basis of national excellence and will include a substantial increase in grant funding through Innovate UK

Energy and flooding

- The government is currently considering the future of the Levy Control Framework which it will set out at Budget 2017
- The cap on Carbon Price Support rates is being maintained at £18 t/CO_2, and will adjust in line with inflation until 2020-21
- The Shale Wealth Fund will provide up to £1bn of additional resources to local communities, over and above industry schemes and other sources of government funding
- The government will invest £170m in flood defence and resilience measures, including:
  - £20m for new flood defence schemes
  - £50m for rail resilience projects, including Dawlish
  - £100m to improve the resilience of roads to flooding
- The Chief Secretary to the Treasury will chair a new ministerial group that will oversee the delivery of priority infrastructure projects

Devolution

The government remains committed to devolving powers to support local areas to address barriers to productivity. A number of measures will go towards achieving this:

- The Greater London Authority's (GLA) will receive £3.15bn to deliver over 90,000 housing starts in addition to the measures announced as part of the Housing Infrastructure Fund
- Arrangements for the Northern Powerhouse Investment Fund and Midlands Engine Investment Fund have been confirmed, with investments set to begin in early 2017
- The government will work with local partners and the Scottish Government towards a city deal for Stirling, following progression with deals in Aberdeen, Inverness and Edinburgh
- The government is also continuing to support the implementation of the £1.2bn city deal for the Cardiff Capital Region, which was agreed in March. Negotiations are still underway for a city deal for the Swansea Bay City Region
- Negotiations with the Northern Ireland Executive towards the introduction of a Northern Ireland rate of Corporation Tax are ongoing

In addition, the government will award £1.8bn to the Local Growth Fund for Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals. This is with the aim of improving transport connections, unlocking house building potential, boosting skills, and enhancing digital connectivity. This funding will be distributed as follows:

- £556m to the North of England
- £392m to LEPs in the Midlands
- £151m to the East of England
- £492m to London and the South East
- £191m to the South

The Autumn Statement also promised additional funding for capital projects across the rest of the UK:

- The Scottish government will receive a £800m addition to its infrastructure budget over the next four years (£125m in 2017/18, £197m in 2018/19, £239m in 2019/20, and £257m in 2020/21)
- The Welsh government will receive £400m between now and the end of the parliament to spend on infrastructure. There are hopes that this would benefit projects such as the Metro and the M4 Relief Road. However, the Autumn Statement failed to make any mention of the tidal lagoon energy project in Swansea Bay
- The Northern Ireland Executive will receive an extra £250m of infrastructure funding over the next four years, with the York Street Interchange a top priority for this

Public spending

The Autumn Statement 2016 revealed that £10m would be available for culture and heritage projects. This will include:

- £7.6m for urgent repairs at Wentworth Woodhouse
- Support for a new creative media centre in Plymouth
- Funding for the new Studio 144 arts complex in Southampton
- Promoting cultural education in schools by funding a pilot study for the Royal Society of Arts

The Sovereign Grant Review 2016 will receive increased revenue (25% of the Crown Estate annual profits) to support significant reservicing works at Buckingham Palace.

Up to £15m will be available towards the costs of hosting the 2021 Rugby League World Cup.

£9m will be contributed towards the cost of hosting the Cycling Road World Championships in Yorkshire in 2019, and £15m will be put towards a legacy fund to pay for cycling infrastructure.

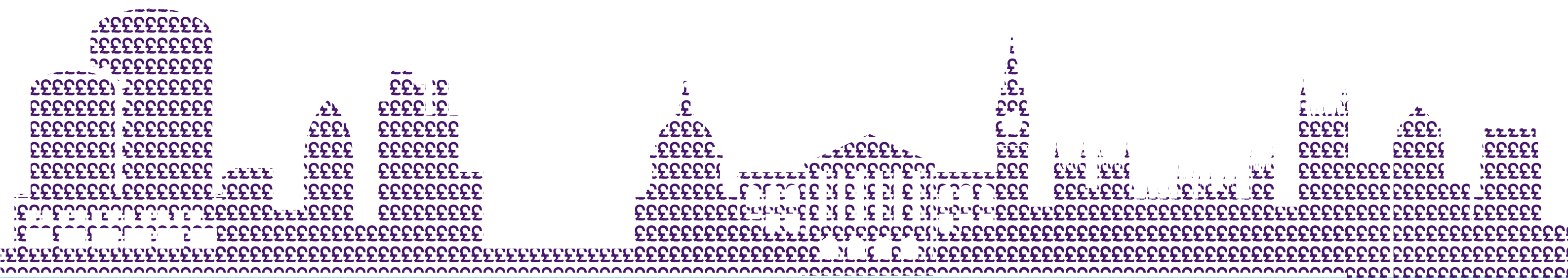
In support of improving prison safety and reforms to the justice system, the government will make up to £500m of funding available to the Ministry of Justice. This will include the provision of 2,500 extra prison officers.

Richard Steer comment

“This was a budget produced by a Chancellor who has one hand tied behind his back by the Brexit result and the other by the PM trying to keep her party in line. There is still so much economic uncertainty that it is difficult to be excited by re-heated announcements of increased infrastructure spending and more housebuilding.

“The new productivity fund sounds good but we have heard this type of thing before and, whilst it is argued that it will be funded by increased borrowing, the main issue is confidence in the UK. This is not a budget that is going to help enhance the value in the sterling - which impacts cost - or persuade private sector funders to invest.

“It was an inward looking budget that appeared to deliver opportunities via raised borrowing. The increased profile of housebuilding initiatives is to be welcomed but until we know answers to questions like whether or not we will have free access to skilled labour, one feels it was more of a wish list than a reliable fiscal forecast.”



An industry reaction

Initial feedback from industry is mixed and points to a need for greater clarity of proposals

"Announcing money is great but what we need is the detail – and that's what the Chancellor's statement lacked. We were hoping for lists of 'shovel-ready' projects so we could plan around them."
Martyn Coffey, Marshalls

"We welcome the Housing Infrastructure Fund. It will help to invigorate the market by encouraging house building, particularly in areas like London where housing is in high demand. It will also help to create jobs and growth in construction and the wider U.K. Economy."
John Newcomb, Builders Merchants Federation

"Investing £450m in the digital railway programme will take our country out of the Victorian era. It will totally revolutionise our railways, increasing capacity, improving the much maligned experience of passengers and improving punctuality and safety."
Chris Pike, Arcadis

"Infrastructure is clearly still a priority, with Philip Hammond reaffirming that it's a powerful way of driving broad-based economic growth."
Patricia Moore, Turner + Townsend

"Modernisation of our infrastructure is vital. But we need to be smart and target areas that will provide long term benefits for the whole country - such as regional city connections."
Jason Millett, Mace

"I am disappointed that in highlighting the need to 'live within means', the Chancellor did not address the pressing challenge of climate change and urgent need to decarbonise the economy via the new industrial strategy."
Jane Duncan, RIBA

Summary

In a move designed to promote certainty and simplicity within the tax system, the Chancellor announced that from 2017, Budgets will be delivered in the Autumn and that from 2018, we will have a Spring Statement. This statement will review spending but not make significant changes unless absolutely necessary.

While Autumn Statement 2016's focus on infrastructure and housing should read as good news for the construction industry, the Chancellor did nothing to alleviate concerns over the shortage of labour which continues to trouble a number of regions of the UK, and is anticipated could worsen as Brexit unfolds. In general, the industry is excited by the levels of funding available for housing and infrastructure projects, however some commentators are frustrated that this is not proportional to the need, with more immediate issues not receiving adequate funding.

The question also remains whether the planning system will be changed to ease the ability to gain planning consent for housing sites and speed up projects getting to site.

Hammond's ambition to create the idea of 'Business As Usual' very much mirrors the sentiment in the industry and there is still significant activity in construction despite a decrease in volumes.

FOR ADDITIONAL INFORMATION CONTACT:
Sarah Davidson
Gleeds Corporate Research & Development
Wilford House , 1 Clifton Lane
Nottingham NG11 7AT

0115 977 8000
sarah.davidson@gleeds.co.uk

gleeds.com | @GleedsGlobal