

## Spring Statement Wednesday 13<sup>th</sup> March 2019

### Introduction

The Chancellor, Philip Hammond delivered his Spring Statement to the House of Commons on Wednesday, 13 March 2019, one day after Theresa May's second meaningful vote was defeated.

The timing of the statement could not have been more loaded with uncertainties, taking place between a series of historic votes on Brexit.

While the statement was totally overshadowed by Brexit, it nevertheless had significance in that it set out new forecasts for economic growth and the public finances.

The Chancellor has admitted that Brexit-related uncertainty was "overshadowing the economy" saying that "the sooner we can resolve that the better, the quicker we can get back to more robust growth in the future."

In that context the statement was a "holding statement" but it can still be used to judge the health of the economy with only days left before Brexit it provides a taste of the Government's position prior to a potential 'no deal' Brexit. If this happens the Chancellor will deliver an emergency Budget in the next few weeks.

Spring used to be the timing of the first Budget of the year but in 2016 Mr Hammond decided delivering two full Budgets annually was a bit much, so the Spring Statement is a low-key event with the government's response to the bi-annual forecasts from the independent Office for Budget Responsibility (OBR). It is also a way for the government to publish consultations, and early-stage calls for evidence prior to the main Budget.

This year's Spring Statement therefore forms the backdrop against which the Government's economic management will be tested in the most trying of circumstances.

### Key Announcements

- **Spending Review** in the autumn to set departmental budgets over 3 years (if an EU exit deal is agreed)
- **Affordable Homes Guarantee Scheme** – to guarantee up to £3 billion of borrowing by housing associations to support delivery of around 30,000 affordable homes
- **Future Homes Standard** from 2025 future-proofing new build homes
- **Greening the Gas Grid** – decarbonisation of gas supplies
- **Housing Infrastructure Fund** - £717 million from the £5.5 billion to unlock up to 37,000 homes at sites including Old Oak Common in London, the Oxford-Cambridge Arc and Cheshire.
- **National Infrastructure Strategy** to be published

- **Transforming Cities Fund** - £60m in 10 cities as part of the Industrial Strategy
- **Planning Green Paper** to be published in coming months
- **Review permitted development rights** for conversion of buildings to residential use
- **Additional planning guidance** to be introduced following the Letwin Review

## Main Proposals

### Economic Forecasts & Public Spending

The big picture was of stable but unspectacular economic growth in what the Chancellor described as a 'cloud of uncertainty', but the economy remains robust with growth in each of the previous 9 years. Mr Hammond concentrated on some of the economy's strengths including a reduction in youth unemployment, a growth in full time employment and wage growth. On public sector finance he declared we are on a 'journey of recovery'.

Where things get tricky this time is growth forecasts. The OBR – which makes its predictions based on an orderly EU exit - is forecasting growth in each of the next 5 years. However, the outlook for 2019 is dominated by Brexit and on what terms the UK leaves the EU. OBR has assumed an 'orderly' or 'smooth' departure from the EU.

The Chancellor used the Spring Statement to warn repeatedly that should the UK leave the EU without a deal, disruption is expected to lead to weaker growth. The Bank of England Governor Mark Carney has said he "guarantee[s]" the Bank's GDP forecasts would be lowered in such a scenario. The OBR has previously warned that there could be severe short-term implications of a no-deal Brexit, although the scale is hard to predict.

### *NHC Reaction*

It was anticipated that the Chancellor would highlight the health of the labour market and to confirm that now is the time for the government and businesses to focus on improving productivity growth.

On public spending the Chancellor was keen to challenge accusations that the Government was doing little to demonstrate the 'end of austerity' that the Prime Minister had declared after the last Budget. He has been under political pressure to show some indication that this is the case as the claim has subsequently been refuted. All the evidence shows that ending austerity will cost more than is currently committed by the Treasury.

It is likely that commitments to higher spending on the NHS, made last June, have already swallowed any gain for public sector investment.

Pending the 2019 Spending Review, any certainty about funding for local government disappears from 2020-21 onwards. Despite the Chancellor emphasising the success of his

'balanced approach' he won't be splashing the cash just yet while the uncertainty over the outcome of Brexit remains.

As ever with fiscal events, it is often what is not included that is of interest. Communities Secretary James Brokenshire has been pressed repeatedly to provide detail about the funding that will replace money lost from EU regional and structural funding through a proposed UK Shared Prosperity Fund.

EU structural funds, including national match funding, are currently worth £2.4 billion a year to the UK. So, the UK's exit from the EU also brings uncertainty about the size, distribution, and expectations of the UK Shared Prosperity Fund. We will expect decisions around this as part of the 2019 Spending Review.

We believe that central to addressing the impact of austerity and to improving the quality of housing is joint working across government departments, with service redesign focused on the needs of residents. However, the extent to which Whitehall recognises this co-dependency will only be fully revealed when the Spending Review is delivered later this year.

### **Spending Review 2019**

At last year's Spring Statement, the Chancellor announced a Spending Review to be held in 2019, but no date had been set for it and no detail had been provided about the time period to be covered.

The Chancellor used the Spring Statement to confirm that the Government will hold a Spending Review which will conclude alongside the Budget. This will set departmental budgets, including 3-year budgets for resource spending, if an EU exit deal is agreed. As at the past three Spending Reviews, the government will run a Zero-Based Review of capital spending where each programme or project will be scrutinised from the bottom up, ensuring the maximum return for the country. The Spending Review will also have a renewed focus on the outcomes achieved for the money invested – supporting a high-growth economy with public services that work for everyone.

#### *NHC Reaction*

It is encouraging that the time period for budget setting has been set at a longer period than was expected in the forthcoming Spending Review which gives greater long-term certainty, but we are still in an unusual situation of not fully knowing the outfall for the sector of a no-deal Brexit.

### **Housing and Infrastructure**

The Spring Statement included several key measures on infrastructure:

- A consultation on Infrastructure Finance, seeking views on how the government can best support private infrastructure investment in the context of the UK's changing relationship with the European Investment Bank
- A commitment to publishing a comprehensive National Infrastructure Strategy - the first of its kind - setting out the government's priorities for economic infrastructure and responding to recommendations in the National Infrastructure Commission's National Infrastructure Assessment
- £717 million from the £5.5 billion Housing Infrastructure Fund to unlock up to 37,000 homes at sites including Old Oak Common in London, the Oxford-Cambridge Arc and Cheshire.
- Through the Affordable Homes Guarantee Scheme, the government will guarantee up to £3 billion of borrowing by housing associations in England to support delivery of around 30,000 affordable homes
- Further progress on delivering growth in the Oxford-Cambridge Arc including £445 million from the Housing Infrastructure Fund to unlock over 22,000 homes, and a joint declaration with local partners, affirming our shared vision for the Arc
- Up to £260 million for the Borderlands Growth Deal, which on top of the £102 million announced recently for Carlisle from the Housing Infrastructure Fund means up to £362 million UK Government funding into the Borderlands area

#### *NHC Reaction*

There is a pressing need to adapt infrastructure in response to changes in demography and climate; remodel transport systems to support carbon-free mobility; build a resilient energy system that maximises carbon supply; and ensures digital advances are used to best effect.

The announcement underlines again the priority given to support high demand areas so we remain concerned that Northern regions are under-funded. We believe that localised solutions are needed to deliver the homes and infrastructure transition needed. Many of the solutions lie in local engagement and ownership, reinforcing political decentralisation with devolved funding arrangements.

With MHCLG acting in a coordinating role, government departments need to collectively build a consensus about the value and significance of housing and its connection to the current infrastructure and transport rather than each department solely delivering their individual service responsibilities.

We will look forward to working with government on the development of a national housing policy which is part of the wider infrastructure and economy.

#### **Housing and Environment**

The Spring Statement builds on proposals to help tackle climate change and protect the environment, including measures to future proof new-build homes so they meet low carbon heating and high standards of energy efficiency. Proposals include:

- To help smaller businesses reduce their energy bills and carbon emissions, the government is launching a call for evidence on a Business energy efficiency scheme to explore how it can support investment in energy efficiency measures
- To ensure that wildlife isn't compromised in delivering necessary infrastructure and housing, the government will mandate net gains for biodiversity on new developments in England to deliver an overall increase in biodiversity
- To help meet climate targets, the government will advance the decarbonisation of gas supplies by increasing the proportion of green gas in the grid, helping to reduce dependence on burning natural gas in homes and businesses
- To help ensure consumer energy bills are low and homes are better for the environment, the government will introduce a Future Homes Standard by 2025, so that new build homes are future-proofed with low carbon heating and world-leading levels of energy efficiency
- To explore ways to enhance the natural environment and deliver prosperity, the government will launch a global review into the Economics of Biodiversity
- To give people the option to travel 'zero carbon', the government will launch a call for evidence on Offsetting Transport Emissions to explore consumer understanding of the emissions from their journeys and their options to offset them. This will also look into whether travel providers should be required to offer carbon offsets to their customers
- To help protect critical habitats, the government will support the call from the Ascension Island Council to designate 443,000 square kilometres of its waters as a Marine Protected Area, with no fishing allowed

#### *NHC Reaction*

We are pleased to see an emphasis on low-carbon technology and future-proofing homes.

Improving energy efficiency and using renewable energy in housing stock presents a great opportunity to contribute towards a reduction of greenhouse gas emissions. By building the necessary 300,000 new homes as low or zero-carbon at an affordable cost there is a potential for this type of home to become the 'norm'. This would help to reduce carbon emissions, stimulate the economy and reduce energy bills for residents. Building fit-for-future homes at scale makes it possible to build affordable, zero-carbon housing within the cost range required by social and high-volume house builders, and residents can benefit from reduced energy bills and improved wellbeing.

## **Conclusion**

This Spring Statement was more about the health of the economy and a warning about the risk of a no-deal Brexit than a full-blown fiscal event.

While the OBR has set out how it incorporates Brexit in its forecasts, it notes that there is “significant uncertainty about the effects of Brexit on the UK economy, especially since no major country has left the EU or a similar trading bloc”.

For the housing sector, this remains a key risk and in February, the Regulator issued its expectations of housing providers sharing what it had identified as the most significant potential risks facing the social housing sector in the event of a no-deal Brexit. It also highlighted the importance of stress testing and effective mitigations in the context of the increased uncertainty about the terms on which Britain will leave the EU.

So, while the Statement included some interesting proposals around infrastructure and climate change, anything of further significance will have to wait for the Autumn Budget and the Spending Review.

On public sector spending councils, who have been squeezed more than other public services because of austerity, seem likely to have to wait until later in the year.