Spending Review and Autumn Statement Analysis 2015

Creating a resilient economy

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Introduction

Following the publication of the Spending Review and Autumn Statement by HM Treasury and the economic and fiscal outlook by OBR, this document looks in more detail at the measures announced and provides some feedback in light of ACE's experiences within the infrastructure sector. Within this the report will explore the potential impact of the measures announced and will look at their significance both nationally and regionally.

ACE has been actively involved in campaigning on the importance of infrastructure as a driver for economic growth.

As part of this lobbying, ACE has developed its research series to help Government drive growth, and increase investment into infrastructure. This series of papers includes reports on:

- Performance of PFI
- Public Private Finance Models (PPFM)
- Procurement in PPFM
- Pensions and infrastructure
- Green Investment Bank
- State Investment Bank
- The housing gap
- Revolutionising housing
- Funding roads

Given the importance government has placed on infrastructure investment, the Budget continues to be of significant interest to the construction and engineering sector.

Measures announced

Housing

The Chancellor unveiled a package of measures, some old, some new, that taken together amount to over £20 billion investment in housing over the Spending Review period.

- Deliver 400,000 affordable housing starts by 2020-21, focussed on low cost home ownership including:
    - 200,000 Starter Homes which will be sold at a 20% discount compared to market value to young first time buyers, with a £2.3 billion fund to support the delivery of up to 60,000 of these, in addition to those delivered through reform of the planning system;
    - 135,000 Help to Buy: Shared Ownership homes, which will allow more people to buy a share in their home and buy more shares over time, as they can afford to. The scheme will be open to all households earning less than £80,000 outside London and £90,000 in London, and will relax and remove previous restrictions such as local authorities' rights to set additional eligibility criteria;
    - 10,000 homes that will allow a tenant to save for a deposit while they rent. This will be in addition to 50,000 affordable homes from existing commitments;
    - at least 8,000 specialist homes for older people and people with disabilities.

Other measures to accelerate housing supply and get more houses built include:

- bringing forward further reforms to the planning system, including establishing a new delivery test on local authorities, to ensure delivery against the number of homes set out in Local Plans;
- supporting the availability of appropriate land for housing, including by releasing public sector land with capacity for 160,000 homes representing a more than 50% increase on the government's record in the last parliament;
- ensuring the release of unused and previously undeveloped commercial, retail, and industrial land for Starter Homes, and supporting the regeneration of previously developed brownfield sites in the green belt by allowing them to be developed in the same way as other brownfield land, providing it contributes to Starter Homes, and subject to local consultation;

- backing SME house builders, including by amending planning policy to support small sites, extending the £1 billion Builders' Finance Fund to 2020-21, and halving the length of the planning guarantee for minor developments;
- offering £2.3 billion in loans to help regenerate large council estates and invest in infrastructure needed for major housing developments;
- investing £310 million to deliver the first new garden city in nearly 100 years, at Ebbsfleet. This is part of a wider £700 million programme of regeneration at Barking Riverside, Brent Cross, Northstowe and Bicester Garden Town. Together these will support up to 60,000 new homes;
- Extend the Help to Buy: Equity Loan scheme to 2021 and create a London Help to Buy scheme, offering a 40% equity loan in recognition of the higher housing costs in the capital.The scheme will offer buyers with a 5% deposit a loan of up to 40% of the value of a new build home, interest-free for 5 years. This can be used in conjunction with the new Help to Buy: ISA launching on 1 December. First time buyers that save in a Help to Buy: ISA will receive a 25% government bonus on top of their own savings, up to a maximum government bonus of £3000, which can be put towards the purchase of their first home.

Table 1.10: selected investment in economic and social infrastructure

		£ billion						
		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Existing long term capital plans								
i	Roads Investment Strategy	1.8	1.8	2.2	2.5	3.0	3.9	15.2
ii	Highways maintenance	1.0	1.0	1.0	1.0	1.0	1.0	6.9
iii	Network Rail[1]	6.8	7.4	5.6	4.3	5.0	5.3	34.5
iv	High Speed 2	0.8	0.8	1.7	2.9	4.8	4.8	15.8
v	Flood and coastal defence programme	0.4	0.4	0.4	0.4	0.4	0.4	2.3
vi	Science: capital	1.1	1.1	1.1	1.2	1.2	1.2	6.9
vii	Existing housing and regeneration plans[2]	1.0	1.0	1.0	1.0	1.0	1.0	5.9
viii	Existing school building plans	4.6	4.8	3.8	3.2	3.0	2.8	22.2
Additional investment announced at Spending Review 2015								
ix	Housing and regeneration	–	0.0	0.3	1.2	1.1	1.4	4.1
x	Local Sustainable Transport Fund	–	0.1	0.1	0.1	0.1	0.1	0.5
xi	Large Local Major Roads	–	0.0	0.0	0.0	0.1	0.3	0.5
xii	New school building plans	–	0.3	0.8	1.3	1.5	1.8	5.7
Infrastructure investment		**17.5**	**18.7**	**18.0**	**19.1**	**22.1**	**23.9**	**120.4**

[1] Spending in Capital AME. The Network Rail capital grant and borrowing limit has been set for the period 2014-15 to 2018-19. In 2019-20 and 2020-21 the totals are as set out in the OBR's capital AME forecast. In advance of the government confirming investment plans for years beyond 2018-19, the OBR have forecast these totals on the basis of a neutral assumption for spending in that period.
[2] Assumes continuation of previous policy into 2020-21.
Figures may not sum due to rounding.

Transport

While trumpeting the already committed Roads Investment Strategy, which will see £15bn of investment over the period to 2019, and the new Roads Fund paid for directly from the revenues raised through Vehicle Excise Duty, the following further announcements were made.

- An extra £250m over the next five years to tackle potholes on our roads.

On rail:

- The Spending Review and Autumn Statement provides £475m over the next five years to fund large local transport projects, such as the Lowestoft Third River Crossing and the North Devon Link Road;
- The Spending Review and Autumn Statement provides £300 million over the next 5 years for a new Transport Development Fund, for the next generation of transport infrastructure projects. This could include providing development funding for projects such as Crossrail 2 and proposals emerging from the Northern Transport Strategy, following advice from the NIC at Budget 2016.

Energy

- The Spending Review and Autumn Statement invests at least £250 million over the next 5 years in an ambitious nuclear research and development programme that will revive the UK's nuclear expertise and position the UK as a global leader in innovative nuclear technologies. This will include a competition to identify the best value small modular reactor design for the UK.This will pave the way towards building one of the world's first small modular reactors in the UK in the 2020s. Detailed plans for the competition will be brought forward early next year;
- The government will increase funding for the Renewable Heat Incentive to £1.15 billion by 2020-21, while reforming the scheme to deliver better value for money;
- The government will commit up to 10% of shale gas tax revenues to a Shale Wealth Fund, which could deliver up to £1 billion of investment in local communities hosting shale gas developments, in the north of England and other shale-producing regions;
- A £1bn competition aimed at commericialising carbon capture and storage technology has been halted, however.

Flooding

- The government's £2.3 billion capital programme will invest in over 1,500 schemes to give 300,000 homes greater security from flooding by 2021. Flood defence maintenance funding will also be protected, and DEFRA will work with the

Environment Agency to generate 10% efficiencies by 2019-20 with all savings reinvested to better protect another 4,000 homes.

Devolution

Devolution of powers and responsibilities to the regions and local authorities away from Westminster is one of the key parts of this government's agenda. There were several measures in this Spending Review and Autumn Statement that built on the work already announced in previous statements.

Northern Ireland, Scotland, and Wales

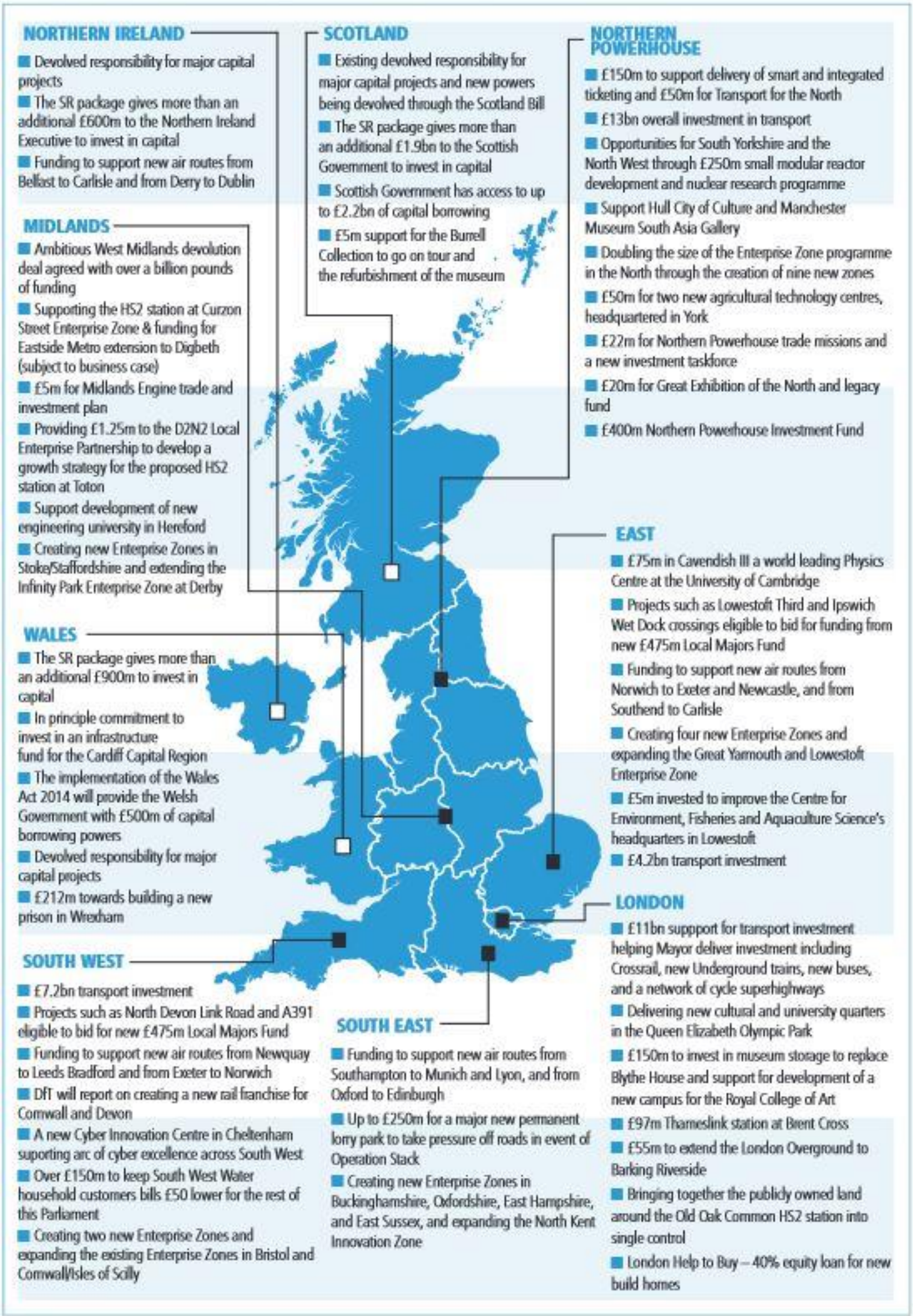
- In Northern Ireland, funding available for infrastructure investment via the block grant through to 2020-21 will rise by 12%, an extra £600 million over the period;
- Devolution of corporation tax powers to the Northern Ireland Assembly will go ahead from April 2018 and a rate of 12.5% has been agreed by the parties concerned;
- In Scotland, funding available for infrastructure investment via the block grant through to 2020-21 will rise by 14%, over £1.9 billion more to the end of the decade;
- City deals for Glasgow and the Clyde Valley is underway, while proposals for Aberden and Inverness have been received and are being considered;
- In Wales, funding available for infrastructure investment via the block grant through to 2020-21 will rise by 16%, more than £900 million extra in the spending round;
- The government has also announced an 'in principle' agreement with the Welsh government to contribute to an infrastructure fund for the Cardiff Region.

England

- Previously announced, the Spending Review and Autumn Statement confirmed the intention of the government to devolve control of Business Rates to local authorities. A consultation will be launched by DCLG on changes to the local government finance system to pave the way for the implementation of 100% business rate retention by the end of the Parliament;
- This will give them control of £13 billion of additional local tax revenues, and £26 billion in total business rate revenues, while redistributive measures between local authorities will be retained;
- The chancellor also restated that metropolitan areas like Sheffield, Liverpool, the Tees Valley, the North East and the West Midlands have joined Greater Manchester in agreeing to create elected mayors in return for far-reaching new powers over transport, skills and the local economy;

- On devolution to Manchester, the Spending Review and Autumn Statement also announced that the government is working with the authorities to give the Greater Manchester Mayor the power to introduce a Community Infrastructure Levy.

Figure 1: Investment across the United Kingdom



Northern Powerhouse and local growth

A further key aspect of this government's agenda is the Northern Powerhouse initiative, designed to empower the cities of the North of England and provide a counterbalancing force to the strength of London. This Spending Review and Autumn Statement announced a number of things in this area.

- £13bn will be spent on transport in the North over this parliament, including on:
    - smart and integrated ticketing (£150m);
    - further commitment to fund the operation of Transport for the North (£50m);
    - supporting new air routes through the Regional Air Connectivity Fund (£7m).
- Backing science and innovation through:
    - £400m of investment in smaller businesses;
    - doubling the size of the Enterprise Zones programme, creating seven new Zones.
- By 2017 the government hopes to have at least five Northern mayors, covering 54% of the population of the North, backed by £4bn of funding from central government.

In addition, measures designed to encourage local growth through the rest of England were also unveiled.

- The government is creating 26 new Enterprise Zones, including expanding 8 Zones on the current programme. These include 15 Zones in smaller towns and rural areas, spreading Enterprise Zone benefits to 108 sites across the country;
- The Autumn Statement and Spending Review supports local HS2 Growth Strategies to ensure that areas benefit as much as possible from HS2, enabling regeneration around stations and the improvement of connections to HS2 stations. This includes support for development around the new HS2 stations at Old Oak Common and Birmingham Curzon Street;
- Finally, the government confirmed it was bringing together multiple sources of funding into one Local Growth Fund that will deliver £12bn between now and 2020-21. This will be under the direct control of business-led Local Enterprise Partnerships.

Skills and apprenticeships

- The government announced that its Apprenticeship Levy will, as expected, be set at 0.5% of an employer's paybill, with an allowance of £15,000 to offset against their levy payment. This means the levy will only paid on any paybill in excess of £3m and that less than 2% of UK employers will pay it. It is expected to raise £3bn to fund the 3m apprenticeships the government hopes to deliver by 2019-20;

- A new independent employer-led body will be established to set standards and ensure quality. It will also advise on the level of levy funding each apprenticeship should receive;
- Additionally, the government will protect core adult skills participation budgets in cash terms at £1.5bn. It will also create five new national colleges to train students in industries that are crucial to the government's productivity agenda.

How does the UK compare internationally

The latest World Economic Forum Global Competitiveness Report 2015-16 reveals the UK is ranked 24th for the quality of its overall infrastructure out of 140 countries. This continues to raise questions not only about the quality of the UK's infrastructure but also about how attractive the UK is, and will be to international companies.

The results reveal that the UK ranks in the top ten for only three categories (availability of airline seats, quality of electricity supply, and fixed telephone lines) with modes of transport rating poorly (rail 18th, roads 29th, and air transport 19th).

That being said, the 2015-16 numbers show that the UK's performance has improved slightly across categories compared to the previous year, reinforcing the need for the government to continue the momentum and ensure further investment into infrastructure is forthcoming.

Looking at activities that relate to business operations, the UK again saw improvement, achieving top ten rankings in property rights (3rd) intellectual property protection (7th) Judicial independence (10th) and the efficiency of the legal framework in settling disputes and in challenging regulations (6th and 9th).

The UK also ranks 17th globally in terms of its ethical behaviour, 15th for the strength of its auditing and reporting standards and 16th for the efficacy of corporate boards.

Whilst such ratings could be improved they show that the UK has a lot to offer in terms of its position as a global service provider.

The financial crisis, recession and continuing economic challenges, however, continue to show through in the data. For example, the UK is now ranked as being 82th for the ease of access to loans and 63rd for the soundness of its banks, continuing the significant improvement we have seen on previous years when the soundness of UK banks was rated as 89th in 2014-15 and 105th in 2013-14!

Other areas also continue to show encouraging signs as well for the UK. The UK is again ranked as 4th for university-industry collaboration in R&D and 2nd for the quality of its scientific research institutions.

What level of investment is required?

There are a number of estimates as to the scale of investment in infrastructure that the UK is planning to undertake, and its actual need to become internationally competitive. For example, the Government's National Infrastructure Plan estimates that the infrastructure investment pipeline is currently worth £466 billion.

OBR - economic and fiscal outlook

The OBR was set up to provide independent forecasts to HM Treasury, both on the economy and on public spending. As with the National Statistics Authority, the aim of this is to ensure that figures produced are free from political influence and provide confidence to the market.

As part of this paper's analysis of the measures outlined in the Autumn Statement, it is important to assess the conclusions drawn in the OBR Economic and Fiscal Outlook.

According to their latest OBR forecast:

- In headline terms, the UK economy is set grow steadily for the next five years, averaging around 2.4% up until 2020. There is also expected to be an increase in employment of around 1m during the forecast period to 2021;
- Spare capacity is expected to be eliminated in the economy in 2018;
- In 2010 the current budget deficit was 11.1% of national income and will now be down to an estimated 3.9% in 2015-16. This reduces progressively to 2.5%, 1.2%, 0.2% before switching to a surplus in 2019-20 of 0.5% or £10.1bn. This grows to 0.6% in 2021 (£14.7bn);
- The OBR now expect CPI inflation to reach 1.8% by the second half of 2017, then expected it to remain relatively flat at close to 2%, with wages expected to rise in line with productivity. The forecast builds in the assumption that the Bank of England keeps inflation on target when spare capacity is eliminated (the danger period for inflation in past cycles);
- Public sector debt as a percentage of national income is expected to fall every year. In July's Budget it was 83.6%. That is now 82.5% for 2015-16 and will continue to progressively fall: 81.7%, 79.9%, 77.3%, 74.3%, then 71.3% by 2020-21;
- Tax receipts are expected to be stronger and debt interest payments will be lower resulting in a £27bn improvement in the public finances over the forecast period compared to the July 2015 Budget. This enables the Chancellor to borrow £8bn less and spend £12bn more on capital investment than forecast;
- Public spending, which was 45% of national income in 2010, is now below 40% and will reach a very low 36.4% by 2020-21;
- Specifically on infrastructure and capital expenditure the Government has also set out increased capital commitments over the period from 2015-16 to 2020-21 so that we now have a total of around £128bn.

The reports

- The Spending Review and Autumn Statment (document)
  https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents
- Chancellor’s Statement
  https://www.gov.uk/government/speeches/chancellor-george-osbornes-spending-review-and-autumn-statement-2015-speech
- Economic and Fiscal Outlook
  http://budgetresponsibility.org.uk/economic-fiscal-outlook-november-2015/

ACE economic and policy papers

This paper forms part of a growing portfolio of research by ACE into the effects of infrastructure on the wider economy. The papers below outline the case for funding, a variety of funding methods including traditional and new forms of infrastructure spending stimuli, and more detailed sector specific issues such as retrofitting and microgeneration.

To access go to: www.acenet.co.uk/economic

Department for infrastructure

This paper examines the case for establishing a fully-fledged Department of Infrastructure which gathers together the planning and strategic policy development functions of other departments.

Electricity Market Reform: Generating Results

This paper explores the role of the current energy companies in the retail and generation sectors, and suggests reforms to EMR.

Funding roads

This report takes a macroeconomic approach to explore the potential inefficiency and loss of economic productivity as a result of the current condition of the road network. The report then suggests a new model for road development going forward.

Revolutionising housing

This paper is the second in ACE's housing paper series and explores in detail a new model to rebalance the incentives for development

The housing gap

This paper is the first in ACE's housing paper series and explores in detail the conditions within the UK housing market.

State Investment Bank

This paper is the final paper in ACE's infrastructure investment series and explores in more detail the rational and practicalities of establishing a State Investment Bank.

Green Investment Bank

This paper is the fifth in ACE's infrastructure investment series and explores in more detail the rationale behind the Green Investment Bank and the challenges it faces going forward given market conditions in 2012.

Pensions and infrastructure

This paper is the fourth in ACE's infrastructure investment series and explores in more detail the current conditions within the market, and the implications they have on pension funds' investment potential into infrastructure.

Procurement in PPFM

This paper is the third in ACE's infrastructure series and examines how to improve procurement in Public Private Finance Models (PPFM).

Public Private Finance Models

This is the second in ACE's infrastructure series and explores in more detail the rationale, performance and conditions that surround Public Private Finance Models (PPFM).

Performance of PFI

This paper is the first in ACE's latest infrastructure series and reviews the performance of historical PFI data to learn lessons for the development of new financing models.

About ACE

As the leading business association in the sector, ACE represents the interests of professional consultancy and engineering companies large and small in the UK. Many of our member companies have gained international recognition and acclaim and employ over 250,000 staff worldwide

ACE members are at the heart of delivering, maintaining and upgrading our buildings, structures and infrastructure. They provide specialist services to a diverse range of sectors including water, transportation, housing and energy.

The ACE membership acts as the bridge between consultants, engineers and the wider construction sector who make an estimated contribution of £15bn to the nation's economy and the wider construction market contributing a further £90bn

ACE's powerful representation and lobbying to government, major clients, the media and other key stakeholders, enables it to promote the critical contribution that engineers and consultants make to the nation's developing infrastructure.

ACE's publications, market intelligence, events and networking, business guidance and personal contact, we provide a cohesive approach and direction for our members and the wider industry. In recognising the dynamics of our industry, we support and encourage our members in all aspects of their business, helping them to optimise performance and embrace opportunity.

Our fundamental purposes are to promote the worth of our industry and to give voice to our members. We do so with passion and vision, support and commitment, integrity and professionalism.