

# Economic outlook

OCTOBER 2018

## Autumn Budget 2018 - Back on its feet

In his last budget statement before Brexit, Philip Hammond took the opportunity to ease the Government's spending squeeze.



Philip Hammond declared that the economy is "back on its feet again", as he signalled an end to the policy of austerity which has dominated budget statements for nearly a decade. The Chancellor was buoyed by upward revisions to economic growth forecasts from the Office for Budget Responsibility (OBR), which now expects growth next year to be 1.6% (up from 1.3% in March), then 1.4% in 2020 and 2021; 1.5% in 2022; and 1.6% in 2023 (albeit the forecast for 2018 was revised down from 1.5% to 1.3%). In part this is due to strong jobs market, with unemployment forecast to hit a four-decade low of 3.7% next year.

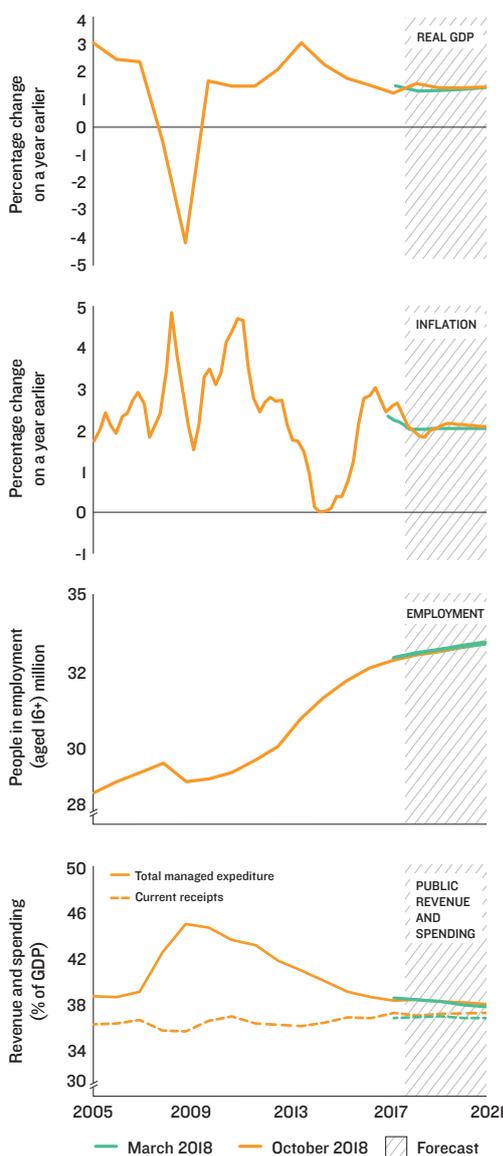
However, it was the OBR's improved forecast for the public finances that had most impact. Borrowing this year is expected to be £11.6bn lower than forecast, and to keep falling over the next five years. Having peaked at 85.2% of GDP in 2016/17, national debt will fall to 74.1% in 2023/24, supported by growing tax revenues associated with rising employment and lower debt interest.

With the OBR analysis assuming "a relatively smooth exit from the EU next year", much could yet still change. However, in the meantime, the Chancellor

took the opportunity to announce new funding for defence, mental health, schools and welfare, amongst others. There were also new measures announced to boost housing delivery,

infrastructure investment and to support high streets (pages 2-3).

Figure 1: Macroeconomic indicators



Source: OBR, Lichfields analysis

### THE BUDGET IN FIGURES:

**1.3%** UK GDP growth in 2018, revised downwards from 1.5% in March 2018

**1.6%** UK GDP growth in 2019, revised upwards from 1.3% in March 2018

**3.7%** unemployment rate projected for 2019, a four-decade low

**£11.6BN** extra room in the budget as a result of lower than forecast public spending

**£500M** more for the Housing Infrastructure Fund (HIF), with £291m going to the Docklands Light Railway

**£22BN** amount the Government will have spent on Help to Buy by 2021, an average of £61,000 per house sold under the programme

LICHFIELDS



**Today, the OBR confirm a significant improvement in our public finances, an upgrade that underscores the hard work of the British people and this government's stewardship of this economy since 2010.**

Chancellor of the Exchequer, The Rt Hon Philip Hammond MP

## Summary of key announcements

### Letwin Review's recommendations: diversification through complexity

Sir Oliver Letwin's Final Report recommends elaborate levers to Government, to increase variety and differentiation in new homes on large sites, and raise the proportion of affordable housing - all to increase build out. The recommendations' complexity is a surprise, far removed from his early trains of thought in his March letter to the Chancellor and his Draft Analysis. He now recommends new planning laws for future large sites of over 1,500 units that would require developers to provide 'a diversity of offerings' - 'diversification principles' would be set out in policy. A new 'National Expert Committee' would advise local authorities on interpreting diversity requirements for large sites and arbitrate in disagreements.

In the shorter term, the Government should provide incentives to diversify existing such sites, making government funding conditional on a s106 reflecting the new planning policy; and establish a 'large sites' viability fund, to help withstand non-viability.

For the longer term, the Government should introduce a local planning authority power to designate single large sites in local plans, and to create master plans and design codes. Local authorities should have powers to purchase such sites compulsorily at prices reflecting their value with planning permission and a master plan reflecting the new diversity requirements' ('ten times existing use value'). Councils should control their development through either a Local Development Company that would establish the master plan and design code, and then bring in private capital, before selling parcels to builders/providers offering housing of different types and tenures, or by establishing an Local Authority Master Planner (LAMP) to develop master plans and design codes, and then enable a privately financed Infrastructure Development Company to purchase the land, develop infrastructure, and promote the same variety of housing as the Local Development Corporation model.

### High Streets fit for the future

The Government has announced a range of measures aimed at supporting the diversification and evolution of high streets in the UK. Specifically, a new £675m Future High Streets Fund has been launched to support local authorities in developing plans and strategies to make high streets and town centres 'fit for the future'.

Furthermore, a new planning consultation has been published (ending 14 January 2019) seeking views on a range of changes to permitted development rights (PDRs) and the A Class in the Use Classes Order, mostly to increase flexibility, diversity and high street footfall. The consultation also proposes other amendments to PDRs, as well as seeking views on potential new rights for upwards extensions, and office demolition and redevelopment for housing.

### Beyond the borrowing cap: extra funding for housing

As previously announced, the Housing Revenue Account cap that limits local authority borrowing for housebuilding has been abolished with immediate effect.

The Government has also provided additional funds to support housing delivery - specifically: an extra £500m for the Housing Infrastructure Fund (HIF, now totalling £5.5bn) to support the delivery of up to 650,000 homes; the allocation of £291m of the HIF to unlock 18,000 homes in East London; and £8.5m to support up to 500 neighbourhood planning areas to allocate or permission land for discounted homes.

The Government has also announced that Homes England is to publish a new five-year strategic business plan, as well as confirming the introduction of a simpler system of developer contributions, mostly reflecting the consultation proposals of March 2018.



**We can solve the productivity challenge if we are willing to embrace the future to make the choice to invest in infrastructure, in research, in skills and in our regions to manage change, not hide from it.**

Chancellor of the Exchequer, The Rt Hon Philip Hammond MP

## Investing in the Country: growth deals and Transforming Cities Fund

The Government has announced a £240m extension to the Transforming Cities Fund (part of the Northern Productivity Investment Fund, or NPIF), to 2022-23. The extra funding will allow six metro mayors to invest further resources in transport schemes, with the West Midlands and Greater Manchester receiving the greatest share (£141m in total). An additional £440m of funding will also be available for shortlisted city regions on a competitive basis.

A further £37m of new investment, to support the Northern Powerhouse Rail development, expands on the £300m already committed to ensure HS2 readiness to accommodate potential Northern Powerhouse Rail and Midlands Engine Rail services.

The Government has also announced the allocation of £120m to allow a North Wales Growth Deal to be agreed, as well as the beginning of formal negotiations for a Moray Growth Deal in Scotland. Further progress has been made on growth deals for Ayrshire and the Borderlands, as well as for a Mid Wales Growth Deal.

## A new deal for the CAMKOX Arc: Government response

The Government has now responded in full to the National Infrastructure Commission's (NIC's) proposals for transformational economic and housing growth in the Cambridge-Milton Keynes Oxford arc. It has highlighted its call for proposals for growth from local authorities in the area, confirmed the current authorities included in its working definition, as well as committing to publishing a corridor-wide Joint Vision Statement early next year, and exploring the potential for a pan-Arc spatial vision underpinned by a local natural capital plan. An independent business Chair for the Arc will also be appointed, alongside a Ministerial Champion in Whitehall.

## A new National Infrastructure Strategy: Resilience testing

Finally, the Government has also announced that it will publish a National Infrastructure Strategy in 2019, to fully respond to the National Infrastructure Assessment prepared by the National Infrastructure Commission (NIC), and has also commissioned the NIC to prepare a further report on the resilience of the UK's infrastructure. The study will be aimed at ensuring that infrastructure is fit for the future, focused on how the resilience of infrastructure can be assessed and how the interdependence of different infrastructure systems impacts their susceptibility to future shocks such as natural or terrorist disasters will be explored.

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