

Economic outlook

MARCH 2019

Spring statement 2019 - remarkably robust

As Parliament grapples with Brexit, the UK economy continues to defy expectations (for now).



This year's new slimmed-down Spring Statement was, perhaps inevitably, rather 'lower key', with the Chancellor himself claiming it to be a 'fiscal non-event' amid the other pressing business in the House of Commons.

The UK economy continues to grow, with wages increasing and unemployment at historic lows, leading Philip Hammond to conclude it had proved "remarkably robust". However, the Office for Budget Responsibility (OBR) downgraded forecast growth in 2019 to 1.2% from 1.6% in October. It maintained its forecast of 1.4% growth in 2020 and revised up the forecast for 2021 to 1.6% (from 1.4%).

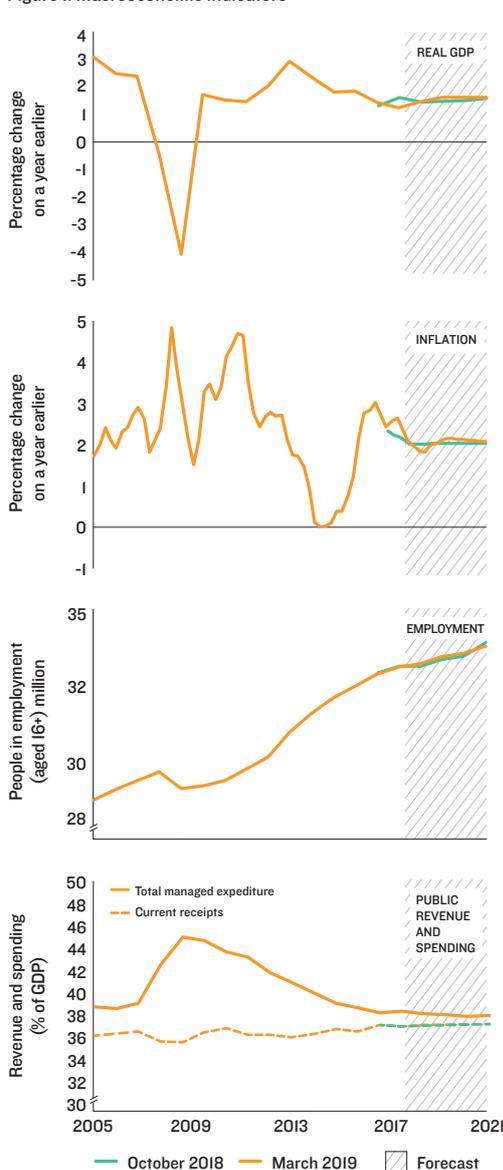
With lower borrowing and debt forecast, the Chancellor announced investments in infrastructure, technology, housing, skills, and clean growth. The underlying narrative was positioning the UK to capitalise on post-EU exit opportunities, however future spending decisions will depend on a Brexit deal outcome.

In October, the Chancellor claimed that austerity was over, yet it remains to be seen how this will be balanced against slower growth in the short-run and the target

of reducing debt. The departmental Spending Review will conclude by the Autumn Budget. There remains commitment to housing delivery, including the Oxford-Cambridge arc project. Future reforms on both the planning

system and infrastructure funding are also expected (see overleaf).

Figure 1: Macroeconomic indicators



Source: OBR, Lichfields analysis

SPRING STATEMENT IN FIGURES:

1.2% UK GDP Growth in 2019, revised downwards from 1.6% at the Autumn Budget

4.1% unemployment in February 2019, down from 4.4% a year earlier

96% of jobs created in 2018 were full time

£2.7BN revision downwards to public sector net borrowing in 2018/19 since October 2018

£5.4BN the average reduction in net borrowing projected over the next five years as a result of strong tax receipts and lower borrowing costs

£12.2BN effect of new student loans accounting on their contribution to the Government's budget deficit

LICHFIELDS



The economy itself is remarkably robust, with the longest unbroken quarterly growth run of any G7 economy, and is forecast to continue growing in each of the next five years.

Chancellor of the Exchequer, The Rt Hon Philip Hammond MP

Summary of key announcements

The Oxford-Cambridge Arc update

The Government has published an update on the Oxford-Cambridge Arc project, which includes a joint declaration made by the Government and local partners, setting out their commitment to long-term collaboration and underlining the project's strategic focus on productivity, place-making, connectivity, and the environment.

On place-making, the Government will consider 'planning approaches and flexibilities' that might better support planning and deliver increased housing supply in the long-term. Among these approaches, the role that 'a spatial vision or strategy for the Arc' might play will also be considered.

Analysis into the potential for new and expanded settlements will be completed in the coming months, whilst successful bids for Garden Communities are expected to be announced in Spring 2019. The update also provides an overview of the Government's current economic evidence base, with a finalised version expected in Summer 2019.

Finally, a consultation on the Oxford to Cambridge Expressway route options will begin in Autumn 2019, whilst the preferred east-west rail route is expected to be announced 'later in 2019'.

Infrastructure funding consultation launched

With infrastructure being one of the five pillars of the Industrial Strategy, the Government is looking at different ways to lever in private investment for funding new infrastructure projects and has launched an Infrastructure Review. This follows the announcement at Budget 2018 ruling out the model of Private Finance Initiatives, and the uncertainty of any future European Investment Bank (EIB) funding for future infrastructure investments.

It is intended that the Infrastructure Review will inform the 2019 Spending Review and the National Infrastructure Strategy (NIS), and accordingly it is being led by HM Treasury with the Infrastructure Planning Authority, supported by a panel of finance and infrastructure experts that will be announced in due course. While the Review will focus on the infrastructure sectors that will be covered by the NIS (energy, transport, water, flood defences, mobile telecommunications and broadband, and waste), views on how to finance sectors that previously had access to EIB funding (for example housing associations and higher education) are encouraged.

The Review recognises potential future challenges, such as attracting finance to new, unproven technologies and large, complex projects, as well as ensuring a steady supply of finance during periods of adverse market conditions. The consultation, and therefore the Review, is very broad. It asks which sectors might need support from the Government to raise finances, whether the Government should change, expand or reduce its infrastructure finance levers, and what the strengths and weaknesses of the infrastructure finance market are and whether a UK Infrastructure finance institution should be established.

The consultation will close on 5 June prior to the Spending Review.



We will take forward a Permitted Development Right to extend upwards certain existing buildings in commercial and residential use to deliver additional homes, engaging with interested parties on design and technical details.

Written Ministerial Statement, Secretary of State for Housing, Communities and Local Government, Rt Hon James Brokenshire MP

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Letwin Review and Accelerated Planning Green Paper

The Communities Secretary James Brokenshire published a Written Ministerial Statement (WMS) setting out the Government's position in response to the Letwin Review Recommendations on built-out rates.

The WMS confirmed that additional planning guidance on housing diversification will be published shortly, to further encourage meeting a diverse range of housing needs on large sites. On Letwin's recommendations to use this as a mechanism to capture more land value uplift, the Communities Secretary noted that 'many in the housing-building industry are sceptical of this approach', and confirmed that the Government is committed to improving existing mechanisms, and 'evolving the existing system of developer contributions'.

Of most interest is the announcement of an Accelerated Planning Green Paper, to be published later this year, which will focus on how 'greater capacity and capability, performance management and procedural improvements can accelerate the end-to-end planning process'. This will also take into account the Rosewell Review into planning appeals inquiries, as well as considering the case for further reform of compulsory purchase system.

Permitted Development Rights and high street reforms

The Written Ministerial Statement (WMS) also provides an update on Permitted Development Rights (PDRs) and high street reforms, following the related October 2018 consultation.

The Government will amend the shops use class (A1) to ensure it 'captures current and future retail models' and will allow class A1, A2, A5 uses, betting shops, pay day loan shops, and laundrettes to change to B1 office use. Class A5 hot food takeaways will be also allowed to change to residential. The existing PDRs to temporarily change between certain town centre uses for two years will be extended to three years; the proposal to extend this temporary PDR to certain class D1 uses is not mentioned.

A 'Better Planning for High Streets' consultation is proposed to explore proposals to support local authorities reshaping their high streets through the use of compulsory purchase, local development orders and 'other innovative tools'.

Interestingly, the Government will take forward an upwards extension PDR to provide additional homes on top of commercial and residential buildings, after having consulted on design and technical details. It will also continue to consider the design of a PDR to allow demolition and replacement of commercial buildings to provide additional homes. The householder PDRs that were due to expire soon will be made permanent, but the storage to residential PDR will fall away on 10 June 2019.

The intention is for an immediate package of PDR measures to be implemented 'in the spring', with more complex matters (such as upward extensions) to be covered by further regulations in the autumn.

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