Economic outlook

MARCH 2020

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Budget 2020 – getting it done

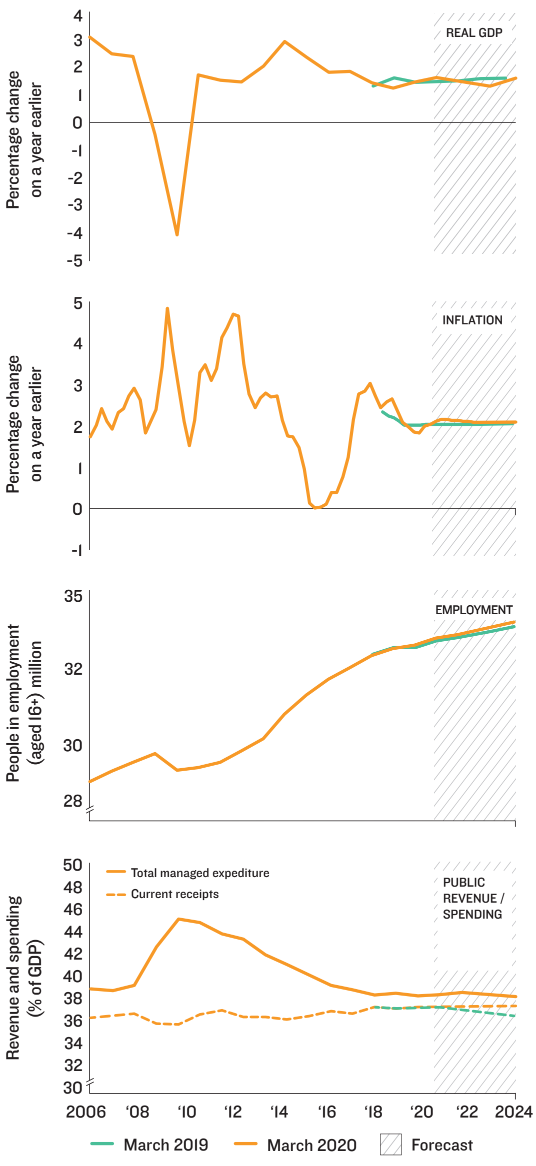
Against a backdrop of uncertainty, the Chancellor has delivered this Government's first Budget statement. It majors on spending big to 'level up' the country.

This year's Budget was already significant; having been delayed from last November due to the general election, it sets out the Government's ambitious plans for the post-Brexit economy but in the context of the immediate uncertainty surrounding coronavirus. It was the first opportunity for this Government to set out its direction of travel for public spending and its ambitions to 'level up' different parts of the country. The Budget was framed unashamedly about 'getting things done' (mentioned some 19 times in the speech).

The UK's growth forecasts have been downgraded by the OBR (by 0.5%) due largely to the likely fall in potential productivity and migration as a result of leaving the European Union. The UK economy is now expected to grow by 1.1% this year down from 1.4% in last year's forecast. However, these forecasts were before considering the still unknown effects of coronavirus for which the OECD has warned could halve world economic growth in 2020, and the Chancellor warned could keep up to 20% of the labour force out of work at any point. This coincided with an emergency cut in interest rates from 0.75% to 0.25% announced by the Bank of England. With the prospect of slower economic growth, and a Government keen to invest, the fiscal rules of the last decade have been re-cast. Some £600bn has been committed to infrastructure projects over the next five years, the biggest commitment to spending for a generation. We summarise some of the key policy announcements overleaf.

LICHFIELDS

Figure 1: Macroeconomic indicators



Source: OBR, Lichfields analysis

KEY FIGURES

1.8% increase in people in employment between 2019 and 2024

1.4% forecast average annual UK GDP growth for 2019-2024

£14.6BN Higher government borrowing this year than forecast

300K annual housing target by mid-2020s

£640BN funding for roads, rail, broadband and housing by mid-2025

£1.8BN devolution deal for West Yorkshire

3X increase in public investment by 2025 compared with long term average

We promised to get Britain building – this Budget is getting it done.

Chancellor of the Exchequer, The Rt Hon Rishi Sunak

Summary of key announcements

Housing and planning

The Budget sets out the Government's ambition that everyone should be able to access a safe and affordable home. Alongside re-committing to 300,000 new homes a year there was a significant £9.5 billion committed for the Affordable Homes Programme. The latest Housing Infrastructure Fund allocations were also announced; its replacement Single Housing Infrastructure Fund will be launched in the Spending Review later this year.

£1bn additional spending was also committed to the Building Safety Fund to remove unsafe cladding from tall residential buildings. £650m is to be spent addressing the manifesto commitment to help rough sleepers into permanent accommodation. There was a 1% cut in the Public Works Loan Board interest rates used by local authorities to fund house building and other capital projects. Together these form a package of interventions, but it is the announcement of what is to come that is more significant.

The Planning White Paper which was trailed in the Budget will seek to accelerate the development process and provide greater certainty in the planning system as well as a particular focus on 'land availability' possibly signifying some flexibility around green belt land. more will follow when the Government announce comprehensive planning reforms.

Transport

With transport key to levelling up the country and HS2 already confirmed, the Budget provided further commitment to transport infrastructure funding with the Manchester-Leeds leg of the Northern Powerhouse Rail line and the Midlands Rail Hub package green lit.

Less expected was the Government's £27bn investment for strategic roads to 2025, including dualling the A66 Trans-Pennine, M60 upgrades in Manchester, A1 North of Newcastle, and the A303 Stonehenge tunnel. Alongside this, the Government committed to 15 local road upgrades and provide a crowd pleasing £500m each year for the pothole fund.

Devolution

The latest devolution deal sees West Yorkshire elect its first Metro Mayor in May 2021, with similar powers to other Mayors over transport, planning and skills. The Chancellor also announced a significant TFL-style spending deal building on the successful transforming cities fund for each of the eight Combined Authorities.

This will provide £4.2 billion of funding for five-year settlements from 2022. Alongside this there is a further £400 million for Mayors to spend on delivering housing on brownfield land. Together these show a welcomed commitment by the Government to the devolution agenda - which this summer's English Devolution White paper will set out further plans for.

Growth areas

The Government re-affirmed its backing for growth areas as key economic priorities. Alongside the Northern Powerhouse rail, the Budget announced plans to develop a long term spatial framework for strategic planning in the OxCam Arc backed by development corporations alongside the East West Rail line and a potential new town in Cambridge.

The UK Shared Prosperity Fund (UKSPF) brought in to replace the EU structural funds will be realigned to match domestic priorities, further plans for the Fund will be set out in the Comprehensive Spending Review.

Changing decision-making

The Budget set out the Governments' plans to review how project approval decisions are made and provide clearer guidance and support to practitioners. In reviewing the Green Book (the subject of our recent blog) the Government have signalled their ambition to make investment decisions differently, in a way that enables 'levelling up' investment outside of London.

In keeping with this, there will also be long term plans to shift new economic decision-making jobs outside of the 'Whitehall bubble', with new HMT offices in 'the North', Northern Ireland and Wales.

Research and development

A much trailed focus for this year's Budget was increasing the spend and the spread of research and development investment. As such the Budget sets out ambitious plans to increase public R&D investment to £22 billion per year by 2024-25, taking direct support for R&D to 0.8% of GDP. To complement this public spending, they have also committed to boost the rate of R&D tax credits and consult on widening the definition of qualifying expenditure to include data and cloud computing.

Business rates review

The Chancellor announced a range of measures to support small businesses, pubs, and other hospitality and leisure venues to weather the economic impact of coronavirus in the short term. More fundamentally, he announced a Treasury review of the system, to report at the autumn Budget. Its terms of reference show it will consider the tax's longer-term sustainability, alongside the forthcoming rates revaluation, scheduled for 2021. But following a number of consultations on business rates retention and reform, proof of the government's progress will come in the form of details on how any future tax is calculated and collected, as well as the impact on business rates retention.

Public net investment will, in real terms, be the highest it has been since 1955.

Chancellor of the Exchequer, The Rt Hon Rishi Sunak

Levelling up – will government spending get it done?

In contrast with recent years, this Budget was characterised by significant capital investment rather than policy tweaks or austerity. The Government will take advantage of low interest and bond rates, borrowing to spend triple the average net investment made over the last 40 years into rail and road, affordable housing, broadband and research. As indicated in figure 2 below, this would take public sector net investment to 3% of GDP. While there has been support for the aims of levelling up, what might 'getting it done' look like?

The OBR indicates that the extra Government spending would generate 2.5% growth in productivity over the long term. Clearly, however, the success of this will be dependent on getting the most from this investment.

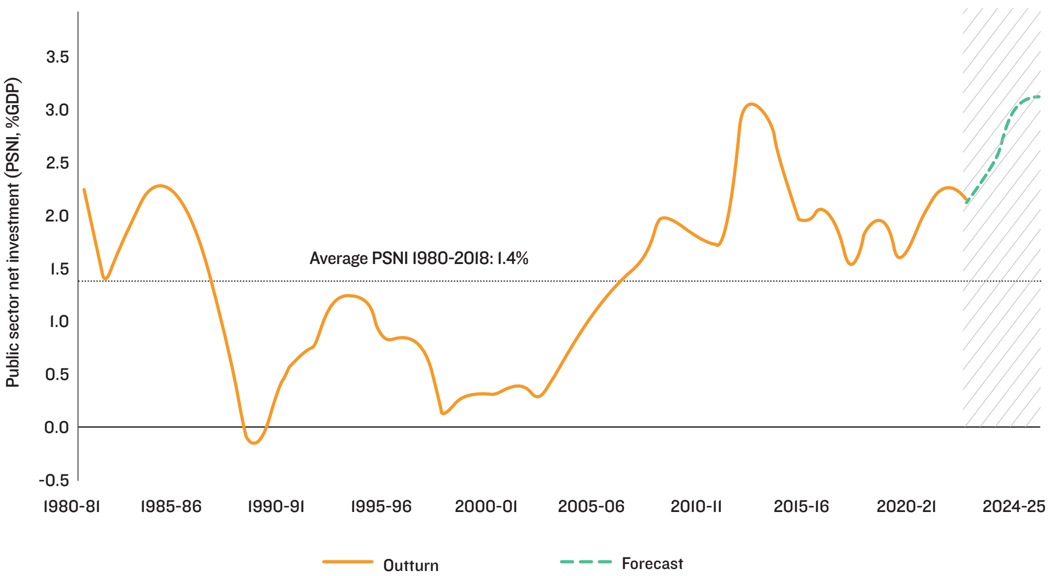
A recent report by Neil O'Brien MP argues that concentrating solely on transport investment was a mistake arguing instead that more should be spent on research and development investments in these areas. Others including the Centre for Cities and Centre for Progressive Policy have called for investment in skills and intra-city links. The Resolution Foundation calls for investment in enabling public services such as health, social housing and prisons.

The changes to the way in which investment decisions are made signify the Governmnet's direction of travel in achieving a rounded approach to levelling up. It will therefore be clearer following the Comprehensive Spending Review as to how successful some of the measures and spending commitments set out in the Budget will be in laying the foundations of the UK's future prosperity outside of the European Union.

We promised to level up, with new roads, railways, broadband and homes.

Chancellor of the Exchequer, The Rt Hon Rishi Sunak

Figure 2: Public sector net expenditure 1980-2025



Source: ONS, Lichfields analysis

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