
# Focus on development, infrastructure and transport

## Autumn Budget 2018

Author: Callum Warren

Researched and written by Murray Stewart and Callum Warren (TFA)

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@TfAengagement
LinkedIn: search Tristan Fitzgerald Associates (TFA)

TFA
Atlantic House
Imperial Way
Reading
RG2 0TD

**www.tfa-ltd.co.uk**
Tel: 0118 903 6076
Email: enquiries@tfa-ltd.co.uk

# Introduction and overview

Chancellor Philip Hammond's third Budget was the first to be delivered on a Monday since 1962 and the last before the UK leaves the EU in March 2019 and comes during an impasse in the negotiations between the UK and the EU27.

The uncertainty of Brexit was a major factor in this Budget and the Chancellor confirmed, that if required, next year's Spring Statement could be converted into a full "fiscal event" and added that he would increase funding to departments for Brexit preparations to £2bn for 2019-20.

Amid the current political and economic uncertainty, Mr Hammond had some positive news from the Office of Budget Responsibility (OBR) that growth going forward would be "resilient", improving next year from the 1.3% forecast in the Spring Statement to 1.6%. Mr Hammond further confirmed that national debt peaked in 2016/17 at 85.2% of GDP and would then fall in every year of the forecast from 83.7% this year; to 74.1% in 23-24.

Such an upgrade to the public finances and the better than expected state of the UK's deficit allowed the Chancellor to back the Prime Minister's Conservative Party Conference pledge to end "austerity" Perhaps the most notable announcement related to the forthcoming 2019 Spending Review that confirmed the Chancellor's intention to increase departmental spending during the five-year period from 2020.

Mr Hammond declared, "austerity is coming to an end, but discipline will remain" as he sought to set out some dividing lines with Labour's "tax and spend" policy suite. However, his real objective was to not create any additional difficulties for the Government as it (1) struggles to finalise a Brexit deal with the EU27 and (2) secure and consolidate support amongst its backbencher's and from the DUP to prevent a vote against the Budget and a possible no confidence vote.

Much will depend on whether the Prime Minister is able to deliver a positive exit agreement with the EU27 and the Chancellor confirmed that he was holding back some "fiscal" headroom in case he needed to alter his economic plan if Britain leaves the EU without a deal.

Major decisions on public spending will only be made once an orderly Brexit deal has been agreed, and if the UK fails to secure a deal with the EU then a different approach on the future of the UK's economy would need to be developed, including a possible full "fiscal event" at next year's Spring Statement to set a new economic strategy following a disorderly Brexit.

# Analysis

The Chancellor's Budget was noticeably light on new housing policy announcements. Instead, his attention was directed on investment in the nation's infrastructure.

As we had heard earlier this month, the Chancellor confirmed he has scrapped the cap on the amount councils can borrow to build housing with this change taking effect immediately. The initiative is likely to cost the Treasury around £1bn a year to fund and Government hopes the homes built will help ease the housing crisis.

This has proved a very popular announcement with the development sector. A study by research group Capital Economics, commissioned by the LGA, found that every £1 invested in a new social home generates £2.84 in the wider economy with every new social home also saving £780 per year in housing benefit. The LGA has claimed that the investment announced by the Chancellor could generate returns of up to £320bn over the next 50 years.

The last time the UK was building enough homes local authorities were building 40% of them, but in 2017 Government figures showed that local authorities were responsible for just 2% of total houses built in the UK. This is a record the Chancellor is clearly keen to reverse with his changes.

Alongside this, the Chancellor has devised a high street rescue plan which will provide a new £675m Future High Streets Fund to improve infrastructure and transport and allow areas to target and re-develop empty shops to homes and offices.

In transport, the Chancellor announced a £28.8bn fund to upgrade England's motorways and major roads. £25.5bn will go to Highways England for major road upgrades between 2020 and 2025 and will be largely funded by vehicle excise duty, the first time the tax has been ring fenced for the road network. An extra £3.5bn of "new money" will be allocated to major roads which will fall under the remit of local councils.

The Chancellor feels these changes will ease the pressures on infrastructure, but Labour has bemoaned the increase of spending on major roads claiming that it is the local road network that should be improved with the nation's rising dependency on cars.

Such announcements were welcomed by RAC's Chief Engineer, David Bizley, but he called for a similar long-term strategy and funding for the maintenance and improvement of all local roads.

# Key Budget 2018 Red Book Announcements

## Housing and development

- An additional £500m for the Housing Infrastructure Fund – The total Housing Infrastructure has been increased to £5.5bn and the Chancellor hopes it will unlock 650,000 homes.
- Extension of no stamp duty – 121,500 First Time Buyers have already benefited from the stamp duty exemption and now the exemption has been extended to include those buying shared ownership homes valued up to £500,000. This has been retrospectively backdated to the last budget in 2017.
- Help to Buy extended to 2023 - From April 2021, a new Help to Buy Equity Loan scheme will run for 2 years. The new scheme will be available for first-time buyers only and new regional property price caps will be introduced. The Government does not expect a new scheme beyond 2023.
- Changes to Land Value Capture - The Government has committed to introducing a simpler system of developer contributions to help local areas capture a greater share of uplift in land values for infrastructure and affordable housing. Reforms include simplifying the process for community infrastructure levies and removing all restrictions on Section 106 pooling towards a single piece of infrastructure.
- A new wave of strategic partnerships – A new wave of strategic partnerships has been announced. These partnerships will include nine Housing Associations and aims to deliver 13,000 homes across England and £75 million from the Home Building Fund for St Modwen plc, to fund infrastructure to build over 13,000 new homes.
- £1bn of British Business Bank guarantees – The Chancellor has announced £1bn of British Business Bank guarantees to support the "revival" of SME housebuilders.
- £675m for improvements to support high streets – A new £675 million Future High Streets Fund will be set up to help local areas to respond to and adapt to changes. It will support local areas to prepare long-term strategies for their high streets and town centres. Later this year MHCLG will launch the full prospectus for the Fund, detailing the objectives; and provide further detail on the nature of projects that are eligible for funding, and assessment criteria. Planning rules will also be reviewed, including a modernisation of CPO rules, to convert disused shops to homes.
- £20m to further the development plan of central section of east west rail in Oxfordshire.
- Build out rates report published – The Chancellor announced that Sir Oliver Letwin had published his report on build out rates, concluding that large housebuilders are not engaged in land banking. The report had several recommendations and the Government will respond to those in the new year.
- New CPO powers - The Chancellor said local authorities will be given powers to compulsorily purchase smaller plots of land from big developers who sit on them, and hand them to smaller house builders.

## Transport and infrastructure

- £420m for potholes – Councils in England will immediately get an extra £420m to tackle the issue of potholes on their roads.
- £150m for local road junctions – Councils in England will also be given an extra £150m to improve road junctions on local roads.
- £680m for Transforming Cities Fund – The Transforming Cities Fund will be extended by £680m to support local "sustainable" travel schemes including new buses, trams and cycling routes.
- £90m for Future transport – £90m will be set aside to trial next-generation methods of transport, with the creation of new "future mobility zones" in three city regions.
- £20m for the critical central section of East-West rail between Oxford & Cambridge.
- Fuel Duty freeze - Fuel Duty will be frozen for the ninth year in a row.

# Reaction Round-Up

Labour's Shadow Transport Secretary Andy McDonald said:

"With car dependency rising, public transport in decline and local roads in a state of disrepair, ramping up spending on major roads is the wrong decision. It simply isn't sustainable to repeatedly ramp-up major road spending, especially at a time when air pollution causes 40,000 premature deaths each year and climate change is threatening a global crisis."

RAC chief engineer David Bizley said it was "good news" for the nation's motorists.

"While the focus of this cash injection is strategic and major roads it is also positive that other local roads will benefit to some extent, but what is also needed going forward is similar long-term strategy and funding for the maintenance and improvement of all local roads so that we can over perhaps 10 years eliminate the backlog in preventative maintenance that has led to so many potholes appearing during periods of adverse weather."

Simon Alcock, of environmental charity ClientEarth, said:

"Emergency measures to protect our children from traffic pollution would cost £153m, which is a drop in the ocean compared with the numbers the government is allocating to roads. Ministers seem unwilling to find money to protect children from traffic pollution around schools but are happy to spend billions on roads."

Friends of the Earth's campaigns director Liz Hutchins said:

"Doesn't Philip Hammond read the news? Earlier this month UN scientists warned that we only have a dozen years to prevent catastrophic climate change. Yet rather than investing in a low-carbon economy, the Chancellor is gearing up to create more pollution that wrecks our climate and damages our health."

The Federation of Small Businesses (FSB) welcomed the extra investment in the pothole fund. They said:

"the 420 million extra funding to help fix Britain's roads and potholes, as well as the fuel tax being frozen for the 9th year running, is key for small businesses who rely on local roads".

Royal Town Planning Institute, Head of Policy, Richard Blyth, said:

"The Chancellor's fiscal measures to support small retailers and support for local councils to help rejuvenate town centres and high street are welcome, but we need to be cautious about making it easier for empty shops to be turned to residential use.

Permitted developments rights - whether it is to convert shops to residential use or adding storeys to buildings - do not have a track record of producing quality development and we need to be cautious about their use.

There are welcoming boosts to the Housing Infrastructure Fund and Transforming Cities Fund, and a £8.5 million of resource support for parishes to allocate or permission land for homes could be potentially useful to create the homes that people want. But the critical state of local planning resources, a key RTPI concern, has not been adequately addressed, nor is our call for councils to be able to recover 100% of planning administrative costs heeded."

The House Builders Federation welcomed the allocation of £1bn of guarantee capacity to support lending to the SME house building sector via British Business Bank. They had previously recommended the policy in their 'Reversing the decline of SME builders report'.

Federation of Master Builders CEO, Brian Berry, said:

"It is important that the Chancellor has recognised the importance of investing in our high streets. He has announced a £675 million Future High Streets Fund to allow councils to rejuvenate town centres. It is estimated that as many as 300,000 to 400,000 new homes alone could be created by making use of empty spaces above shops on our high streets. This is space just waiting to be turned into residential accommodation. There is a pressing need to re-invent many of our town centres in light of changing patterns of retail and leisure. The Government should be applauded for its ambition to safeguard the life of our high streets."

Dean House
94 Whiteladies Road
Bristol
0117 908 4190

7th Floor
50 Broadway
London
020 7152 4104

Atlantic House
Imperial Way
Reading
0118 903 6076

@tfaengagement
www.tfa-ltd.co.uk