Budget 2018:
The Implications for Public Services

October 2018

The Houses of Parliament where the 2018 Budget was delivered on 29th October 2018

Introduction

Phillip Hammond presented his 2018 budget on Monday 29th October. In it he announced the government's spending, tax and borrowing plans from 2019/20 to 2022/13. It is of even more interest than usual to those of us who are involved in public services.

In his introduction to the budget, Philip Hammond said that the budget reductions that have been made since 2010 were necessary and not ideologically driven and that:

"The era of austerity is finally coming to an end."

The purpose of this briefing paper is to summarise the implications of the budget for public services, the reactions to it from the sector and to provide some commentary.

Context

In July 2018, the Office for Budgetary Responsibility published an assessment of the long-term fiscal sustainability of public finances. This report was based on the core assumptions of no change in current policies and no impact or upside dividend from Brexit as that was uncertain at the time of the report.

The Office for Budgetary Responsibility's report showed that the position on public finances is worse than they estimated in their last fiscal sustainability report, with government debt (public sector net debt) having risen from 52% of Gross Domestic Product in 2009 to 86% of Gross Domestic Product in 2017/18 but being forecast to reduce to 80% of Gross Domestic Product in 2022/23.

This year the government has had better than expected fiscal news. Lower-than-expected public spending and higher value added tax and corporation tax receipts since April 2018 have helped the exchequer more than expected. Borrowing for 2018/19 could be just £25billion, compared with forecasts of £33.9billion. However, economists are finding this hard to explain as tax revenues appear to have increased despite there being no corresponding growth in the economy!

However, without any changes in policy borrowing as a proportion of Gross Domestic Product would continue rising to reach 283% of Gross Domestic Product in 2067/68. Beyond this point, the Office for Budgetary Responsibility report suggests that debt would remain on a rising path - that points to a clearly unsustainable position.

The Performance Tracker prepared by the Institute for Government and the Chartered Institute for Public Finance & Accountancy notes that the Office for Budgetary Responsibility's report shows if current spending and tax take were simply projected forward, spending on health, long-term care and pensions and pensioner benefits alone (along with debt interest payments) would equal tax receipts within fifty years, leaving nothing for any other services.

There are also uncertainties caused principally by Brexit and by an increasingly unstable political and financial international environment, one symptom of which is significant instability in stock markets. The government's current forecasts will have to be revised if – or rather when – the world slides into its next recession.

At the Conservative Party conference in October 2018, Theresa May announced an 'end to austerity'. However, the budget for 2019/20 already has £4billion in planned departmental spending cuts factored in and these will still be implemented.

Theresa May also announced the abolition of the local authority 'housing revenue account borrowing cap' (see below). It is forecast that this will lead to local authorities borrowing and spending an additional £1billion a year. From the Treasury's point of view this is all public borrowing.

Prior to the budget, ministers have announced increases in expenditure on the National Health Service (England), defence and foreign aid. These total £13billion a year by 2022/23.

And, under the Barnett formula, any increases in expenditure in England automatically result in increases in the budgets of the devolved administrations in Northern Ireland, Scotland and Wales.

Every Chancellor likes to have a 'successful' budget. This means making announcements to please their supporters and the public around increased expenditure on popular projects and / or reduced taxation. This budget is no exception. However, these increases in expenditure and reductions in taxation add to the budget gap.

Brexit is also casting its shadow over the budget. Forecasts of its economic impact vary, but the government's own forecasts, supported by most economists, are that economic growth will slow and tax revenues will fall. This budget is based on the unrealistic assumption that they will not with an intention to revise the budget if Brexit does have an adverse effect on the public finances.

So, what were the options:

- First, cut spending in unprotected budgets. There are two problems with this. First, there aren't many budgets that government hasn't pledged to protect or increase meaning that further cuts would have to be made to local government, police, transport and welfare – with most having to come from welfare as it is the largest of these budgets. Second, this would conflict with the 'end to austerity' commitment.
- Second, increases in taxation. If £18billion was raised through income tax the standard rate would have to increase from 20% to 22%. If £18billion was raised through value added tax the standard rate would have to increase from 20% to 24%. If £18billion was raised through corporation tax the standard rate would have to increase from 19% to 26%. These would all be significant increases that would be politically difficult for a government that claims to favour low taxation.
- Third, increased borrowing. This would conflict with the government's commitment to balance the budget and reduce public borrowing.

As I expected the Chancellor has opted to increase borrowing. The forecast is for the deficit to increase in 2019/20 and the government's intention is to continue to borrow over £20billion a year with no plan to balance the budget. This enables them to fund existing commitments, avoid further significant cuts in expenditure and make reductions in taxation. It also provides a stimulus to the economy to counteract the depressing effects of Brexit. However, in the long-term it will weaken the public finances further.

I remember attending the annual conference of the Chartered Institute of Public Finance & Accountancy in 2010. One of the presentations was made by Goran Persson, the former Social-Democratic Prime-Minister of Sweden from 1996 to 2006, who tackled that country's budget deficit successfully in the 1990s.

He described a meeting that he held shortly after becoming Prime-Minister with American bankers with whom the Swedish government was in debt. They were insisting that Sweden reduce its expenditure on specific budgets and insisting that specific changes were made to the way education, health, welfare and other services were provided. He said that he initially felt angry that the bankers dared to make these demands but then concluded that:

"An indebted government and people have no political freedom because the markets will act independently".

In short – debtors have no sovereignty because they surrender it to their creditors. My fear is that in trying to borrow and spend their way out of this crisis, the United Kingdom government will create an even greater financial crisis in the long-term with prosperity and sovereignty being lost.

Economic Forecasts

The Office for Budgetary Responsibility forecasts that economic growth will be 1.6% in 2018, 1.6% in 2019, 1.4% in 2020, 1.4% in 2021, 1.5% in 2022 and 1.6% in 2023. These forecasts are increased. However, these rates of growth are low when compared with rates of growth prior to 2008 that were usually between 2.5% and 3.0%; and are also low when compared with other developed economies. Furthermore, these assume that Brexit will have no adverse economic or fiscal effect.

The government's public sector borrowing requirement is forecast at £31.8billion in 2019/20 (an increase compared with 2018/19), £26.7billion in 2020/21, £23.8billion in 2021/22, £20.8billion in 2022/23 and £19.8billion in 2023/24.

The government calculates that debt as a share of Gross Domestic Product will fall from 85% in 2016/17 to 84% this year and 74% by 2023/24. However, this should be read alongside the long-term forecasts prepared by the Office for Budgetary Responsibility that show debt increasing in the long-term.

The government is currently spending over £50billion a year on debt interest.

In 2019 there will be a full spending review, but in this budget, there is a five-year forecast. This is based on a real increase in public expenditure of 1.2% a year mainly focused on the National Health Service.

The National Productivity Investment Fund will be increased to £38billion in due course. The Transforming Cities Fund is to be increased to £2.4billion.

The Budget 'red book' states that:

"The Budget takes further steps to improve the services people care most about by setting out a path for future spending which implies day-to-day departmental spending growing at an average of 1.2% per year in real terms from 2019-20. This includes funding for a new multi-year budget for the NHS until 2023-24, following the Prime Minister's June 2018 statement that the NHS budget would increase by £20.5 billion a year in real terms by 2023-34. Budgets for mental health services will grow as a share of the overall NHS budget over the next 5 years. Ahead of confirming allocations at the Spending Review, the Budget will also provide increased funding in current budgets for adult and children's social care, schools, defence and police."

In total, the budget includes plans to increase public expenditure by £30billion by 2022/23 – mainly on the National Health Service.

Taxation

Personal Tax allowances will be increased to £12,500 and the higher rate threshold will be increased to £50,000 from April 2019 – a year earlier than the commitment that was contained in the Conservative manifesto in 2017. Duties are to be frozen on fuel, beer, cider and spirits – effectively reducing tax on these items in real terms.

There are tax reductions for businesses. The government will increase the Annual Investment Allowance five-fold from £200,000 to £1million to help businesses to invest and grow. Also, from October 2018, businesses will be able to deduct 2% of the cost of any new non-residential structures and buildings off their profits before they pay tax. There will be an increase in the government's lending facility for exporters. The British Business Bank is to be provided with an additional £20million.

From April, large businesses will be able to invest up to 25% of their apprenticeship levy to support apprentices in their supply chain. Some employers will pay half of what they currently pay for apprenticeship training - from 10% to 5%. The government will pay the remaining 95%.

National Health Service and Mental Health

On 28th October, Philip Hammond said that the most important spending decision in the budget was the extra cash for the National Health Service in England announced by Theresa May in the summer, with Scotland, Wales and Northern Ireland getting proportional extra sums in the usual way. The increase will begin in 2019/20, reaching an extra £20billion in real terms for National Health Service England by 2023/24. However, the extra spending doesn't account for the deficits already in the health system. Last year, health trusts borrowed £2.8billion to cover shortfalls.

On the HM Treasury website, it is stated that:

"The National Health Service is the public's number one priority and the government will increase its budget by £20.5billion after inflation by 2023/24. Within this, the National Health Service will increase mental health spending by more than £2billion a year by 2023/24."

The £2billion mental health pledge is included in a £20billion boost to the National Health Service announced by the government in June. This will be delivered through a new ten-year National Health Service plan.

The current annual mental health spend is about £12billion. The new funds will go towards a new mental health crisis service, ensuring round-the-clock mental health support in major Accident & Emergency centres. It has been found that people who require mental health support often use the Accident & Emergency service because of a lack of other provision. According to the government, people calling the non-urgent 111 number will be directed to the right support thanks to the investment.

The funding will also pay for more mental health ambulances, community services for people with mental health problems, specialist crisis teams linking schools, social services and young people's mental health services, and teams in schools supporting people with mild and moderate mental health problems.

In its 2012 Health and Social Care Act the coalition government legislated to create 'parity of esteem' between mental and physical health, but there have been persistent complaints that this aspiration has never been achieved and Theresa May herself cited mental health as an area where services must be improved in the 'burning injustices' speech she made outside No 10 Downing Street when she became prime minister.

Andy Bell, Deputy Chief Executive of the Centre for Mental Health, said that:

"Increasing mental health spending as a proportion of National Health Service funding for the next five years is an important step towards parity. It is vital that this investment is earmarked for mental health to ensure it brings about the promised improvements in care and support and to put right the decades of underinvestment in mental health services throughout the National Health Service."

However, the Institute for Public Policy Research thinktank said that the £2billion extra provided in the budget was only half what was needed to put spending more on a par with that of physical health.

Norman Lamb MP (Liberal Democrat), a former mental health minister, said that the government was 'investing the bare minimum' and was recycling commitments made by the coalition government on children's mental health which the Conservatives had failed to deliver 'nearly five years on'.

Philip Hammond also announced an additional £10million for air ambulances.

Highways

Philip Hammond announced a £30billion transport network investment, with £28.8billion from vehicle excise duty ringfenced for spending on roads. This is intended to overhaul transport infrastructure and boost the economy with £210billion for motorway improvements, new A-roads and rural transport links. The government intends this to encourage more people to live and work outside cities where house prices are cheaper. It is described as one of the biggest single upgrades of the network since the expansion of the first motorways in the 1960s.

An extra £3.5billion of 'new money' will be allocated to major local routes that fall under the remits of local councils. Philip Hammond announced an additional £420million would be allocated to local authorities for filling in potholes. Alongside extra cash for potholes, councils will be given an extra £150million to improve road junctions on local roads.

Business Rates and High Streets

Business rates will be reduced by a third for almost half a million small high street shops at a cost of £0.9billion. This is intended to assist them to compete with the threat posed by online retailers.

Small retailers will be the focus of the business rates relief. The government calculates that a Sheffield pub with an estimated rental value of £37,750 would be likely to save £6,178 on business rates next year; while a Birmingham newsagent would save £1,749 with a rental rate of £14,250.

Mandatory business rates relief will be extended to public lavatories, including privately owned lavatories that are made available for public use.

Local authorities will be compensated for the loss of revenue from these mandatory rate reliefs.

The Federation of Small Businesses' national chair Mike Cherry said that:

"For far too long they have come up against an outdated and unfair rates system and it's clear that change is needed."

The budget also includes a £650million transformation fund for local high streets to help them transform longer-term, including supporting infrastructure and transport access. Councils will be required to draw up long-term plans for the future of their high streets.

The Confederation of British Industry's chief economist Rain Newton-Smith said that:

"It's no secret that the United Kingdom's high streets are under pressure, with boarded-up shops all too frequent a sight in many parts of the country… The roots of the problem go far deeper though, with business rates giving larger retailers serious headaches, alongside manufacturers and logistics firms. There must be a wholesale review next year to deliver a system that encourages greater investment in digital, new technologies and energy efficiency."

I suspect that the problems of high street retailers are caused by fundamental changes in the economy and that reducing business rates, while being politically popular, will be ineffective in protecting existing businesses. It appears to me that for town centres to survive they need to change to become places with a strong leisure and cultural offer. Hopefully, the transformation fund will help to achieve this.

Local Government

The Local Government Association made a budget submission to HM Treasury in September 2018. It stated that:

"During the current unprecedented times the country is facing, local government is providing local stability and the leadership needed to support national government as it seeks to negotiate the best deal for our nation in exiting the European Union.

"It is councils who make our local areas greener, cleaner and safer, and support and safeguard vulnerable children, older and disabled people and those who are homeless or in need. People rightly look to their council to support them and their family, and to be at the heart of their community. When asked who was most trusted to make decisions about how services are provided in their local area, 72 per cent said their local council.

"But unprecedented funding pressures and demand for key services is pushing councils to the limit. Councils have strained every sinew to play a vital role in supporting local economies and communities through a difficult few years. Local government has sustained disproportionately large reductions in Government funding over this decade, in comparison to the rest of the public sector. Between 2010 and 2020, councils will have lost 60p out of every £1 the Government had provided for services.2 In 2019/20 Councils' Revenue Support Grant is due to be cut by £1.3 billion.

"If the Government fails to adequately fund local government there is a real risk to the future financial viability of services and councils. Many local authorities will reach the point where they only have the funds to provide statutory responsibilities. The 'AnyCouncil' narrative appended to this submission shows the very real decisions on reducing services that councils have had to make and how they are increasingly unable to provide dignified care for our elderly and disabled, protect children, boost economic growth, fill potholes, build homes, and much more.

"Our analysis shows that local services face a funding gap of £7.8 billion by 2024/25. This funding gap will already stand at £3.9 billion by 2019/20. The funding pressures facing adults and children's social care, as well as homelessness and public health, are particularly severe. The growing demand for these services has meant that less money is being spent on the other services that keep our communities running such as libraries, local roads, early intervention and local welfare support. This is also a false economy and leads to increased cost pressures in other parts of the public sector."

The Local Government Association submission 'Moving the conversation on: LGA Autumn Budget Submission to HM Treasury' can be viewed or downloaded from: https://www.local.gov.uk/sites/default/files/documents/Moving%20the%20conversation%20on%20-%20LGA%20Autumn%20Budget%20Submission%202018.pdf

However, government figures show that local government has been spending less than forecast during the current year.

Councils will be given greater control over the money they raise through the adult social care precept, business rates retention and abolishing the local authority housing 'borrowing cap'. Funding for 2019/20 will be included in the local government funding settlement. Longer-term decisions will be announced as part of the 2019 spending review. However, the reduced funding that is already contained in the 2019/20 local government finance settlement will still be implemented and there are certainly no plans to restore local government funding to the level that existed in 2010.

Nick Golding, the editor of the Local Government Chronicle commented that:

"All of us in local government know that Mr Hammond offered too little. Social care will continue to go backwards; there is insufficient money for children's services. It is also frankly insulting for a chancellor to promise to equip councils to tackle potholes with £420m when the 49% reduction in central funding has diminished councils' ability to do this.

"Everything local government does right now should be targeted towards making a success of its lobbying for a successful comprehensive spending review. Mr Hammond will need to see that he gets a return on his investment from any extra money for councils. This return is not just in the financial sense, it is in the political sense too."

Lord Gary Porter, the Leader of South Holland District Council and of the Local Government Association said that:

"While this funding will ease some of the immediate financial pressure facing councils and our local services, it is clear that this cannot be a one-off. Today's funding is a start, but the real test will come in the Spending Review next year."

Councillor Nick Forbes (Labour), Leader of Newcastle-on-Tyne City Council tweeted that:

"It looks as though the Chancellor has ignored the warnings from the cross-party LGA about the imminent collapse of the Adult and Children's Social Care systems. Instead we get a couple of sticking plasters. A really tough winter ahead."

Adult Social Care

Philip Hammond announced £650million of additional grant funding for adult social care (although £240million of this had already been announced), an additional £45million of disabled facilities grants, and an additional £84million for children's social care programmes.

The budget 'red book' states that:

"The Budget provides a further £410m in 2019-20 for adults and children's social care. Where necessary, local councils should use this funding to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children."

The Chartered Institute of Public Finance & Accountancy tweeted that:

"Public spending on adult social care fell from 2009/10 to 2016/17 by around 3%, reflecting the pressure on councils. An additional £1billion would be welcomed by local authorities, but this only a temporary fix - ageing population means longer term solutions are required."

Glen Garrod, the President of the Association of Directors of Adult Social Services said that:

"It's positive to see a step in the right direction in today's budget – the additional £650million for social care will provide necessary support to older and disabled people and their families, care workers, providers and the NHS. However, this is still far short of the £2.35billion that ADASS identified would be needed for social care to stand still in 2019/20; councils have been struggling with funding shortfalls for years.

"It would seem that the era of austerity is indeed not at an end for older and disabled people. The detail in the Red Book reveals that the announced funding of £650m for social care is in fact a core of £410m which will need to be negotiated in local councils between children and adult services – both of which are hard pressed. Whilst this additional funding is indeed positive, it is both inadequate and temporary."

Housing

Stamp duty is to be abolished for first-time buyers of shared ownership properties. There is an additional £500million for the housing infrastructure fund taking the total budget to £5.5billion to unlock a further 650,000 homes. Philip Hammond also announced support (how much is unclear) via Neighbourhood Planning to build homes for sale discounted in perpetuity for local people in 500 neighbourhoods. Lettings relief will be limited to properties where the owner is in shared occupancy with the tenant. There will be a 'simplification' of the process to convert commercial properties to new homes. The 'Help to Buy' Equity Loan scheme will be extended for two years to 2023 and will be limited to first-time buyers

The government has allocated £653million to nine housing associations. These allocations come from the existing funds in the Affordable Homes Programme and follow Homes England's announcement in July that it had signed eight partnerships with associations to deliver 14,280 homes. The deals will run until 2021/22, when the current programme ends. The prime minister has already announced £2billion for the following programme in 2028/29.

Philip Hammond also allocated £291million of previously announced money from the Housing Infrastructure Fund to a scheme in East London proposed by the Greater London Authority. It has proposed improving the Docklands Light Railway to unlock 18,000 new homes in the area.

Local Authority Housing Borrowing Cap

It had already been announced that the cap on borrowing by local authorities in the housing revenue account is to be abolished on 30th October. Prior to the budget, the Local Government Association has calculated that this could generate £320billion of economic growth over fifty years.

On the HM Treasury website, it is stated that:

"From today in England the government is lifting the cap on the amount of money local authorities are able to borrow to build housing. Local authorities fund housing through a separate Housing Revenue Account (HRA). The Welsh Government is also taking immediate steps to lift the cap in Wales."

Lord Gary Porter said that:

"The last time we built enough homes councils built 40% of them. We need to get back to those levels if we're to tackle our housing crisis, which is why we need to look towards delivering a new generation of 100,000 high quality social homes a year.

"The gains are enormous. Investments in social housing could generate returns up to £320billion over fifty years, helping countless families along the way by creating local jobs and building homes people need and can afford…. The chancellor has a real opportunity to deliver a once-in-a-lifetime change that could benefit thousands of people across the country. We encourage him to take it."

According to the Office for Budgetary Responsibility's estimates, councils will build 20,000 extra homes between now and 2023/24 because of the abolition of the cap. This is a lower estimate than those that have been published by the Local Government Association and by consultants. The Office for Budgetary Responsibility also calculates that this increase will be partly offset by a decrease in housebuilding by private housebuilders and housing associations, leading to a net increase of just 9,000 homes over the next five years. According to government estimates in the Budget, abolishing the cap will cost £4.7billion over five years, starting at £95million this year and rising to £1.2billion by 2023/24.

Welfare and Universal Credit

The Budget 'red book' states that:

"The government remains committed to supporting the most vulnerable people in our society. This means making sure that the welfare system is simple and sustainable in the long term, and that work always pays. The measures in this Budget build on the continued roll-out of UC, offering greater protection for people moving from legacy benefits and increasing the UC Work Allowances by £1,000 from April 2019. This means that 2.4 million households will keep an extra £630 of their income each year.

"The government wants to see higher wages for those in work. To drive wage growth for those on the lowest pay, the National Living Wage will increase to £8.21 in April 2019. Next year, the government will announce a remit for the Low Pay Commission for the years beyond 2020. The government's aspiration is to end low pay. In the coming months, it will consult on the remit, and as it sets policy it will take account of the potential impact on employment and economic growth. To help families with the cost of living, this Budget also supports consumers to achieve better value for money and helps households manage unexpected costs by increasing access to fair and affordable credit."

Philip Hammond was expected to announce an increase in expenditure on Universal Credit. He described Universal Credit as a:

"Long overdue and necessary social reform (that will) help to drive growth and employment in the years ahead… but I recognise the genuine concerns."

Philip Hammond announced a package of measures costing £1billion over five years to fund additional protections as exiting claimants move onto Universal Credit.

Work allowances will be increased by £1,000 a year at a cost of £1.7billion, benefitting 2.4million working families with children and people with disabilities. The government calculates that working parents and people with disabilities claiming Universal Credit will be £630 better off each year. People will also receive extra help as they move from their existing benefits to Universal Credit at a cost of £1billion and there will be targeted support for people repaying debts.

The National Living Wage will be increased from £7.83 / hour to £8.21 / hour, an increase of 4.9%. The intention is to increase the National Living Wage to 60% of average earnings by 2020.

Philip Hammond said that:

"Universal Credit is here to stay, and we are putting in the funding it needs to make it a success, because on this side of the house we believe that work should always pay."

Esther McVey, the Work and pensions secretary, will announce details of the funding package when she introduces the managed migration regulations for Universal Credit later this year.

Laura Kuenssberg of the BBC referred to the Universal Credit measures as 'sticking plasters'.

On BBC2, the presenter Andrew Neil asked Liz Truss MP, First Secretary to the Treasury, whether the £17billion of planned welfare budget reductions are still going to be implemented. I thought that the response was a bit vague. However, Andrew Neil concluded that for people living on welfare, austerity still hasn't ended. Clearly most of these planned reductions in benefit entitlements are still in the government's plans.

Schools

A £400million cash infusion for schools was announced to enable them to buy 'extras'. Many in the sector regard this as a small budget when compared with the reductions in real expenditure per pupil that have occurred since 2010.

Police

The Parliamentary Home Affairs Select Committee issued a report on 25th October 2018 that argued for increased expenditure on the police. Yvette Cooper MP (Labour), Chair of the committee, said that forces were 'badly overstretched' citing the increase in crime and drop in arrests as well as 'emerging challenges' like online fraud and online child abuse. She said that:

"Policing urgently needs more money. The government must make sure policing is a priority in the Budget and Spending Review, or public safety and communities will pay the price… Failure to provide a funding uplift for policing would have dire consequences."

Philip Hammond announced a further £160million for counter-terrorism policing and said that there would be a review of police funding that would be reflected in the funding settlement for 2019/20. However, no additional resources have been allocated to the police in this budget.

Devolved Administrations

There will be an additional £950million for the Scottish Government, £550million for the Welsh Government and £320million for the Northern Ireland Executive. There is also an additional £350million for Belfast City Council's City Region deal.

The Scottish Government did not welcome the budget. Derek Mackay MSP, the Scottish Finance Secretary, said that:

"According to this budget, the Scottish Government's resource block grant from the UK Government – the money we are able to invest in day to day public services - remains almost £2 billion lower next year compared with 2010-11. This budget falls a long way short of delivering for Scotland.

"The changes announced to universal credit do not go far enough. They are just a drop in the ocean compared to the impact the roll-out of Universal Credit will have. I continue to call for the roll-out of Universal Credit to be halted – and halted straight away.

"Brexit is a serious threat to our economy and to household incomes. We continue to argue that the only deal that will deliver for Scotland is to remain in the Single Market and Customs Union.

"With the UK Government's preferred approach to Brexit set to hit people's incomes In Scotland by £1,600 a head – the changes in this year's budget do nothing to alleviate the impact Brexit will have.

"There was little in this budget to boost our public services. The Scottish Government has already set out our plans to support the NHS in the years to come and the funding we have received as a result of health spending in England will go to our NHS in Scotland – but so far, the UK Government has fallen at least £50m short of what was promised only 4 months ago.

"The reality of today's budget is that Scotland continues to be hit by UK austerity and the decision to leave the EU. I have consistently argued for a better settlement for Scotland, and this budget does not reflect that."

The Budget and Brexit

Philip Hammond told the BBC on 28th October that detailed information on the government's austerity pledge would have to wait for next year's spending review that will take place after the United Kingdom's departure from the European Union on 29th March 2019. He also told Sky News that if no satisfactory arrangement is made with the European Union:

"We would need to look at a different strategy and frankly we'd need to have a new Budget that set out a different strategy for the future."

The government has already spent £2.2billion in preparing for Brexit and the budget for 2019/20 has been increased from £1.5billion to £2.0billion.

The budget assumes of an 'average-type free trade deal' being agreed between the two sides. As this is generally considered to be unlikely, this budget could become an interim budget with the real budget being unveiled in 2019.

Financial Summary

This budget is a reflationary budget that plans increased expenditure, reduced taxation and continued borrowing as shown below:

	2019/20 £million	2020/21 £million	2021/22 £million	2022/23 £million	2023/24 £million
Increased spending	10,905	13,370	17,880	23,650	30,520
Reduced taxation	4,180	1,025	280 -	125 -	40
Total	15,085	14,395	17,600	23,525	30,560

It also provides for increased expenditure as summarised below:

	2019/20 £billion	2020/21 £billion	2021/22 £billion	2022/23 £billion	2023/24 £billion
Current Expenditure	751.9	773.6	798.1	824.4	853.1
Net Investment	48.4	50.6	50.8	51.2	54.5
Total	800.3	824.2	848.9	875.6	907.6

Budget Documents

The Government's budget documents are available on the HM Treasury website at: https://www.gov.uk/government/publications/budget-2018-documents

Conclusions

This budget provides for increased public expenditure and reduced taxation funded by continued government borrowing. The government's macro-economic policy appears to be based or running a permanent government deficit as a way of compensating for low levels of demand in the economy caused by low exports and investment; coupled by encouraging households to borrow and spend rather than to save.

Most of the planned increases in public expenditure are in the National Health Service. The increases for other public services including local government, housing, the police and welfare are more modest and are increases when compared with previous plans. It must also be remembered that this is a time when there are significant budgetary pressures in most public services including health and social care, not least because of demographic changes. The planned increases in National Health Services budgets are considered by many in the sector to be insufficient to meet increasing need. The additional funds for local government are small when compared to the funding that has been lost since 2010, the funding gap that already exists and the service pressures that exist especially in adults' and children's social care. The details of how the lifting of the local authority housing 'borrowing cap' are still awaited. The planned reductions in welfare budgets of £17billion are apparently still to be implemented. Whether this represents an end to austerity is probably a matter of opinion rather than a matter of undisputed fact! What is an undisputed fact is that balancing the budget over the term of the economic cycle (which was the 'Golden Rule' of public finance from 1997 to 2008) is no longer an objective of the United Kingdom government. However, there are fears that continuing to accumulate public debt that is already at record levels is unsustainable.

The budget is also based on a series of assumptions that may not be borne out in practice. First, the international economy is showing signs of instability with 'trade wars' and fluctuating stock markets across the globe; and second, the budget assumes that Brexit will not have a significant negative effect. If these assumptions turn out to be incorrect there will be a further budget. I expect I will be writing another briefing paper on the United Kingdom government budget in the spring of 2019!

Adrian Waite
October 2018.

All you Want to Know about Local Authority Housing Finance – Seminar

We are holding our 2018 series of seminars on 'All You Want to Know About Local Authority Housing Finance' between March and November 2018. This seminar is designed to give an introduction and overview to this important subject and is fully up to date with all developments.

This seminar is designed for people who are not experts in housing finance, but who need to understand the basics and achieve an overview of what is going on. It is suitable for councillors, housing managers, tenant representatives, finance staff who have limited experience of local authority housing finance and others who realise that an understanding of housing finance can place them at an advantage!

Do you think that a working knowledge of local authority housing finance would put you and your colleagues in a position of advantage?

The session will answer the following questions:

- How does the Housing Revenue Account work?
- How does the Housing General Fund work?
- How does the Housing Capital Programme work?
- What is going on in the world of local authority housing finance?
- What are the Financial Opportunities and Threats for Local Authority Housing?

The session is comprehensive and refers to the Housing Revenue Account, Rents, Service Charges, Self-Financing, Capital Programmes, Right to Buy, Development, Prudential Borrowing, Housing Benefit, Welfare Reform, Strategic Housing, Arms' Length Management, Private Finance Initiative, Business Planning and much more.

The session is also fully up to date and refers to the recent social housing green paper and government policies on the 'borrowing cap', 'right to buy' receipts and the funding of supported housing; annual reductions in social and affordable rents of 1% and the setting of rents based on the consumer prices index plus 1% a year after 2020. The session is accompanied by a very useful hundred-page book that is designed for reference after the session entitled: "All You Want to Know About Local Authority Housing Finance 2018"

The final session will be held at the Novotel Waterloo in London on Tuesday 6th November 2018. The cost of this seminar in London is £250 plus VAT making a total of £300.

For further information or to make a booking, please click here: https://awics.co.uk/all-you-want-to-know-about-local-authority-housing-finance-2018

About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

For more information about our services and us please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk. Services that we offer include:

- Management Consultancy – http://www.awics.co.uk/ManagementConsultancy.asp
- Interim Management – http://www.awics.co.uk/interimmanagement.asp
- Regional Seminars - http://www.awics.co.uk/seminars-2018.asp
- In-House Training - http://www.awics.co.uk/inHouseCourses.asp
- Webinars - http://www.awics.co.uk/webinars.asp
- Independent Residents' Advice – http://www.awics.co.uk/IndependentTenantAdvice.asp
- Technical Books - http://www.awics.co.uk/publications.asp
- Information Service - http://www.awics.co.uk/aboutUs.asp
