Briefing Paper

The Autumn Statement 2016: The Implications for Housing and Local Government

December 2016

The Houses of Parliament where the autumn statement was made,

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Introduction

On 23rd November 2016, Phillip Hammond, the Chancellor of the Exchequer, introduced his first autumn statement. This was the first 'budget' after the referendum on the European Union that was held on 23rd June 2016. The purpose of this briefing paper is to summarise the statement with particular reference to its implications for housing and local government.

The Economy

Prior to the autumn statement, the Chancellor warned that an unprecedented level of uncertainty surrounding 'Brexit' has led to forecasts that predict slower growth for the United Kingdom and an 'eye-wateringly' large debt. Phillip Hammond told the BBC that:

"Many of those forecasts are pointing to a slowing of economic growth next year and a sharp challenge for the public finances. We have to maintain our credibility - we have eye-wateringly large debt, we still have a significant deficit in this country and we have to prepare the economy for the period that lies ahead. I want to make sure that the economy is watertight, that we have enough headroom to deal with any unexpected challenges over the next couple of years."

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Speaking on ITV before the statement, Phillip Hammond said:

"We have to wait and see what inflation figures look like when we get the Office of Budget Responsibility report on Wednesday, but I think looking at the consensus of forecasts, it's clear that inflation is back."

Official forecasts produced by the Office for Budget Responsibility suggest low tax revenues, slower growth and reduced investment after Britain's vote to leave the European Union mean the United Kingdom's budget deficit will soar in the next five years.

The Office for Budgetary Responsibility forecasts that 'Brexit' is likely to cost the economy 2.4% in growth over the next five years. The growth forecast for next year has been revised down significantly from the 2.2% predicted at the March Budget to 1.4%. In 2018, the Office for Budgetary Responsibility estimates growth to be 1.7%, down from the 2.1% predicted at the Budget. Phillip Hammond told MPs this was driven by lower investment and weaker consumer demand resulting from sterling's depreciation and the uncertain economic outlook:

In its 'Economic and fiscal outlook' report, the Office for Budgetary Responsibility said that the government had provided it with little information as to the nature of Brexit:

"[We are] little the wiser as regards the choices and trade offs that the government might make during the negotiations which will depend in part of course on the approach taken by those with whom it is negotiating… Given this and the considerable uncertainty surrounding the economic and fiscal implications of different outcomes we have not attempted to predict the end point of the negotiations."

Instead, the Office for Budgetary Responsibility had made a series of assumptions to help inform its forecasts. These are: that the United Kingdom will leave the European Union in April 2019; that European Union payments will be recycled fully into domestic spending; and that there will be no significant changes to tax systems where there are common European Union rules, such as Value Added Tax and the emissions trading scheme. These assumptions will be kept under review as Brexit talks proceed.

On the fiscal outlook, Phillip Hammond said that borrowing was likely to hit £68.2billion in 2016/17 (equivalent to 3.5% of Gross Domestic Product). After that he predicted that the deficit would reduce but would still be £17.2billion (0.7% of Gross Domestic Product) in 2021/22. Therefore, debt will continue to climb, rising from 84% of Gross Domestic Product in 2015/16 to 87% in 2016/17 and 90% in 2017/18. The Office for Budgetary Responsibility ascribes £59billion of extra borrowing over the next five years to changes related to the United Kingdom's exit from the European Union. It is interesting to note that a limit on debt as a proportion of Gross Domestic Product of 40% was set by Roy Jenkins when he was Chancellor in the 1960s and that this same limit was observed by Gordon Brown when he was Chancellor from 1997 to 2007.

The forecasts of the Office for Budgetary Responsibility do not take any account of potential expenditure by the United Kingdom Government to support businesses that choose to remain in Britain following 'Brexit'. The Office told the 'Guardian' that:

"We asked specifically whether any contingent liabilities had been created in respect of assurances provided to Nissan and the Treasury declined to say."

Phillip Hammond's predecessor as chancellor, George Osborne, had intended that the United Kingdom would be in surplus by 2019/20 and made this a core part of his economic policy. Therefore, he suggested that a vote to leave the European Union would require an emergency budget to reduce expenditure or raise taxation to meet a £30billion gap. However, the current government has decided instead to increase spending to maintain demand in the economy. In short, the government is borrowing heavily to support the economy at a time when investment is low and the balance of payments is in deficit.

Independent Forecasts

Independent economic forecasts also paint a negative picture. The Institute for Fiscal Studies forecasts low growth and rising inflation caused by a fall in the value of sterling. It said:

"This would leave us on course to miss the now abandoned, but still legislated, commitment to eliminate the budget deficit from 2019–20 onwards… This is in addition to the Conservative Government having managed, in just months following the general election, to break both the other two fiscal targets that it set itself."

The Institute for Fiscal Studies is forecasting further austerity that they said might necessitate a two-year freeze on public spending to reach a balanced budget early in the next parliament.

As government ministers prepare to restrict freedom of movement to the United Kingdom, the Institute for Fiscal Studies added:

"Any reduction in future immigration…would make the fiscal arithmetic harder still".

Prior to the Autumn Statement, the National Institute for Economic & Social Research published their economic forecasts for 2017. They are forecasting that price inflation will increase to 4% and pay inflation will increase to 3.5%, representing a reduction during the year of 0.5% in the real value of incomes. The effect for public services including local government and housing will also be significant as local government spending power is unlikely to increase by anything like that proportion, while local authority housing services and housing associations will see the 1% rent reductions that they are forced to make under the Welfare Reform & Work Act 2016 reduce their budgets by 5% in real terms. There is also a danger that increased inflation rates will lead the Bank of England to increase rates of interest. Increased inflation and interest rates are therefore factors that should be considered in budgets, business plans and risk analysis.

Morgan Stanley expect the government to lower growth forecasts in line with the Bank of England, predicting a slowdown in business investment because of uncertainty surrounding Brexit. They estimate that Britain must find an extra £98 billion ($122 billion) by 2020 to fund Brexit-related budget deficits and spending. Economists Jacob Neil, Melanie Baker, and their team said in a note sent to clients before the autumn statement that:

"The Office for Budget Responsibility revised forecasts will imply a cumulative £98billion widening in the deficit and a cumulative £111billion increase in government borrowing over the parliament."

Morgan Stanley's £98billion estimate consists of a £80billion hit to public finances because of lower than expected tax receipts and £18billion of borrowing to fund economy-boosting investment in projects like HS2, HS3, Hinckley Point Nuclear Reactor C, and the new runway at Heathrow.

They consider that this £98billion deficit widening is, in fact, a relatively conservative estimate, saying:

"On our own more pessimistic growth assumptions, we would expect the cumulative deficit to increase over the parliament by £117 billion in the base case and by £160 billion in the stimulus case."

Morgan Stanley attribute the expected deterioration in finances on:

"The Brexit drag, an ageing population, and lower migration."

Neil and Baker add that public finances have already got worse since the March 2016 budget — the deficit is veering off target for 2016, with the Office for Budgetary Responsibility admitting that Britain is unlikely to hit its forecast reduction this year. Morgan Stanley says that:

"Brexit looks like it will be a protracted drag on demand – particularly business investment – rather than one sudden defining shock, like the Lehman bankruptcy. This extended timeline, which we see as likely to last to the end of the decade, if not longer, means slow-moving fiscal policy is more able to respond than it would to a sudden crisis."

Morgan Stanley says lower interest rates and lower budget contributions to the European Union in the later part of this parliament could partially offset some of the problems. However, the European Union has signalled it could seek as much as €60 billion from Britain as an exit fee or require it to pay current budget contributions during some sort of transition agreement.

Deutsche Bank has estimated that the Treasury's abandoning of plans to balance the budget by 2020 could cost the government as much as £40billion a year in additional borrowing that would total £200billion of additional borrowing over this parliament.

Nida Broughton, Chief Economist at the Social Market Foundation said that the borrowing forecast has deteriorated since March 2016 and added:

"The Office for Budgetary Responsibility has not yet costed in key policy ambitions like reducing migration to the tens of thousands – which would weaken the public finances. We also know little about what our future trade agreements will look like."

And Angela Jameson, a business and finance journalist wrote in the 'New European' that:

"One strength in the economy is the unemployment rate which hit an eleven year low this week (18th November). However, there are signs of trouble to come as only 49,000 new jobs were created from July to September – half as many as expected. The claimant count – the number of people seeking benefit – also hit its highest level since November 2012 suggesting that unemployment will creep up in the months to come."

These forecasts are consistent with HM Treasury warnings, made before the European Union referendum, about the likely economic impact of Brexit on the UK economy.

However, others consider that the government and independent forecasts are all too pessimistic. For example, Iain Duncan Smith MP (Conservative) said that the Office for Budgetary Responsibility's forecast was:

"Another doom-and-gloom scenario (from an organisation) that simply hasn't got anything right"

And Jacob Rees-Mogg MP (Conservative) referred to the 'lunatic assumptions' of the Office for Budgetary Responsibility and said that:

"Experts, soothsayers, astrologers are all in much the same category".

Infrastructure

A new National Productivity Investment Fund will be created to provide £2.3billion of additional spending, with the stated aim of ensuring that the United Kingdom's economy is fit for the future. The National Productivity Investment Fund will provide major additional spending in areas that are key to boosting productivity: transport, digital communications, research and development and housing. This will include £1.1billion to reduce congestion and upgrade local roads and public transport.

There will also be £2.3billion for a new Housing Infrastructure Fund that will run until 2020/21. The fund will be used for projects such as roads and water connections that will support the construction of up to 100,000 new homes in the areas where they are needed most. There will also be £1.4billion that will be used to provide 40,000 new affordable homes, including some for shared ownership and some for affordable rent (see below). And another £1.7 billion will be used to speed up the construction of new homes on public sector land. Spending will be allocated to local authorities 'on a competitive basis' to unlock new private house building.

Philip Hammond said the government would:

"Prioritise high-value investment on infrastructure and innovation (and that) one of the biggest objections to housing development… is often the impact on local infrastructure… So we will focus local infrastructure investment to unlock land for housing with a new £2.3billion Housing Infrastructure Fund to deliver infrastructure for up to 100,000 new homes in areas of high demand."

The main autumn statement document said that this money will be available to councils in the areas where housing need is greatest and will be targeted at providing infrastructure with a view to delivering up to 100,000 new homes. Phillip Hammond said such areas experienced 'high demand' for housing but the definition of 'high demand' is not yet known. The government is expected to provide clarity in a prospectus outlining the criteria for the bidding process. The government will also look at how transport funding can support housing growth.

Paul Hackett, chief executive of Amicus Horizon and deputy chair of the G15, said:

"Getting the infrastructure in place to enable housing to happen is absolutely key. It's one of the viability issues around new development, particularly on larger sites… Using public money as gap funding to enable development to happen at scale by putting in infrastructure such as roads and drainage, broadband and others, is a key enabler."

David Orr, chief executive at the National Housing Federation, said the government was:

"Absolutely right to see housing infrastructure as critical to improving the nation's productivity".

Terrie Alafat, chief executive of the Chartered Institute of Housing, said:

"Given the scale of our housing crisis the central focus on housing in the government's Autumn Statement today is a significant step in the right direction."

Prior to the autumn statement it had already been announced that Buckingham Palace will undergo a ten-year refurbishment costing the taxpayer £369million. Earlier suggestions from the Foreign Secretary that a new Royal Yacht should be commissioned have apparently been 'shelved'.

The government is clearly focusing its expenditure on large-scale and high-profile projects.

Some commentators have complained that the National Productivity Investment Fund sounds somewhat centralised and that it is not clear how will this money be allocated or who will spend it. Local Enterprise Partnerships and housing associations were mentioned in the statement but local authorities were not. It is often considered in the local government sector that an effective regional growth strategy would be locally based, area specific and responsive to the needs and aspirations of local communities. This is hard to achieve from Whitehall, or by organisations that do not have a democratic mandate.

Despite widespread expectations in the housing sector that the Housing White Paper would be published immediately after the autumn statement, civil servants are understood to be continuing their work on the paper that will give the full detail on the new government's plans for tackling the housing crisis and delivering one million new homes by 2020. In a statement published on 22nd November 2016, housing minister Gavin Barwell said that:

"We have already announced for this spending period we are putting £8billion into affordable housing delivery. Building more homes is central to this government's vision of a country that works for everyone. We will publish a Housing White Paper shortly, setting out measures to help us deliver this ambition."

Affordable Housing - England

The government has announced £1.4billion of affordable homes cash in addition to the £4.7billion previously announced, with the restrictions limiting that funding to homeownership products lifted.

The government had trailed its plans to provide this cash for 40,000 new affordable homes of multiple tenures, including rent. However, detailed documents published alongside the Statement reveal the relaxed restrictions on funding will apply to the current Affordable Housing Programme, while the £1.4billion is new cash. This follows concerted lobbying by the housing sector, with the National Housing Federation pledging to deliver more homes if the government relaxed restrictions. This is intended to enable housing providers to build affordable rented homes and homes for low cost ownership 'to meet the housing needs of people in different circumstances and at different stages of their lives'.

Government funding will now be available for 40,000 affordable rent, shared ownership and Rent to Buy homes. This is a major departure from previous policy where the focus was on home ownership. The £4.7billion Shared Ownership and Affordable Housing Funding Programme announced earlier this year included no funding for social or affordable rent.

Chancellor Philip Hammond said the country's housing challenge is an 'urgent issue' because it affects national productivity and that last year the lowest level of affordable housing was built since 1992.

There will now be greater flexibility over the use of the funding in the affordable homes programme. While the focus before was primarily on home ownership through the construction of starter homes, the money can now be used to deliver homes for affordable rent, rent to buy, or shared ownership. It will not, however, be possible to use the funds for homes for social rent. It is unclear whether the money will be available only to housing associations, as was implied in the autumn statement's costing document, or councils too.

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However, the government is continuing with its policy of annual 1% rent reductions in social housing that is having an adverse impact on the ability of councils and housing associations to build affordable homes. There is also no indication of what rent policy will be after 2020 and the 'borrowing cap' continues to be imposed on housing revenue accounts. The 'borrowing cap' prevents local authorities from borrowing to invest in new housing even where they could afford to do so.

Modelling by the Office for Budget Responsibility said that the government's new approach would actually be likely to reduce building by housing associations by 13,000 over the forecast period with 'a boost next year becoming a drag by 2019/20'.

The National Housing Federation has been calling on the government to be more flexible in the tenure mix housing associations can deliver. David Orr, Chief Executive of the National Housing Federation, said that:

"We have been calling on the Government to relax restrictions on existing affordable housing funding, so we are absolutely delighted with this announcement… Increased flexibility and extra investment will give housing associations the freedom and confidence to build even more affordable homes, including for rent, more quickly across the country."

Terrie Alafat, Chief Executive of the Chartered Institute of Housing, said:

"The extra investment to support the building of 40,000 new affordable homes and the greater flexibility in funding for housing providers to build homes of all tenures, both of which we had asked for, are particularly welcome."

It has also been announced that 'pay to stay' will be voluntary for local authorities as well as housing associations; that the extension of 'right to buy' to housing associations will be phased in and that the sale of high value council homes will be delayed from April 2017 to April 2018.

Philip Hammond announced that the government would be rolling out a new series of 'right to buy' pilots with more than 3,000 tenants able to buy their properties. In documents published after the statement, the government estimated the cost of the policy to be £250million over five years to 2020/21. The government is using a central budget to reimburse housing associations for the discount tenants receive.

Affordable Housing - London

Philip Hammond announced that £3.15billion will be given to the Greater London Authority to deliver 90,000 affordable homes.

Sadiq Khan, Mayor of London, said that the cash was:

"The largest sum of money ever secured by City Hall to deliver affordable housing".

He said rules surrounding the use of the funding had been relaxed, and it will be used to fund homes for low-cost rent, London Living Rent, and shared ownership between now and 2021. London Living Rent is set at 35% of local wages. More details will be released by the Greater London Authority soon. Sadiq Khan said:

"I'm delighted that we today took the first steps towards a major new devolution deal for London… The record-breaking affordable housing settlement means we can get on with the hard slog of building new genuinely affordable homes, but it won't happen overnight – fixing the housing crisis will be a marathon and not a sprint."

Jamie Ratcliff, Assistant Director of Programmes at the Greater London Authority, said that:

"Now our funding settlement with Government is confirmed we will move to publish funding guidance as soon as possible. This will enable us to provide housing associations with muscular backing to deliver many more genuinely affordable homes for Londoners."

Paul Hackett, chief executive of Amicus Horizon and deputy chair of the G15, said:

"The messages I've been picking up is that the relationship between Greater London Authority and the Department for Communities and Local Government is very good, and the relationship between the deputy mayor and Gavin Barwell is very good. Their objectives are very much aligned."

Housing Conclusions

Analysis by the 'Local Government Chronicle' shows that almost half of the £7.2billion for investment in housing announced in the autumn statement is either not new money or does not belong to the government.

The autumn statement announcements contain a £2billion pot of cash for the accelerated construction of house building on primarily central government land – £1.7billion of which will be used in partnership with private developers on sites in England. The money, however, was actually announced by Sajid Javid MP, the Secretary of State for Communities & Local Government at the Conservative party conference at the beginning of October.

The government has also included £1.8billion of assumed extra borrowing by housing associations in its headline £7.2billion figure. A Department for Communities & Local Government spokesman told the 'Local Government Chronicle' that the £1.8billion was what housing associations would:

"Be able to borrow from providers as a result of our additional investment".

Local Government

The Autumn Statement made no reference to local government funding and offered no additional resources. The Local Government Association responded by saying that:

"Government department spending control totals remain unchanged. We expect further information on spending priorities in departmental announcements. It is clear that additional funding is needed to address the aforementioned funding pressures and we would welcome publication of the Local Government Finance Settlement as soon as possible.

"The next few years will be extremely challenging for councils who, we estimate, face an overall £5.8 billion funding gap by 2020. Many councils are faced with difficult decisions about which services are scaled back or stopped altogether. The Government must allow local government to use the extra business rates income it will keep by 2020 to plug this growing funding gap."

The autumn statement made no reference to local government finance reform, including how 100% business rate retention will work or what sort of redistribution mechanisms there will be.

However, rural rate relief will increase from 50 to 100% in April 2017, saving a business up to £2,900 a year. This business rate relief is available to businesses in rural areas with a population under 3,000, where that business is the only:

- Village shop or post office with a rateable value of up to £8,500, or
- Public house or petrol station with a rateable value of up to £12,500

These reductions in business rates throw further doubt on the sustainability of business rates as a finance source.

David Phillips, Senior Research Economist at the Institute for Fiscal Studies warned that while councils may feel they are 'out of the woods' by 2020 as full business rate retention is introduced, ongoing austerity is likely. The government could still devolve additional spending responsibilities without full funding, leading to councils being forced to plug the gap with their own revenues.

The draft Local Government Financial Settlement for 2017/18 is expected to be announced in December 2016. Without some certainty about how local government is going to be financed in the medium and long term. It is impossible for local authorities to plan strategically.

Adult Social Care

There had been hopes that the autumn statement would provide additional funding for the National Health Service and for Adult Social Care but it did not. Philip Hammond later defended his decision not to act in the autumn statement to alleviate immediate pressures on the system by saying that discussions are ongoing and that councils must manage the 'envelope of resource' they are given, adding that the better care fund would deliver £1.5billion a year by the end of this parliament and the council tax social care precept would provide a further £2billion.

The Conservative chair of the commons health committee, Sarah Wollaston MP, said she was disappointed that calls for the planned increased levels of better care fund towards the end of the parliament were not be brought forward to tackle immediate pressures.

The chancellor was also criticised by bodies including the Local Government Association, the Association of Directors of Adult Social Services and County Council's Network for failing to act to protect social care services. The Local Government Association said that:

"Councils, the NHS, charities and care providers have been clear about the desperate need for the Chancellor to take action to tackle the funding crisis in adult social care. It is unacceptable that this has not been addressed in the Autumn Statement. The Government must take urgent action to properly fund social care if councils are to stand any chance of protecting the services which care for the elderly and vulnerable. Extra council tax raising powers will not bring in enough money to alleviate the pressure on social care and councils will not receive the vast majority of new funding in the Better Care Fund until the end of the decade. Services supporting elderly and vulnerable people are at breaking point now.

"We cannot ignore this challenge any longer and the Government must inject genuinely new additional funding."

And the 'Local Government Chronicle' commented that:

"We've been clear about the pressures facing social care. Of the £5.8billion funding gap we've estimated local areas will face by the end of the decade, £1.3billion comes from adult social care alone. This doesn't take into consideration, however, the immediate cash injection of at least £1.3billion needed to stabilise the care market now. The calls for action increased ahead of the autumn statement, with the entire care and health sector, including the NHS, care providers and charities, joining the chorus.

"We need to build a far greater recognition of why social care is so critical to the future prosperity of our communities. Properly funded care for those who rely on it is the only way people will be able to enjoy dignified, healthy and independent lives, live at home and stay out of hospital. Without social care, we increase the burden on family carers and impact on their own health and future. No one should have to worry about how they will care for loved ones or be cared for themselves.

"Secondly, the government has decided to leave revenue budgets for all departments unchanged, except for prisons. Our argument for social care investment was competing with this rigidity towards public expenditure. But that doesn't mean we give up making the case. We need to push strongly the risks posed by a 'wait and see' approach to reductions in critical council services."

There is general agreement in the adult social care sector that the service is already under-funded and that increased demand caused by demographic pressures cannot be met without adequate funding. It is generally considered in the sector that successive governments have failed to tackle the issue of funding adult social care adequately. Since 2010, local authorities have faced significant reductions in budgets due to reduced government grants and constraints on increases in Council Tax and they have therefore often been obliged to reduce adult social care budgets. For 2016/17 an increase in Council Tax of 2% to fund Adult Social Care was allowed but this was seen as insufficient by many in the sector. The lack of any mention of Adult Social Care in the Autumn Statement is therefore disappointing.

Highways

Philip Hammond said that the additional £1.1billion for highways infrastructure would be used for:

"Investment in English local transport networks, where small investments can offer big wins."

And documents published alongside the statement said the money would be used to:

"Relieve congestion and deliver much-needed upgrades on local roads and public transport networks".

These comments have been seen by some in local government to be suggesting that the funding could be made available to local government rather than Highways England although this has not been confirmed.

Local Government Association transport spokesman Councillor Martin Tett (Conservative) said that:

"We are pleased that the government seems to have listened to us on the importance of investing in local roads, particularly those that are heavily congested. Whilst more money to solve congestion problems is good news, we need to see the detail behind the headline. We hope the government directs this money towards local roads to help local people."

However, he also said that even if this money did find its way to council roads, it was still too little in the context of a £12billion repairs backlog that would take fourteen years to address at current spending rates.

Councils have consistently pointed out that the £1.1million spending per mile on maintaining Highways England's trunk and motorway network vastly exceeds the £27,000 per mile they can afford, even though council roads comprise some 97% of the total network.

Example: Cumbria County Council

Cumbria County Council is one of the authorities that has considered the effect of the autumn statement. At a Cabinet meeting on 24th November 2016, Councillor Pat Bell, Deputy Leader of the Council (Liberal-Democrat) said that:

"There were no specific announcements about the core revenue grant that the Council receives from the government. We'll continue to work with the financial assumptions we made in October. These are that we have a minimum of £48million of savings to find over the next three years against a background of having saved £198million since 2011.

"We were listening with bated breath to the autumn statement and it was a huge disappointment not to hear anything. Nothing about extra money for highways, for children in schools and absolutely no mention of social care and no reassurance about money coming to Cumbria for infrastructure. It was a disappointment and there is still lots of financial uncertainty ahead."

And Councillor Ann Burns, Lead Member for Children's Services (Labour) said:

"Some of our most rural schools need maintenance but it wasn't to be in the autumn statement. They did put aside £50million for grammar schools which is education for the few, not the many. I want to say that's not the way to go. We need, quite desperately, proper funding to look at the maintenance of our school buildings in Cumbria before they crumble."

Devolution

While the Chancellor claimed that 'Devolution remains at the heart of this government' he said nothing about devolution beyond the major cities. Philip Hammond talked about additional powers for Greater Manchester, London and the Midlands Engine and about additional City Deals, but did not mention devolution in non-metropolitan England. Many in the sector fear that this agenda could now collapse.

Welfare and Universal Credit

The Autumn Statement confirmed that the government does not intend to introduce any reductions to welfare entitlements other than those that have already been announced. However, those that have already been announced are significant.

The Autumn Statement included an announcement that the Universal Credit taper will be reduced from 65% to 63% from April 2017.

In Universal Credit, as a person's income increases, their benefit payments are gradually reduced. The taper rate calculates the reduction in benefits as a person's salary increases.

Currently, for every £1 earned after tax above an income threshold, a person receiving Universal Credit has their benefit award reduced by 65p and keeps 35p. They will now keep 37p for every £1, from April 2017.

Three million households will benefit from this change:

- A single parent with one child and not receiving support with their housing costs earning £15,000 a year will benefit by £170 a year
- A couple with two children receiving support with their housing costs, where one parent earns £30,000 a year, will benefit by £425 a year
- A disabled person receiving support with their housing costs and earning £12,000 a year will benefit by £180 a year

Devolved Administrations

Scotland, Wales and Northern Ireland will receive more money which can be spent on infrastructure projects, with each devolved administration deciding where this will be spent. This will be an increase of over £800 million for the Scottish Government, over £400 million for the Welsh Government and over £250 million for the Northern Ireland Executive.

Conclusions

Until 2008, the United Kingdom government based its finances on the principle that the budget would be balanced in the long-term with deficits at times of recession balanced by surpluses during times of growth. If the United Kingdom is to avoid bankruptcy it will need to return to this policy eventually.

In August 2016, the Bank of England reduced interest rates to a record low of 0.25% and announced a programme of £70billion of quantitative easing. Now, the Autumn Statement has increased public expenditure and reduced taxation at a time when government revenues are already falling. The government was already projecting at the time of the last budget that the 2016/17 deficit would be £75billion and that total debt would increase to £1.6trillion. Total debt is now projected to increase to £2trillion.

According to the 'International Spectator', the United Kingdom's external debt as a proportion of Gross Domestic Product is now 267%. This compares with 205% in France and 194% in Greece. Looking forward, United Kingdom debt is projected to increase. Even Phillip Hammond has described this level of debt as 'eye-watering'.

This appears to me to be the biggest reflationary package using both fiscal and monetary measures that any United Kingdom government has ever introduced and underlines the threat to the economy caused by falling investment, exports (despite the fall in the value of sterling) and consumer demand. Whether this approach will be effective remains to be seen. However, it appears to me that it will not be sustainable in the long-term and certainly does not appear to be 'prudent'.

The government's priorities in this Autumn Statement are to reduce taxation and to increase expenditure on infrastructure – especially high profile infrastructure – but with limited emphasis on local government or social housing.

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.

Adrian Waite
December 2016

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