

## Spring Statement 2019 Review

MARCH 2019

### Introduction

Against a backdrop of mounting political turmoil over Brexit, Chancellor of the Exchequer Phillip Hammond delivered his 2019 Spring Statement on Wednesday 13th March, just hours before MPs voted to reject any no-deal Brexit. Although not legally binding, this vote sends a clear message to the Prime Minister that such an outcome would not be tolerated.

By its very nature, the Spring Statement is not intended to deliver announcements on tax and spending intentions, although previous chancellors have treated it (or rather its predecessor, the Autumn Statement) as more of a ‘mini budget’. (The government is legally obliged to provide updated forecasts for economic growth twice a year.) Despite this, there were a few notable announcements at Spring Statement 2019.

The Chancellor took this opportunity to reiterate his opposition of a no-deal Brexit ahead of the evening’s vote. As one of the Cabinet’s more vocal soft-Brexit backers, it’s no surprise that Hammond’s speech in the Commons highlighted the potential damaging impact that ‘no-deal’ could have on the economy. He emphasized that the planned investments described in the Spring Statement hinged on the UK achieving a deal which ensures a smooth and orderly exit from the EU.

### The economy

Economic growth, both in the UK and globally, has slowed since Budget 2018 in October, leading the Office for Budget Responsibility (OBR) to revise its GDP forecast for 2019 to 1.2%, down from 1.6% in the Autumn. However, UK growth is expected to rebound so that cumulative GDP in 2023/24 is marginally higher than forecast at Budget 2018.

### OBR’s GDP forecasts

Year	Current forecast (March 2019)	Change from Budget (October 2018)
2019	1.2%	-0.4%
2020	1.4%	no change
2021	1.6%	+0.1%
2022	1.6%	+0.1%
2023	1.6%	no change

Consumer price inflation (CPI), which fell below the Treasury’s 2% target in late 2018, will pick up slightly in 2019 but is then expected to be below target for the remainder of the forecast period. Wage growth now exceeds 3% and should outpace inflation in every year of the forecast.

## OBR's CPI and average earnings inflation forecasts

Year	CPI	Average earnings	Real earnings growth
2019	2.1%	3.1%	1.0%
2020	1.9%	3.0%	1.1%
2021	2.0%	3.1%	1.1%
2022	2.0%	3.1%	1.1%
2023	2.0%	3.3%	1.3%

Public sector net borrowing is expected to fall to £22.8bn (or 1.1% of GDP) this year, down £2.7bn since October 2018, owing to a combination of higher income tax receipts and lower debt interest spending. Changes to how student loans are accounted for from September 2019 will likely impact public finance and could add around £13-17bn to the deficit over the next five years. Nevertheless, the deficit is predicted to remain below 2% of GDP through the forecast period.

## OBR's deficit forecasts

Year	Public sector net borrowing	Public sector net debt
	as a percentage of GDP	
2018-19	1.1% (-0.1%)	83.3% (-0.4%)
2019-20	1.3% (-0.1%)	82.2% (-0.6%)
2020-21	0.9% (-0.3%)	79.0% (-0.7%)
2021-22	0.7% (-0.3%)	74.9% (-0.8%)
2022-23	0.6% (-0.3%)	74.0% (-1.0%)
2023-24	0.5% (-0.3%)	73.3% (-1.1%)

(change from Autumn Budget 2018 shown in brackets)

Business investment has fallen for the fourth successive quarter, the longest continuous decline since the financial crisis. This weakness is expected to continue into 2019 before stabilising thereafter.

“This forecast has been produced against the backdrop of considerable uncertainty over the next steps in the Brexit process. With discussions in Brussels continuing and Parliament scheduled to vote on various Brexit-related questions in the week of the Spring Statement, we have no meaningful basis for changing the broad-brush assumptions that have underpinned our forecasts since the referendum.”

Office for Budget Responsibility

## Policy announcements

Borrowing and debt are both forecast to be lower in every year than at last year's Budget, leaving the Chancellor with more money to invest in infrastructure, technology, housing, skills, and clean growth. Announcements made at Spring Statement 2019 include:

### Infrastructure

- Up to £260m for the Borderlands Growth Deal, on top of the £102m announced recently for Carlisle
- £60m from the Transforming Cities Fund to be made available to the 10 cities selected in September 2018; this money will fund schemes such as bus station upgrades, new cycle lanes and road improvements:
  - Derby and Nottingham - £7.2m
  - Leicester - £7.8m
  - Portsmouth - £4m
  - Sheffield City Region - £4.2m
  - West Yorkshire CA - £2.2m
  - Southampton - £5.7m
  - North East CA - £10m
  - Norwich - £6.1m
  - Plymouth - £7.6m
  - Stoke-on-Trent - £5.6m
- Industrial Strategy sector deals are to be negotiated for mid-Wales and Derry-Londonderry
- The local areas selected for the third wave allocation of £53m Local Full Fibre Networks funding were announced as:
  - Colchester - £3.5m
  - Isle of Wight - £0.8m
  - Norfolk - £8.0m
  - North Wales - £8.0m
  - Northern Ireland - £15m
  - Rutland - £2.0m
  - Shetland Islands - £2.0m
  - South Essex - £4.5m
  - Stoke-on-Trent - £9.2m
- Support for private infrastructure investment will continue as the UK leaves the European Investment Bank - a consultation on how to best support this has been launched
- An update to the National Infrastructure Strategy to be unveiled at Autumn Budget 2019.

### Technology

- £81m of funding for Extreme Photonics research (state-of-the-art laser technology) at the UK's facility in Oxfordshire
- Funding of £45m for Bioinformatics research
- £79m to fund a new supercomputer (ARCHER2) at Edinburgh University which will contribute to discoveries in medicine, climate science and aerospace
- Funding for the Joint European Torus fusion energy programme in Oxfordshire should the European Commission not renew the contract post-Brexit.

### Housing

Building on the announcements made at Budget 2017, Spring Statement 2019 revealed further steps to improving housing supply, including:

- The Affordable Homes Guarantee scheme: up to £3bn will be made available to housing associations in England to support the delivery of 30,000 affordable homes
- The promise of £717m from the £5.5bn Housing Infrastructure Fund to 'unlock' up to 37,000 new homes on sites in London, Cheshire, Didcot and the Oxford-Cambridge Arc
- Owing to planning reforms, land will be released in areas where pressure is greatest
- Funds of £1bn are to be made available for SME housebuilders.

### Skills

- 3m new high-quality apprenticeships will be funded
- The planned apprenticeship reform, announced at Budget 2018, is to be brought forward to April 2019
  - employers' co-investment rate will be cut from 10% to 5%, and levy-paying employers will be able to share more levy funds across their supply chains, with the maximum amount rising from 10% to 25%
- From Autumn 2019, PhD-level occupations will be exempt from the visa cap and the 180-day absence stipulation will be eased to ensure researchers are not penalised if applying for settlement in the UK.

## Clean growth

- The construction industry will be required to make special dispensations for wildlife following the planned introduction of a mandate for net biodiversity gains on new developments in England
- The decarbonisation of gas supplies will be progressed by increasing the proportion of green gas in the grid, thereby reducing the dependence on burning natural gas both domestically and commercially
- A Future Homes Standard will be introduced by 2025, prohibiting fossil fuel heating systems in new houses from 2025 onwards
- The government will launch a global review into the Economics of Biodiversity to explore ways to enhance the natural environment, this will be led by Prof Partha Dasgupta from Cambridge University
- An Offsetting Transport Emissions call for evidence will be opened, exploring consumer understanding of the environmental impact of their journeys and given them the option to travel 'zero carbon'.

## Others

- A company's audit committee will be required to review whether they pay their suppliers on time and report on this in their annual accounts
- Development of new financial services legislation and amendments to the regulatory framework coming soon
- A new General Export Facility will be introduced to provide flexible short-term support post Brexit
- Extra funding is available to tackle serious violence and knife crime, police forces in the worst affected areas in England and Wales will be able to access £100m over the next year
- Free sanitary products will be made available in secondary schools in England from the next school year
- An area of 445,000km of ocean around the overseas territory Ascension Island in the Atlantic is to be designated as a Marine Protected Area.

## Spending Review

At Spring Statement 2019, the Chancellor announced that a full three-year spending review will commence in the summer, the main focus of which will be how the UK can improve its productivity. However, this is on the proviso that an EU exit deal is reached over the next few weeks. Now that this is unlikely to happen, one wonders how Hammond's plans will be affected.

## New publications

Alongside the Spring Statement, a number of additional publications were released on 13th March including:

- A [written statement](#) from James Brokenshire, Secretary of State for Ministry of Housing, Communities and Local Government providing information on the progress of planning reforms
- [Infrastructure Finance Review consultation](#) – seeking ideas on how to get private investment into public infrastructure following the cancellation of PFI1 and PFI2 last year
- A [call for evidence](#) to identify how to strengthen our position as a world leader in offshore oil and gas decommissioning.

## What happens next?

If all goes as planned, this year's Autumn Budget will be a big one. It will conclude the Spending Review and provide an update to the National Infrastructure Strategy.

The Planning for Future High Streets consultation to investigate how best to support local high streets is planned for the coming months and the government will also launch a Future of Mobility: Urban Strategy publication to set out their approach to changes in transport technology.

An International Education Strategy and an International Research and Innovation Strategy will be published later in the year as well as a consultation into proposed changes to foreign content rules.

“Hammond’s fund to increase the building of affordable homes is laudable but his party’s decision to bar EU workers from working in the UK post-Brexit will mean reaching his 30,000 new homes target will be hard to achieve due to a reduced skilled labour force.”

Richard Steer

## What does this mean for construction?

The industry will be relieved to see some support in tackling late payments and planning reforms and the associated boost this will have for housebuilding is to be welcomed. Clarification is needed on the plans for clean growth, namely biodiversity net-gain targets and the new Future Home Standard, but these could have significant cost and programme impacts for construction in the longer term. The upcoming Environment Bill should shed some light on this.

Many in the industry are rightly concerned about a potential exodus of EU workers following Brexit and the planned visa reforms for those with PhDs is not going to allay any of this anxiety. Apprenticeships are a step in the right direction but are not going to solve the problem at hand.

## In summary

The Spring Statement intimated the promise of more spending, but only if no-deal is avoided and that a “smooth and orderly” exit from the EU is achieved. The Chancellor vowed to provide a “road out of austerity”, asserting that the economy is fundamentally robust but overshadowed by Brexit uncertainty. His declaration that continuing wage and employment growth provides a “solid foundation on which to build Britain’s future” is fairly short-sighted given the current uncertainty around the availability of EU-workers post-Brexit. This is of particular concern for a construction industry which currently employs 165,000 EU nationals.

Very little surety can be drawn from this statement, given that much of the planned actions hinge on what happens across the channel in the coming weeks as well as within the Houses of Parliament. An extension to Article 50, if this happens, will prolong this already extended period of uncertainty which could hit investor and client confidence again and this is something which the construction industry would be keen to avoid.

For more information contact:

**Lucy Vencatasamy-Jones** | Insight & Analytics  
E: [lucy.vencatasamy-jones@gleeds.co.uk](mailto:lucy.vencatasamy-jones@gleeds.co.uk)  
T: +44 (0)115 977 8000 | M: +44 (0)7718 804 189

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