Institution of Civil Engineers

Autumn Budget 2018

Chancellor of the Exchequer Philip Hammond delivered his 2018 Autumn Budget to the House on 29 October 2018 – his final Budget before Britain leaves the European Union in March 2019. It is important to note that this is a Budget that depends almost entirely on a Brexit deal being reached, with Hammond conceding that sudden changes – for example a no-deal departure – would in effect mean a whole new Budget in the spring.

Hammond continued the Government's rhetoric of austerity 'coming to an end' (note he didn't say 'over'.). This was a Budget positioned as one of perseverance of the British people finally paying off', for 'the strivers, the grafters and the carers'.

The Budget has been published alongside the OBR's Economic and Fiscal Outlook. This states that there has been a significant improvement in the underlying pace of deficit reduction, that on its own would have put the Government on course to achieve its objective of a balanced budget for the first time. However, this extra cash has been earmarked for higher spending on the NHS made in June.

The remaining Budget policy measures are a further near-term giveaway that gradually diminishes over the forecast, leaving the deficit in 2022-23 little changed overall.

Briefing contents

Produced by the ICE Public Affairs and Policy Team

Detailed analysis on announcements relevant to ICE members

Funding for strategic, major and local roads

It was announced at the 2018 Autumn Budget that Vehicle Excise Duty (VED) will be hypothecated into the National Roads fund for 2020-2025 raising £28.8bn. Approximately £25.3bn of this will be spent on the second Road Investment Strategy (RIS) covering the period 2020-2025. This represents roughly a 65% increase in funding when compared to the £15.2bn capital programme that was agreed for the first RIS covering 2015-2020. The remaining £3.5bn will be spent on the development of the new major roads network and larger local schemes e.g. North Devon Link Road.

As ICE has highlighted in *State of the Nation 2018: Infrastructure Investment,* Government policy to phase out the sale of internal combustion engine vehicles by 2040 is likely to lead to a reduction in the revenues collected from VED and fuel duty. As such, linking the funding of the Strategic Roads Network (SRN) in England to VED revenues will not be sustainable in the long-term without bringing electric vehicles worth below £40,000 under the VED scheme.

Whilst the SRN carries approximately a third of all traffic it accounts for only 2% overall all roads.[1] The National Infrastructure Commission has identified that the condition of local roads in England is poor, with the Asphalt Industry Alliance *ALARM Survey 2018* estimating that a one-off maintenance programme to undertake all outstanding repairs would cost in the region of £9.31bn.[2] Whilst the £420m allocated in the Budget for repairing potholes on local roads is welcome, it remains the case that local roads are underfunded.

Private Finance Initiatives and PF2

At the Autumn 2018 Budget the Chancellor declared that he had not signed a single Private Finance Initiative (PFI) during his tenure and that the current Government would not enter into any new PFI arrangements. The basis for this being that, in the Government's view, PFI contracts have not effectively pushed risk onto the private sector. The Government also claims the OBR considers PFI to be a significant fiscal risk to Government.

The current Government (including the 2010 coalition) have made minimal use of PFI since 2010 and have signed no new PFI contracts within the last two years. The House of Commons Committee of Public Accounts report into PFIs documents these as 'falling from a peak of over 60 projects in 2007-08 to no new PF2 contracts at all in the last two years'.[3]

There are a total of over 700 PFI and PF2 projects worth around £60bn in asset value with an estimated total cost of around £199bn until the 2040's.[4] Only six PF2 projects have been signed, with two under discussion for pipeline projects.[5] These were thought to include the A303 tunnel through Stonehenge and the Lower Thames

[1] Department for Transport (2016) Travel time measures for the Strategic Road Network, England: 2016
[2] Asphalt Industry Alliance (2018) ALARM Survey
[3] House of Commons Committee of Public Accounts (2018) Private Finance initiatives, Forty-Sixth Report of Session 2017-19
[4] IbId
[5] Ibid

Crossing[6] and were slated to provide between £6bn and £7.8bn of funding through two new projects which were in the pipeline.[7]

PF2 has delivered much less investment than other forms of PPP since 2014/15. However, total private investment through these routes has collapsed dramatically overall, with PF2/Other PPP figures being:

- £358m/£3,710m in 2014/15
- £439m/£1,522m in 2015/16
- £129m/£341m in 2016/17.[8]

The Infrastructure Projects Authority outlined that other forms of PPP have delivered greater amounts of investment from private sources than PFI, noting that these alternative PPP deals "often access EIB financing." They do, however, have a 'similar' structure to PFI and PF2 and have long-term cost implications for taxpayers and consumers with 'less transparency' about the costs with expected and actual equity investor returns not disclosed.[9]

The Government have attempted to funnel private financing through other methods, including piloting Market Led Proposals in rail and the underlying assumption for future infrastructure spend. Research for *State of the Nation 2018: Infrastructure Investment* indicated that negotiations involving private finance in Highways England projects, including the A303, had been sluggish, suggesting the cause for delay was the mechanism of private investment.

National Productivity Investment Fund

The National Productivity Investment Fund (NPIF) provides additional capital investment in areas critical to productivity – housing, transport, digital infrastructure and R&D. The 2018 Budget puts an additional £6bn into the NPIF, extending it for a year to 2023-24 to a total of £37bn.

Additional spend includes:

- A small increase of £25m in 2018/19 for the Accelerated Construction programme.
- £500m more allocated for the Housing Infrastructure Fund, a government capital grant programme open to English local authorities, taking it up to £5.5bn to support the building of 650,000 homes.
- £150m of funding will be made available to local authorities for small improvement projects such as roundabouts etc…
- £770m more for the Transforming Cities Fund, taking it up to £2.4bn:
    - £240m of this is allocated to the six metro mayors for transport investment in their areas – £21m for Cambridgeshire and Peterborough; £69.5m for Greater Manchester; £38.5m for Liverpool City Region; £23m for West of England; £71.5m for the West Midlands; £16.5m for Tees Valley.

[6] Construction News (2017) Highways chief seeks overseas bids as PF2 deals edge closer
[7] House of Commons Committee of Public Accounts (2018) Private Finance initiatives, Forty-Sixth Report of Session 2017-19
[8] National Audit Office (2018) PFI and PF2
[9] Ibid

    - A further £440m will be made available to the city regions shortlisted for competitive funding.
    - £90m to create Future Mobility Zones. This will trial new transport modes, services, and digital payments and ticketing.
- Announcement of the Future High Streets Fund, which will be worth £675m up to 2023/24. This will invest in town centre infrastructure to increase access to high streets and support redevelopment and densification.
- There is approximately £3bn of unallocated NPIF spend across the period 2021 – 2024, which will be outlined at future fiscal events.

Research and Development funding

The 2018 Budget announced an additional £1.6bn in research and development to support new technology, including nuclear fusion and quantum computing.

Only £55 million of this is newly announced spending – £35m for a new national quantum computing centre and an additional £20m in 2019-20 to allow the UK Atomic Energy Authority to accelerate work on nuclear fusion technologies.

The Budget did, however, provide more detail on how the spending from prior announcements will be allocated. The largest chunk is £1.1bn for the third wave of the Industrial Strategy Challenge Fund (ISCF), which supports R&D into priority technology areas. The Chancellor identified three challenges that will be funded under this round, with more yet to be announced:

- £121m for digitally enabled tech such as VR and the Internet of Things
- £78m for electric motor technology
- £70m for quantum technologies.

Calls for the third wave challenges are expected to be launched in early 2019.

National Infrastructure Commission resilience review

The Chancellor has asked Sir John Armitt for the NIC to lead a review into the resilience of the UK's economic infrastructure. A scoping report will be launched first, with the final report due by spring 2020.
The study will look at how to improve the resilience of the UK's infrastructure in light of technological advances and future challenges such as climate change, helping to develop a future approach to inform the next NIA.
The study will include a review of UK and international approaches to infrastructure resilience and risk management; consider factors such as cyber security and behavioral change, and ultimately make recommendations to government on the action needed to ensure the UK has resilient economic infrastructure.

Barnett Formula implications for Northern Ireland, Scotland and Wales

Budget 2018 indicates that the Barnett Formula will provide each of the devolved administrators with additional funding to be allocated according to their priorities. Block Grants for the Scottish and Welsh Governments will also be further adjusted.[10]

Northern Ireland

The Northern Ireland Executive's budget will increase by over £320m through 2020-21. There was a mixed reaction from Ulster parties, with the spending to be decided by the Northern Ireland Executive as Stormont remaining closed, pending enabling legislation at Westminster.[11]

It was also confirmed that £2m will be given to the Belfast regeneration funding, including the recovery and regeneration of Belfast city centre following a fire at the Bank Buildings in August. There is also £350m for the Belfast City Deal, and negotiations will begin with Derry & Strabane City Council in due course.

Scotland

The Scottish Government's budget will increase by over £950m through 2020-21. The Scottish National Party have announced they will set out plans for spending this on the 12th December 2018.[12]

There is also £150m for the Tay Cities Deal, with other regional deals under discussion and a consultation on the creation of a Centre for Excellence on decommissioning was announced.

Wales

The Welsh Governments budget will increase by over £550m, through 2020-21. This includes an agreed special 5% uplift in the formula.

The Welsh Government have said this is disappointing, with pressure to spend this on local councils who are 'first in the queue' and Mark Drakeford, Welsh Finance Secretary, condemning the North Wales Growth deal as "unilateral".[13]

[10] HM Treasury (2018) Budget 2018 (All Headline Figures)
[11] BBC News (2018) Bill gives NI civil servants greater flexibility
[12] BBC News (2018) Budget 2018: and now for Holyrood
[13] BBC News (2018) Extra £550m for Welsh Government, chancellor Says

Top line announcements

OBR growth forecasts

Growth for the next four years will be 'resilient', upgrading OBR forecasts and is as such:

- 1.6% 2019
- 1.4% 2020
- 1.4% 2021
- 1.5% 2022

Borrowing

- Borrowing this year will be £11.6bn lower than forecast in the Spring Statement. National debt peaked at 2016/17 at 85.2pc of GDP.
- The Government will meet its fiscal targets three years early, and will see borrowing as a percentage of GDP fall to 1.3% in 2021.

Cross-cutting announcements

Brexit

- An additional £500m for preparing the UK for Brexit preparations in government departments to help the smooth exit from the European Union. This comes on top of £2.2bn already announced, and £1.5bn announced at the spring statement.
- Approximately £200m to the British Business Bank to replace potential loss of finance from the European Investment Bank.
- Hammond says he is prepared to upgrade the spring statement to a "full fiscal event" if necessary.

Hammond was relatively positive about a subject we know he would not put his weight behind if he didn't have to - he spoke of a "double deal dividend" for the economy if an agreement with the EU is reached, however by promising to be watchful and planting the seed of a the spring statement becoming a "full fiscal event" if needed, sounded very much like code for an emergency budget if there is no deal.

Digital

- The Budget allocates £200m from the National Productivity Investment Fund to pilot innovative approaches to deploying full fibre internet in rural locations.
- No new funding for AI, but Office for AI and Government Digital Service will review how government can use AI, automation and data in new ways to drive public sector productivity and wider economic benefits.
- £1.1bn confirmed for the next wave of the Industrial Strategy Challenge Fund, including £121m for 'made smarter' manufacture.

Productivity

- Increase in the National Productivity Investment Fund from £31bn to £37bn by 2023-24.
- The Budget sets out a vision for an economy driven by research and innovation and announces a further £1.6bn for R&D funding through the Industrial Strategy.

Skills

- T-levels – The government will provide £38m of capital funding to support implementation of the first three T-levels in 2020 across 52 providers.
- Small businesses taking on apprentices will have fees reduced from 10% to 5% - to support apprenticeships in the UK.
- The government will make up to £450m available to enable levy paying employers to transfer up to 25% of their funds to pay for apprenticeship training in their supply chains.

Other announcements

Energy

- Enhanced Capital Allowances (ECAs) for energy and water efficiency: The Government will end ECAs and First Year Tax Credits for technologies on the Energy Technology List and Water Technology List from April 2020.
- The savings will be reinvested in an Industrial Energy Transformation Fund, to support significant energy and water users to cut their bills and transition UK industry to a low carbon future. Starting in 2019/20, this will initially be a £20m fund and over the next five financial years will account for £315m of investment to allow large businesses to implement energy efficiency measures.
- The government will issue a call for evidence on introducing a new Business Energy Efficiency Scheme, focused on SMEs. Over time, this scheme will reduce business energy bills and carbon emissions. No further details on timeline.
- But the ECAs for electric vehicle charging points will be extended to March 2023 to help the UK become a world leader in the ultra-low emission vehicle market.

Flood risk management

- There is £13m to tackle risks from flooding and climate change through pilot projects.
- Expansion of flood warning system to additional 52,000 at risk properties.

Waste

- Government Resources and Waste Strategy to be published later this year.
- A new tax on single-use plastics will be introduced for manufacturing and importing plastic packaging which contains less than 30% recycled plastic, transforming the economics of sustainable packaging.

Housing

- Housing Infrastructure Fund to receive a £500m increase via National Productivity Investment Fund which will unlock 650,000 homes. The fund now stands at £5.5bn.

Consultations

HM Treasury

Encouraging innovation in regulated utilities. The consultation aims to build the Government's understanding of whether there are opportunities to further encourage new innovative methods and technologies in the utilities sectors to improve outcomes for consumers.

National Infrastructure Commission

To conduct a new study into the resilience of our economic infrastructure. The government must ensure not only that it is investing in the right infrastructure, but that the UK's infrastructure can respond to future challenges. These range from shocks, threats, and challenges intensified by the increasing interdependence of our infrastructure systems.

Useful Links

- Autumn Budget 2018 Red Book: http://bit.ly/2Suka5U
    - Page 66 - Figure 4.1: Investment across the UK
- Other supporting documents have also been published and are available here: http://bit.ly/2Q4kerl
- Office for Budget Responsibility documents: http://bit.ly/2OenkHr
- Budget 2018: 24 things you need to know: https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know
- Government response to the National Infrastructure Assessment and commissioning a new study on resilience – yet to publish link