Community Housing Cymru

In-depth Briefings

UK Government Budget 2018

October 2018

On 29th October 2018, Chancellor of the Exchequer Phillip Hammond MP delivered his final scheduled budget ahead of the United Kingdom leaving the European Union. This budget was published following the Prime Minister's promise at the Conservative Party conference in October that "austerity is over". The budget made a number of in-year spending changes, but largely sets out spending plans from April 2019, with a number of significant announcements, including on welfare policy, infrastructure spending and taxation.

In a speech lasting nearly 80 minutes, the Chancellor echoed his Prime Minister's earlier sentiments, suggesting that austerity was "coming to an end". Better than expected public finances gave the Chancellor an extra £74bn to play with, the majority of which has been committed to additional spending on the NHS (in England), welfare spending and income tax changes. The Office for Budget Responsibility have described the package of announcements as the biggest budget giveaway since the independent fiscal watchdog was set up in 2010.

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Key headlines from the budget include:

- £1bn of investment over 5 years to help the transition to Universal Credit
- An additional £1.7bn funding each year to increase Work Allowances in Universal Credit
- The removal of the Housing Revenue Borrowing Cap for local authorities in England and Wales
- An additional £550m of funding for Welsh Government through Barnett consequentials
- £120m of funding for the North Wales Growth Deal
- An additional £500m for Brexit preparations

Detailed funding announcements:

1. **Universal Credit**

The Chancellor made two separate funding announcements on Universal Credit; a £1bn commitment over five years of 'additional support for transition', and an annual commitment of £1.7bn to increase the work allowance for Universal Credit claimants by £1,000.

HM Treasury's Red Book – the government's official budget documents – reveal that this spending will be focused on the following changes, many of which had been speculated upon on in the run up to the budget:

- Two weeks of additional payments for those claiming the income-related elements of Jobseeker's Allowance (JSA), Employment Support Allowance (ESA) and Income Support (IS) as they transition on to Universal Credit. This is in addition to the Housing Benefit 'run-on' which was announced in last year's Budget, and will be effective from July 2020.

- A reduction in the maximum rate at which Third Party Deductions (TPDs) can be made from a Universal Credit award from 40% to 30% of the standard allowance, from October 2019.

- An extension of the period in which Government recovers advances paid to claimants from 12 to 16 months, from October 2021.

- An extension of the 12 month grace period (the period before the Minimum Income Floor applies) for self-employed claimants to allow their business to grow. This will be introduced in July 2019 and fully implemented from September 2020.

Alongside this package of announcements, UK Government also confirmed a slowing of the rollout of Universal Credit, so that the managed migration process will now end in December 2023. However, the implementation is still due to begin in July 2019, and the Secretary of State for Work and Pension Esther McVey MP is due to bring forward regulations for the managed migration process later this year. Further details on the announcements on Third Party Deductions, legacy benefit 'run-on' and the new rollout schedule are expected alongside the regulations.

Impact

The announcement on the increase in work allowance is the most significant of this package of announcements for UC claimants, with Treasury estimating that 2.4m households will keep an extra £630 of income each year. Alongside changes to the taper rate announced in Autumn 2016, the £1.7bn of additional funding for work allowances each year replaces more than three quarters of the £3bn cuts to Universal Credit announced by George Osborne in 2015.

The Resolution Foundation's analysis below shows that the impact on families will vary by family size and circumstance, but that the majority in receipt of housing costs will see a boost in their income as a result of the announcement.

Table 1: The impact of changes to Universal Credit since Summer Budget 2015 for families working full time at the minimum wage, 2019-20

Impact of changes to Universal Credit for full-time minimum wage earner, 2019/20

	March Budget 2015	Summer Budget 2015		Autumn Statement 2016	Autumn Budget 2018		Overall impact on income
	Work allowances	Work allowances	Income change	Income change: 63% taper	Work allowances	Income change	
Households without housing costs							
Single parent	£9,290	£5,030	-£2,770	+£200	£6,030	+£630	-£1,940
Couple with children	£6,780	£5,030	-£1,140	+£200	£6,030	+£630	-£310
No dependent children	£1,400	£0	-£910	+£300	£0	+£0	-£610
Limited capability for work	£8,180	£5,030	-£2,050	+£200	£6,030	+£630	-£1,220
Households with housing costs							
Single parent	£3,330	£2,430	-£580	+£250	£3,430	+£630	+£300
Couple with children	£2,810	£2,430	-£250	+£250	£3,430	+£630	+£630
No dependent children	£1,400	£0	-£910	+£300	£0	+£0	-£610
Limited capability for work	£2,430	£2,430	+£0	+£250	£3,430	+£630	+£880

Notes: Work allowances and minimum wage rates are uprated to 2020 using OBR November 2016 economic assumptions

Notes: Assumes that work allowances in place before the Summer Budget 2015 are uprated by CPI in 2018-19 and 2019-20. Estimates are rounded to nearest £10.

Source: RF analysis of DWP Benefit Rates 2018-19 and OBR, various

The further announcements on Universal Credit, alongside the £1bn of investment over five years, are welcome. However, there are concerns that the additional benefit 'run-on' for ESA, JSA and IS will not be effective until July 2020, and that claimants who transition to Universal Credit either due to a change in circumstance, or through the managed migration process, before then will lose out on vital income.

The extended roll out period for managed migration will allow us to continue working closely with DWP and MPs from all parties to improve the process and address design and administrative flaws, and ensure that the regulations laid before Parliament are fit for purpose.

2. The removal of the Housing Revenue Account cap on local authority borrowing

Further to the Prime Minister's surprise announcement at Conservative Party Conference in October, the Chancellor has confirmed that the Housing Revenue Account cap which controls local authority borrowing for house building will be abolished as of 29th October 2018.

UK Government estimates of spending as a result of this change are modest in 2018-19 at c. £95m, but this significantly increases by 2022/23, with a total spend of more than £1.2bn, as set out in the table below:

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Spend	£95m	£385m	£850m	£855m	£1.235bn	£1.235bn

Source: HM Treasury

The Red Book also confirmed that the change will apply to both England and Wales, and that Welsh Government were taking immediate steps to lift the cap in Wales.

Impact

This is welcome confirmation that the change, previously announced by the Prime Minister, will apply to Wales. While we await further details of the removal of the cap in Wales, it is likely to unlock significant financial capacity to support housebuilding.

Housing associations are well placed to work closely with local authorities, and we believe this announcement has the potential to create opportunities for greater collaboration. This was reflected in our work on Independent Review of Affordable Housing Supply in Wales, which identified a number of way in which housing associations could collaborate with local authorities. We will continue to work closely with the Review Panel, WLGA and Welsh Government to fully understand the impact of this announcement, and to ensure housing associations are involved in any discussions over the future use of these powers.

3. North Wales & Mid Wales Growth Deals

The Chancellor confirmed funding for a number of new City and Growth deals in Belfast, Stirling, Tayside and Clackmannashire, with £120m of funding committed to a North Wales Growth Deal.

Further information on the funding is due later in the year, but the North Wales Economic Ambition Board have welcomed the funding and indicated that it will give them a strong basis on which to attract further funding from Welsh Government and other partners.

The Chancellor also confirmed that the UK Government would be inviting partners to bring forward proposals for a Mid Wales Growth Deal.

Impact

We have been working closely with housing associations involved in discussions around the North Wales Growth Deal, and confirmation of funding is welcome. The North Wales Economic Ambition Board have indicated that they expect to put in place a dedicated team focused on delivery the priority projects and negotiating the final deal before an announcement in 2019.

4. Welsh Government funding

A number of England-only spending commitments within the Budget, including £8.4bn for the NHS and £650m for Local Government will see an increase of around £550m in the Welsh Government's budget, with £115.7m extra in 2018/19 and £425.9m in 2019/20.

Further to this, the Red Book also announces a review of Welsh Government's capital borrowing powers. Welsh Government currently has a cap of £1bn on its borrowing, but the UK Government has indicated that it will consider whether the cap should be increased by £300m to support the building of the M4 relief road.

Impact

The majority of this additional consequential funding had already been accounted for in Welsh Government's draft budget earlier this month, with the additional NHS spending in England announced in June and expected to have a significant consequential funding impact.

With significant cuts to Local Government funding settlement announced last week, Finance Secretary Mark Drakeford has already said that local authorities will be 'first in the queue' for any additional revenue funding.

However, with indicative budgets showing that Social Housing Grant levels expected to fall towards the end of this Assembly, we will continue to make the case for additional capital funding to be used to fund Welsh Government's commitment to deliver 20,000 homes during this Assembly term

The review of borrowing powers, predicated on the building of the M4 relief road, is likely to add further controversy to an already heated political debate. Finance Secretary Mark Drakeford has criticised the decision, indicating that it should be for the National Assembly to decide how any additional borrowing is spent.

5. Housing & Social Care (England only)

The Chancellor made a number of England-only announcements on housing policy, which may be of interest to members, including:

- £675m to support the sustainable transformation of high streets, alongside planning reforms, to allow for greater conversion of commercial properties into residential
- The confirmation of 9 new strategic partnerships between Homes England and housing associations to deliver 13,000 new homes
- £500m of investment in the Housing Infrastructure Fund, including £291m to unlock 18,000 homes in East London through investment in the Docklands Light Railway
- The extension first-time buyers relief on Stamp Duty Land Tax to those buying a Shared Ownership property in England and Northern Ireland. This change will also be backdated to 22nd November 2017.
- An additional £410m for adult and children's social care in England for 2019/20

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