

# WLGA Briefing

## Autumn Budget 2018

Local Government Leaders, Finance Cabinet Members, Chief Executives and Directors of Finance  
30 October 2018



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### Background

This is the Chancellor's third budget. These statements are supposed to be one of the decisive political events of the year, but Phillip Hammond conceded in interviews on Sunday that in many respects it will be just be a provisional budget. If the UK fails to secure a Brexit deal, he will have come back to the House of Commons with an alternative.

Yesterday, the Chancellor said that the biggest spending decision in the budget has already been made. The additional £20bn in real terms spending for the NHS by 2023-24 [was announced](#) by the Prime Minister in June. On the BBC yesterday the Health Secretary, Matt Hancock, the said that at least this commitment was Brexit-proof. He said: "The extra £20bn for the NHS is coming. We'll see it in the figures today and that is irrespective of the deal that we get on Brexit." Several measures were widely trailed in advance:

- Increase in funding for social care (£900m) and mental health services (£2bn) in England (if these are carved out of the NHS £20bn, there is no additional consequential)
- Extra funding to smooth the introduction of universal credit
- A £30bn package for England's roads, including repairs to motorways and potholes
- £900m in business rates relief for small businesses and £650m to rejuvenate high streets
- Another year of fuel duty freezes

As some of the pundits pointed out, the Budget now seems second order compared to Brexit, "a policy black hole whose gravitational pull is so enormous that it overwhelms almost everything else in Whitehall".

The Chancellor started his budget speech by saying that this will be a Budget for "hard-working families ... who live their lives far from this place ... and care little for the twists and turns of Westminster politics". He also said that the era of austerity is finally coming to an end.

A thorough [Background Briefing](#) is available from the House of Commons website.

# Main Points

## Economic Forecasts

- On GDP growth, the Office for Budget Responsibility (OBR) expect growth to be resilient across the forecast period, improving next year from the 1.3% forecast at the Spring Statement to 1.6%, then 1.4% in 2020 and 2021; 1.5% in 2022; and 1.6% in 2023 (Although this is still quite weak in historical terms and compared to OECD partners)
- The Chancellor said that with regular pay growth at 3.1%, its strongest in almost a decade and inflation forecast to average 2% next year, the OBR is forecasting sustained real wage growth in each of the next five years".
- The deficit is due to be less than 1.4% next year, falling to 0.8% in 2023/24. Borrowing will fall to its lowest structural level for 20 years.
- National debt peaked in 2016/17 at 85.2% of GDP and then falls in every year of the forecast from 83.7% this year; to 74.1% in 23-24

## Public Spending

- Phillip Hammond said the OBR confirms a "significant improvement" in the public finances so he can set out a new path for public spending.
- Next year there will be a full spending review, but he is setting out a five-year path for additional departmental spending.
- In 2015 real spending growth was negative and next year it will be positive. He claims the "deal dividend" [from Brexit] will provide even more money for departments.
- The NHS is the public's number one priority and the government will increase its budget by £20.5 billion after inflation by 2023-24.
- Within this, the NHS will increase mental health spending by more than £2 billion a year by 2023-24.
- The NHS 10-year plan will include a new NHS crisis service, he said. Children and young people's crisis teams will be available in all parts of the country
- There is more money for councils. They will be able to get more money from the social care precept. A green paper on the future of social care will soon be published.
- But councils face immediate problems. So today he will make £650m available for English councils in 2019/20.
- And £84m will be invested over five years to expand programmes for children in care

- Also announces a £400m in-year bonus to help 'schools buy the little extras they need'.
- £420m will be made available "to tackle potholes, bridge repairs, and other minor works in this financial year".

## **Industrial Strategy & pro-business**

- On the productivity challenge, the details to address this will be in the Red Book and the list of measures includes £1.6bn in new investments for the modern industrial strategy, and £150m for fellowships to attract the brightest talent.
- Total public investment will be £460m a week higher in real terms than under the previous administration he says.
- The government will extend the rules on IR35 to the private sector, but delay the changes until April 2020, and only apply them to large and medium-sized businesses
- The government plans to abolish the use of the private finance initiative (PFI) for future projects. There is compelling evidence that it does not deliver value for taxpayers or genuinely transfer risk to the private sector.
- There are some tweaks to the apprenticeship levy the contributions that small companies will have to pay towards apprentices will be cut from 10 to 5 per cent
- From April, large businesses will be able to invest up to 25% of their apprenticeship levy to support apprentices in their supply chain.

## **Taxation**

- The UK will introduce a "UK digital services tax" - a tax on revenues of UK revenues of specific tech giants (not tech startups).
- It will only be paid by companies which are profitable and generate at least £500m in revenues on the business lines in scope. The tax will raise about £400m a year. But if an international solution emerges, the UK might adopt it instead of this UK tax.
- He announced a business rate relief for public lavatories. For the convenience of the House, he said.

## **Economic Development & High Street**

- The Chancellor promised to help small shops by cutting business rates by a third for all retailers in England with a rateable value of £51,000 or less.
- This means an annual saving of "up to £8,000 for up to 90% of all independent shops, pubs, restaurants and cafes".

- Announced £675m of co-funding to create a "Future High Streets Fund".
- The government will increase the Annual Investment Allowance five-fold from £200,000 to £1 million 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.

## **Environmental Taxes**

- There will be a new tax on plastic packaging containing less than 30% recyclable plastic.
- £10m allocated for waste disposal.
- Phillip Hammond said tax rates for the oil and gas industries will stay at the same level.
- And the government will spend £12m on new technology for the fishing industry.

## **Regional Policy & Devolution**

- Scotland, Wales and Northern Ireland will all get more money to spend in devolved areas, including education, health and housing. This Budget means:
  - over £950 million more for the Scottish Government through to 2020-21
  - over £550 million more for the Welsh Government through to 2020-21
  - over £320 million more for a Northern Ireland Executive through to 2020-21
- There will also be £150 million for a Tay Cities Deal, £120 million for a North Wales Growth Deal, £350 million for a Belfast City Region Deal and opening negotiations on Derry/Londonderry and Strabane City Region Deal.

## **Welfare Reform**

- The UK government will spend £1.7bn making universal credit more generous
- Phillip Hammond said the switch to universal credit is a long overdue and necessary reform.
- He said he has already announced measures to help with the transition.
- He announced an extra £1bn for universal credit over five years to fund extra protections for claimants moving over to UC.

- He has heard the concerns about the rate and allowance in the system. Work allowances in UC being increased by £1,000, at a cost of £1.7bn. (Work allowances are what people can earn before they start to lose benefit.)

## **Personal & Direct taxes/NLW**

- From April 2019 the National Living Wage will increase from £7.83 an hour to £8.21. This will benefit around 2.4 million workers, and is a £690 annual pay rise for a full-time worker
- The amount people will have to earn before they pay tax at 40% will increase from £46,350 to £50,000 in April 2019.
- This means that in 2019-20, there will be nearly 1 million fewer higher rate taxpayers than in 2015-16.

## **Duties and levies**

- The government will freeze fuel duties for the ninth successive year. This brings the total saving to the average car driver to over £1,000 and the average van driver to over £2,500.
- Short-haul rates of Air Passenger Duty will not rise for the eighth year in a row. Long-haul rates will rise in line with inflation
- Duty on beer, cider and spirits frozen for a year, Hammond says. But the duty on wine will not be frozen, and the duty on white ciders will go up.

## **Housing**

- A further £500m for the Housing Infrastructure Fund, to 'unlock' 650,000 homes.
- From today in England the government is lifting the cap on the amount of money local authorities are able to borrow to build housing.
- The Welsh Government is also taking immediate steps to lift the cap in Wales

## Implications for the Welsh Government Budget?

The Treasury's [Red Book](#) and the Welsh Office Press Release (Annex III) refer to an additional £550m for Wales. The Welsh Government's Press Release (Annex I) breaks this down as £486m revenue (for 2018-19 and 2019-20) and £68m capital (between 2018-19 and 2020-21), so around £554m altogether.

The key thing for councils if they are 'first in the queue' is how the £486m is profiled in 2018-19 and 2019-20, which is not clear.

From the Red Book, an estimate of the 2018-19 consequentials might total around £57m (£14m for care, £3m for DFGs, £23 for schools & £17m for business rates). We know the NHS consequential over the summer was £370m.

Revenue Consequential (WG Press Release)	486
Social Care (Red Book, para 5.15)	14
DFG (Red Book, para 5.17)	3
Schools (Red Book para 5.20)	23
Business Rates (18-19 budget)	17
NHS Consequential	370
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Remaining Consequential	59
Business Rates (Wales Office twitter feed)	26
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Consequential net of business rates	33

So, the remaining consequential after subtracting 18-19 items and the £370m for the NHS **leaves £59m for 19-20** for those 'first in the queue'. If local government is 'second in the queue' after business rate-payers, then there is **£33m for 19-20**.

The position on non-funded pension schemes is still not clear but eased by the comments at paras 1.58 to 1.60 of the Red Book: they have built a one year reserve of £4.7bn to fund SCAPE consequences, hopefully for both teachers and fire-fighters:

*"For state schools, the Department of Education are proposing to provide more funding to cover pension costs for the rest of this Spending Review period. To supplement this, the Budget allocates extra DEL to the reserve for 2019-20 to cover an expected £4.7 billion of additional costs. The Spending Review next year will settle the funding for costs beyond 2019-20 arising from the valuations.*

## **Conclusion**

There are additional revenue consequential for 2019-20 and could be as high as £59m if local government is truly first in the queue.

There are also significant sums available in 2018-19 for schools and social care which should accrue to local government.

As the WLGA we will keep the focus on these issues as well as the £75m that are still 'in play' from the Welsh Government's budget announcement on the 2 October. This includes the £15m for schools and the two £30m pots for social care.

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### **Links:**

[The Chancellors Speech](#)

### **Appended:**

Annex I: WLGA Press Statement

Annex II: Welsh Government Response

Annex III: Wales Office Press Statement

## DATGANIAD I'R WASG WLGA PRESS RELEASE

Dydd Llun 29 Hydref / Monday 29  
October 2018

*Sgrolwch i lawr am y Saesneg /  
Please scroll down for English*



### Y cynni yn parhau i gynghorau

Mae cynghorau Cymru yn parhau i archwilio goblygiadau cyllideb y DU ar hyn o bryd. Cynigir y mesurau canlynol gan CLILC i helpu trethdalwyr ar draws Cymru. Mae'n hanfodol bod mwy o gyllid yn cael ei fuddsoddi mewn gwasanaethau craidd, yn enwedig ysgolion, gofal cymdeithasol, trafnidiaeth, gwasanaethau iechyd meddwl a lluo o wasanaethau eraill.

Mae CLILC wedi galw am y canlynol:

- Bod unrhyw gyllid a gyhoeddwyd yn y gyllideb heddiw a fydd yn dod i Gymru yn cael ei fuddsoddi yn gyfan gwbl mewn gwasanaethau craidd lleol megis ysgolion, gofal cymdeithasol a thrafnidiaeth.
- Bod Llywodraeth Cymru yn gweithredu ar ei addewid mai cynghorau fydd y "cyntaf yn y ciw" am unrhyw gyllid ychwanegol, ac felly yn lleddfu peth o'r baich ar dalwyr y dreth cyngor.
- Llywodraeth Cymru i rhoi hwb i gyllido gwasanaethau lleol trwy drosglwyddo'r holl grantiau unigol a gyhoeddwyd y tu allan i'r setliad eleni i fewn i gyllid craidd e.e. y £15m ar gyfer ysgolion.
- Cynnydd mewn cyllido gwaelodol er mwyn cynyddu cyllidebau hynny sydd wedi cael eu gadael â setliadau -1%
- Yn olaf, bod yn rhaid i fater pensiynau athrawon gael ei ddatrys; fel arall, bydd unrhyw arian newydd yn cael ei lyncu.

Dywedodd y Cynghorydd Debbie Wilcox (Casnewydd), Arweinydd CLILC:



"Dyma gyllideb hynod anodd arall gan San Steffan sydd ddim yn rhoi'r diwedd ar gynni fel a addawodd Prif Weinidog Prydain. Mae llywodraeth leol yng Nghymru yn parhau i ysgwyddo baich y cynni ariannol, a'r flwyddyn nesaf yw'r flwyddyn ble y bydd costau'r gweithlu yn cynyddu hyd yn oed yn fwy. Rydyn ni wir wedi cyrraedd pwynt di-droi'n ôl. Ysgrifennodd pob un o'r 22 o'r arweinwyr cyngor i Lywodraeth Cymru heddiw yn galw arni i wneud popeth o fewn ei gallu i adfer hyblygrwydd ym mheth o'r cyllid grant fel ein bod yn gallu ymateb yn lleol i bwyseddau chwyddiant o fewn addysg a gofal cymdeithasol. Heb yr hyblygrwydd hynny, rydyn ni'n ofni am swyddi o fewn addysg, gofal cymdeithasol a meysydd eraill a fydd yn effeithio ar safon y gwasanaeth a ddarperir.

"Rydyn ni'n gwerthfawrogi parodrwydd Llywodraeth Cymru i wrando â'u hymrwymiad taw llywodraeth leol fydd y "cyntaf yn y ciw" ar gyfer unrhyw arian ychwanegol y mae'n ei dderbyn gan Lywodraeth y DU, er mwyn helpu i leddfu baich y cynni ariannol ar bobl yng Nghymru trwy fuddsoddi mewn gwasanaethau cyhoeddus lleol."

Dywedodd y Cynghorydd Anthony Hunt (Torfaen), Llefarydd CLILC dros Gyllid ac Adnoddau:

"Mae'n hanfodol bod gwasanaethau lleol yn cael yr hawl cyntaf ar unrhyw adnoddau ychwanegol sy'n dod i Gymru. Rydyn ni yn dal yn bryderus am gostau gweithlu ac yn enwedig felly y cynnydd mewn cyfraniadau cyflogwyr i'r Cynllun Pensiynau Athrawon a fydd yn gadael ein hysgolion ni mewn sefyllfa druenus. Mae cyfle yn dal i fod yn y cyd-destun Cymreig i wella ar y sefyllfa trwy ddefnyddio cyllideb Llywodraeth Cymru a pheth o'r cyllid ychwanegol sy'n dod o gynigion y Canghellor."

"Rydyn ni'n gwybod bod llymder wedi effeithio ar bob agwedd o gymunedau Cymru. Yn gyffredin â Llywodraeth Cymru, mae'r 22 cyngor yn edrych ymlaen yn fawr i'r amser pan y bydd y polisi hwn wedi dod i ben. Fodd bynnag, tan hynny, mae'n ofynnol i ni i gyd i weithio gyda'n gilydd i sicrhau dyfodol gwasanaethau hanfodol ar draws Cymru."

## **-DIWEDD-**

### **Austerity continues for councils**

Councils in Wales are still examining the consequences of the UK budget. The WLGA has proposed the following measures to assist council tax payers across Wales. It is vital that more money is invested into core services especially schools, social care, transport, mental health services and a host of others.

WLGA has called for the following:

- For any money announced in today's budget coming into Wales to be placed in its entirety into core local services like schools, social care and transport.

- For Welsh Government to implement its “first in the queue” pledge and passport any new funds into local government and thereby ease the burden on council tax payers.
- For Welsh Government to bolster funding of local services by putting all specific grants announced outside of the settlement this year into core funding e.g. the £15m for schools.
- For an increase in floor funding to raise the budgets of those councils languishing at -1%.
- Finally, that the teachers’ pension issue must be resolved otherwise any new money will be swallowed up.

Councillor Debbie Wilcox (Newport), WLGA Leader said:

“This is yet another intensely difficult UK Budget which doesn’t provide the end to austerity promised by the Prime Minister. Local government in Wales is continuing to bear the brunt of austerity and next year is the year when workforce costs reach a peak. We really are at a tipping point. All 22 leaders wrote to the Welsh Government this morning urging it to do everything in its power to restore flexibility in grant funding so that we can react locally to inflationary pressures in education and social care. Without that flexibility we fear for jobs in education, social care and other areas that will impact on the quality of service provision.

“We appreciate the Welsh Government listening and committing to put local government “first in the queue” for any additional money to help ease the burden of austerity for people in Wales by investing in local public services.”

Councillor Anthony Hunt (Torfaen), WLGA Spokesperson Finance & Resources said:

“It is essential that local services have first call on additional resources that flow to the Welsh block. We remain concerned about workforce costs and especially the hike in employer contributions to the Teachers’ Pension Scheme which will leave schools in a desperate situation. There is still an opportunity in the Welsh context to improve the situation using the Welsh Government budget and some of the additional funding that flows from the Chancellor’s proposals.

“We know that austerity has impacted upon every aspect of Welsh communities. Like Welsh Government, the 22 councils greatly look forward to a time when this policy has ended. Until then, however, we have to work together to secure the future of vital services across Wales.”

**-ENDS-**

## **“UK government’s Autumn Budget provides no evidence austerity is over” – Finance Secretary Mark Drakeford**

Finance Secretary Mark Drakeford today responded to the UK government’s Autumn Budget saying it provides no evidence austerity is over.

Monday 29 October 2018

[Finance29 October 2018](#)

The Autumn UK Budget includes approximately £68.4 million additional capital funding for Wales between 2018-19 and 2020-21, with additional revenue funding of £486 million for the period 2018-19 to 2019-20 – this includes the previously-announced consequential funding for the NHS.

Finance Secretary Mark Drakeford said:

“Any suggestion this Conservative government’s failed policy of austerity is over – as the Prime Minister claimed just a few weeks ago – on the evidence of this budget, is wrong.

“There is little else in the UK Budget for Wales, besides confirmation of the 70th anniversary NHS funding consequential which we were already expecting and a few other crumbs from the table.

“At the very best this is a ‘treading-water budget’ while we await the outcome of Brexit negotiations. It’s very disappointing as far as Wales is concerned.”

The Finance Secretary also criticised the UK government for failing to provide sufficient investment in infrastructure to support the economy during this period of uncertainty.

Professor Drakeford said:

“Anyone taking a sensible view of the UK economy would be planning to invest in our infrastructure to prepare for the future and yet, in 2019-20, our capital budget in Wales will increase by just £2.6 million.

“The Chancellor has spoken today about the promise of more funding to come in the event of a good Brexit deal.

“As Finance Secretary, I can’t plan on promises of jam tomorrow – I have to work with the figures in front of me, which I can rely on.

“What is clear from today’s UK Budget is that all bets are off if the UK government can’t deliver a Brexit deal.”

Responding to the announcement of funding for a North Wales Growth Bid Deal the Finance Secretary said:

“The Welsh Government has long championed a growth deal for North Wales and has been actively engaged with the North Wales Economic Ambition Board, alongside the UK

government to ensure a deal which is right for the people, communities and businesses of North Wales.

“The UK government’s unilateral announcement today is disappointing as it falls some way short of what we and the people of North Wales have been expecting and working hard towards. We remain fully committed to delivering this potentially transformative growth deal, and will continue to work to get the package and direction right for North Wales, agreeing heads of terms on a deal as soon as possible.”

Press release

# **More than half a billion for Wales in Chancellor's Budget**

**Welsh Secretary: Today's budget shows the scale of ambition the UK Government has for Wales**

Published 29 October 2018

From: [Office of the Secretary of State for Wales](#) and [The Rt Hon Alun Cairns MP](#)

Budget 2018

Wales will benefit from over half a billion pounds in additional funding for the Welsh Government, as well as £120 million for a North Wales Growth Deal, the Chancellor has announced in the Budget today.

This year's Budget is a result of the UK government's balanced approach to the country's finances, meaning the Welsh Government will have more spending power, while keeping taxes low and debt falling.

## **Today's announcements for Wales include:**

- More than £550 million of extra money for the Welsh Government, meaning its budget will have grown to over £16.1 billion by 2020.
- £120 million for a North Wales Growth Deal, generating investment, jobs and prosperity in the region.
- Continuing to support a Mid Wales Growth Deal, working with the Welsh Government, businesses and local councillors to agree a deal.
- Supporting the delivery of the M4 relief road by reviewing the Welsh Government's borrowing powers.
- Giving Welsh councils the freedom to build more council homes by removing the borrowing cap on housing.
- Appointing a dedicated manager from the British Business Bank in Wales, for the first time, to help to reduce geographical imbalances in small businesses' access to finance.

## **The Chancellor of the Exchequer, Philip Hammond, said:**

My Budget sends a clear message to the people of Wales – your hard work is paying off.

Thanks to the UK government's careful stewardship of the economy, the public finances are in a much stronger position and national debt is falling.

This means we have more money to invest in Wales's future – including £550m of extra funding for the Welsh Government and £120m for a North Wales Growth Deal.

## **Secretary of State for Wales Alun Cairns said:**

Today's budget shows the scale of ambition the UK Government has for Wales.

From the clear support for a North Wales Growth Deal, reviewing borrowing capacity to deliver critical infrastructure projects, and the additional half a billion of spending power, this is a Budget that clearly backs Wales's future prosperity.

The wider package of announcements made today show that we are getting the important things right – backing hardworking people and unlocking key infrastructure. Taken together, these measures are proof positive of a UK Government that is building on a strong foundation for Wales's economic prospects as part of a stronger United Kingdom.

The Chancellor set out his Budget against a backdrop of positive economic news across Wales. Since 2010, 151,000 more people in Wales are in employment and in 2016 it had one of the highest productivity growth rates across the UK.

The people of Wales will also benefit from measures to tackle the cost of living:

- Fuel duty has been frozen for a ninth successive year. As a result of these nine years of freezes, by April 2020, the average car driver will have saved a cumulative £1,000 compared with the pre-2010 escalator.
- The National Living Wage will also rise next year to £8.21 per hour, with the current rate benefitting around 81,000 workers in Wales. An additional 20,000 people will also benefit from changes to the Minimum Wage, which will also increase to £7.70 per hour.
- The Personal Allowance will increase to £12,500 and the Higher Rate Threshold will also go up to £50,000, meaning people will keep more of what they earn.