Date: 31st March 2017

Subject: Brexit Monitor and Spring Budget – Monthly Update


PURPOSE OF REPORT

This report updates members on the key economic and policy developments in relation to the UK’s decision to leave the European Union (EU). The latest edition of the monthly Greater Manchester Brexit Monitor is attached to provide a real-time view of the economic and policy impact of Brexit. A briefing on the Spring Budget is also attached, summarising the key policy announcements of interest and relevance to Greater Manchester.

RECOMMENDATIONS:

Members are asked to:

- Note the contents of the March Brexit Monitor (appendix 1) and the briefing on the Spring Budget (appendix 2).

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1. INTRODUCTION

1.1 Following the vote to leave the EU, the GMCA has been monitoring the economic and social trends and policy developments to develop an appropriate policy response. The impact of Brexit is being tracked across the following themes:

- Macro-economy trends and developments;
- Key sectors and business investment;
- Trade, regulation, and access to European Funding;
- Property investment, housing, and planning; and
- Economic inclusion.

1.2 This month’s Brexit Monitor (appendix 1) has a particular focus on the Spring Budget and a separate briefing on this is also attached (appendix 2).

2. KEY MESSAGES FROM THE BREXIT MONITOR & BUDGET BRIEFING

2.1 The key messages from both the March Brexit Monitor and the Spring Budget Briefing include:

- The UK economy has remained in good shape since the European referendum vote last year, but there remain risks for the short and medium term. GDP second estimates for Q4 2016 showed that the UK GDP grew by 0.7% in the last three months of the year, the largest increase since Q4 2015. The Office for Budget Responsibility (OBR) revised up GDP forecasts from 1.4% to 2% for 2017/18 but downgraded growth medium term expectations in subsequent years.
- Other leading indicators, such as the PMI data for manufacturing and services align with this economic outlook. They highlight a strong 2016 however this month’s data show a slowdown in the rate of growth, with rising input costs and inflation contributing to new challenges for the economy.
- GM firms continue to be optimistic about their investment plans following the vote to leave the EU. Research with MGC Business Growth Hub clients over the last quarter highlights that firms generally expect their investment plans to remain the same.
- Official Housing Index data and commercial property intelligence suggest that the vote to leave the EU has had little impact on house prices or occupier take up in GM. The level of sales/lettings is still in line with the seven year average suggesting that the industrial property market remains attractive in GM.
- The Household Finance Index (HFI) February 2017 indicates that UK household finances worsened at the second-fastest rate
since August 2014, predominantly due to rising living costs. Rising inflation is expected to have an increasingly negative impact on both real incomes and consumer spending levels in the coming years. However, Claimant Count and Universal Credit unemployment has fallen since the referendum result.

2.2 Despite economic data presenting a broadly positive picture, a number of sources are warning of the negative impact on the UK economy if a deal with the EU is not reached. A report by The Commons Foreign Affairs Committee has warned that failure to reach a deal would be "very destructive" for both Britain and the EU. The CBI has also said that leaving the EU without a deal on future trade arrangements would be "not only wrong but irresponsible" and that if the UK is left to fall back on World Trade Organisation (WTO) rules after Brexit it will open up a "Pandora's Box" of unforeseen consequences for the economy. These remarks were further reinforced in a leaked HMT analysis about the negative impact of leaving the EU without a deal. In much stronger language than has been used publicly by HMT, the report warned that plans to rely on WTO tariffs will cause a “major economic shock” with serious consequences for companies, jobs and food prices.

2.3 The Government has now confirmed that it intends to trigger article 50 on Wednesday, 29th March. The economic reaction to the triggering of Article 50 will be critical as it will bring the UK’s position into sharp and formal focus and may have an impact on confidence and the economy.

3. NATIONAL GOVERNMENT POLICY ANNOUNCEMENTS

3.1 The Spring Budget was the key policy announcement this month, setting out the Government’s plans for the economy based on the latest forecasts from the OBR. Whilst relatively low key and with little reference to Brexit, the Chancellor did respond to widespread concerns about the pressures on the health and social care system, with an additional £2 billion for adult social care allocated over the next 3 years. Spending on social care by councils across England was £14.3bn in 2014/15, so this investment represents an increase in funding of approximately 5% over the three year period, which many commentators have said is welcome, but not sufficient. A forthcoming green paper will look at the ongoing sustainability of the social care system.

3.2 Two of the headline announcements made in the Budget affect the self-employed with increases in the rate of National Insurance Contributions (NICs) paid by self-employed workers and increases in income tax on dividends. However, a week after the initial Budget announcement the Government subsequently reversed its decision to introduce the national insurance rise for self-employed workers after senior Conservatives expressed concerns about the proposal.
and questions were raised over whether the changes were consistent with the tax pledges in the Conservative manifesto. Mr Hammond confirmed that there will be no increases in National Insurance rates in this Parliament and said he would use the Autumn Budget to set out further measures to "fund in full" the £2bn lost from NICs. The Government had planned to increase the main rates of NICs for the self-employed (Class 4) from 9% to 10% in April 2018 and to 11% in April 2019, although this would have been partially offset by the abolition of their flat-rate Class 2 NICs contributions (which had already been announced and will come into force in April 2018). The move may have made self-employment less attractive for workers and employers alike. For GM, whilst rates of self-employment remain lower than the UK, the rapid increase in this type of employment locally means that 12% of all GM employees (155,000 people in 2016) would have been affected. The tax free dividend allowance was also reduced from £5,000 to £2,000 from April 2018 and is likely to affect approximately 13,100 people in GM.

3.3 The Budget also responded to concerns about the impact on Business Rates bills of the revaluation. A £300m support fund for local authorities to help businesses in their areas from 2017-18 was announced and GM will receive nearly £8 million. GM must work to ensure that this resource benefits local businesses that might be disproportionately affected by the changes. Other measures announced include targeted support to hold down the increases in Rates bills for businesses that lose Small Business Rate Relief because of the revaluation; and a £1,000 discount from the bills of smaller pubs from 2017-18. The changes will ensure that the impact of the revaluation is softened for some businesses, and Local Government will be compensated for the loss of income as a result of these measures.

3.4 Other announcements include confirmation that the first wave of challenges funded from the Industrial Strategy Challenge Fund will include £270m for the next generation of electric vehicles; cutting-edge artificial intelligence and robotics systems; and new medicine manufacturing technologies. A proposal to introduce greater simplicity on tax credits to support Research & Development by firms is a positive development - New Economy’s research shows that take up of R&D tax credits in the North West is lower than expected. The Budget also confirmed Government’s ongoing discussions with GM in relation to future transport funding and announced the allocation of £90 million to the North to ease road congestion.

3.5 In other policy news this month, the EU withdrawal bill has now been backed by both Houses, clearing the way for it to receive Royal Assent and become law. Substantive talks on the UK’s departure from the EU are unlikely to get going until some point in May to July.
4. RECOMMENDATIONS

4.1 Members are asked to:
   • Note the contents of the March Brexit Monitor (appendix 1) and the briefing on the Spring Budget (appendix 2).