Glenigan
Constructing Insight

Budget 2014

Special Report

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Prepared by Glenigan

A 4C Service

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Glenigan comment

Private housing has been an important driver behind the recovery we have seen in the residential construction market over the last year. Accordingly, it is encouraging that the housing market, and specifically increasing new housing supply, was a central theme of today's Budget.

The Chancellor announced in advance of the Budget that the Help to Buy scheme for new housing would be extended to 2020. The move provides additional certainty to house builders to bring forward sites for development and is projected to help a further 120,000 householders to purchase a home. However, while keen to improve access to the housing market, the government is clearly concerned that the market may overheat as the economy recovers. Mr Osborne has called upon the Bank of England to be vigilant on house prices and, importantly, has announced further reforms to improve the supply of new homes.

Over the last two years it has been the larger house builders that have had the resources to bring forward new build projects as the market has improved. Therefore it is encouraging that the government is creating a £500 million Builders Finance Fund to help SMEs that have struggled to secure bank lending. This is predicted to unlock 15,000 plots that have been stalled due to difficulty in accessing finance. The government is also establishing a £150 million fund to kick start the regeneration of large housing estates through repayable loans in order to boost housing supply with the creation of mixed tenure developments.

In addition, the government is proposing to extend planning reforms, allowing the conversion of a wider range of buildings such as warehouses and light industrial premises to residential use without the need for planning approval. More radically, the government is proposing a new "Right to Build" scheme, giving people who want to build their own home the right to a plot from local authorities, backed up with a £150 million repayable fund to help provide 10,000 serviced plots for custom build.

Taken together with earlier initiatives, the measures in the 2014 Budget underline the government's desire to boost supply of much needed new homes.

Economic summary

GDP forecasts were again revised upwards by the Office for Budget Responsibility (OBR), with 2.7% growth forecast for 2014 compared to 2.4% forecast just three months ago.

OBR Economic Forecast							
Change on previous year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
GDP	*0.3*	*1.8*	*2.7*	*2.3*	*2.6*	*2.6*	*2.5*
Household Consumption	*1.5*	*2.3*	*2.1*	*1.8*	*2.5*	*2.7*	*2.4*
Fixed investment	*0.7*	*-0.5*	*8.6*	*8.2*	*7.8*	*7.9*	*6.8*
Investment in Private Dwellings	*-3.5*	*4.3*	*9.0*	*10.0*	*10.0*	*9.5*	*8.1*
House prices	*1.6*	*3.5*	*8.5*	*7.8*	*5.0*	*3.7*	*3.7*
Inflation	*2.8*	*2.6*	*1.9*	*2.0*	*2.0*	*2.0*	*2.0*

Consumer spending increased at a faster rate than household disposable income due to a lowering in saving rates. The OBR forecasts that this lowering will slow, and consumer spending growth will be tied to growth in household incomes. This means quarterly growth in GDP is expected to lose pace towards the end of 2014, to an average of around 0.6% per quarter in 2015. Forecasts of household consumption growth in 2014 and 2015 have been revised upwards to 2.1% and 1.8%.

The outlook for future investment has been revised upwards more dramatically, and it is this development which is leading to strengthening expectations for sustained GDP growth. The outturn for 2013 shows that fixed investment fell by 0.5% over the year, compared to a 2.5% fall estimated previously. Investment is now forecast to expand by 8.6% in 2014, with growth then gradually slowing but remaining strong until 2018. However the consensus of independent forecasts compiled by the Treasury forecasts slower growth in fixed investment of 7.2% in 2014 falling to 5.9% in 2015.

In the Autumn Statement, forecast CPI inflation was expected to gradually fall to the 2% target by 2016, however the recent sharp falls in the rate mean that inflation in 2014 is expected to be 1.9%, before remaining stable at the 2% target rate from 2015 onwards. Average earnings are forecast to rise by 2.5% in 2014 - a faster rate than inflation for the first time since 2008 - and this will boost consumer spending power. However the path of future productivity remains a key uncertainty.

Public Finances						
£ billion	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Public Sector Gross Investment	*47.6*	*52.1*	*52.1*	*53.8*	*54.8*	*57.2*
Public Sector Expenditure	*667.9*	*679.9*	*691.5*	*698.8*	*706.4*	*719.3*
Public Sector Net Borrowing*	*107.8*	*95.5*	*75.2*	*44.5*	*16.5*	*-4.8*

* Excludes Royal Mail and Asset Purchase Facility Transfers

Net borrowing by the UK government was £107.8 billion in 2013-14, less than forecast by the OBR in December. Downward revisions to future borrowing have been driven by higher expected tax receipts, and the UK is still expected to run a small surplus in 2018-19. The UK's total debt burden as a percentage of GDP is expected to peak at

80% in 2015-16, before falling in subsequent years as new borrowing decreases and GDP growth returns towards its long term trend.

Specific budget Measures

General taxation:

- **Income tax**: Personal tax allowance raised to £10,500 from 2015/16.
- **Fuel duty:** The planned increase in fuel duty has been scrapped.
- **Corporation tax:** As previously announced, the rate falls to 21% from April 2014 and will be cut to 20% in 2015/16. The small profits rate of corporation tax will remain at 20% from April 2014.
- The government will make changes to simplify the **Business premises renovation allowance (BPRA)**, to make it more certain in its application and to reduce the risk of exploitation, with effect from April 2014.
- **Annual Investment Allowance** doubled to £500,000 from April 2014 until the end of 2015, providing up front relief on qualifying investment in plant and machinery.
- **Export Finance:** Funding for the UK Export Finance programme will be doubled to £3 billion and interest rates will be cut.
- **Aggregates Levy:** The Aggregates Levy will remain at £2 per tonne in 2014-15.

Carbon and energy:

- The **Carbon Price Support** rate will be capped at £18 per tonne of carbon dioxide from 2016-17 to 2019-20. This rate is the difference between the UK Carbon Price Floor (CPF) and the cost of emissions permits under the EU's emissions trading scheme.
- The government will also extend a programme which compensates **energy intensive industries** for their costs under the CPF and EU trading scheme, and from costs relating to the renewables obligation and feed in tariffs. This is estimated to cost around £500 million per year from 2016-17.
- **Energy from Combined Heat and Power** plants used to supply manufacturing firms will be exempt from the CPF.
- The UK Government will invest £60 million for innovation to support **carbon capture and storage**.

Construction-related investment

- £140 million of new funding is being provided for the repair and restoration of vital **flood defences** that have suffered damage.
- An extra £200 million is being provided to set up a **potholes** challenge fund. This emergency funding set aside by government will allow local authorities across the UK to repair up to 3.2 million potholes following the severe weather.
- Approval has been given for up to £270 million of support for the **Mersey Gateway Bridge** through the UK Guarantees Schemes

- The government will commit £100 million to **Greater Cambridge** until 2019-20 to support their transport and infrastructure proposals through a Gain Share mechanism.

Housing

- **Help to Buy: equity loan** scheme extended for a further four years to March 2020. It is expected to help a further 120,000 households purchase a home and to continue to support house building as the market improves. The Help to Buy: mortgage guarantee scheme will continue to support access to high loan to value mortgages until the scheme ends on 31 December 2016.
- To support SME access to finance, the government will create a £500 million **Builders Finance Fund** to provide loans to SME developers and to unlock 15,000 housing units stalled due to difficulty in accessing finance.
- **Self-build:** The government will consult on creating a new '**Right to Build**', giving custom builders a right to a plot from councils, and a £150 million repayable fund to help provide up to 10,000 serviced plots for custom build.
- A £150 million fund is being established to provide repayable loans to private sector developers working with local authorities for the **regeneration of large housing estates**.
- **Ebbsfleet Garden City:** An Urban Development Corporation will be created to push through the development of 15,000 homes, with up to £200 million of public investment.
- The government is to review the General Permitted Development Order regime and consult on specific change of use measures, including greater flexibilities for **change to residential use**, for example from warehouses and light industry structures.
- **Zero carbon homes:** In the 2013 Budget the government committed to implement 'zero carbon homes' from 2016. The government will shortly publish its response to last year's consultation.