

13 March 2018

Spring Statement 2018 – initial summary

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Introduction

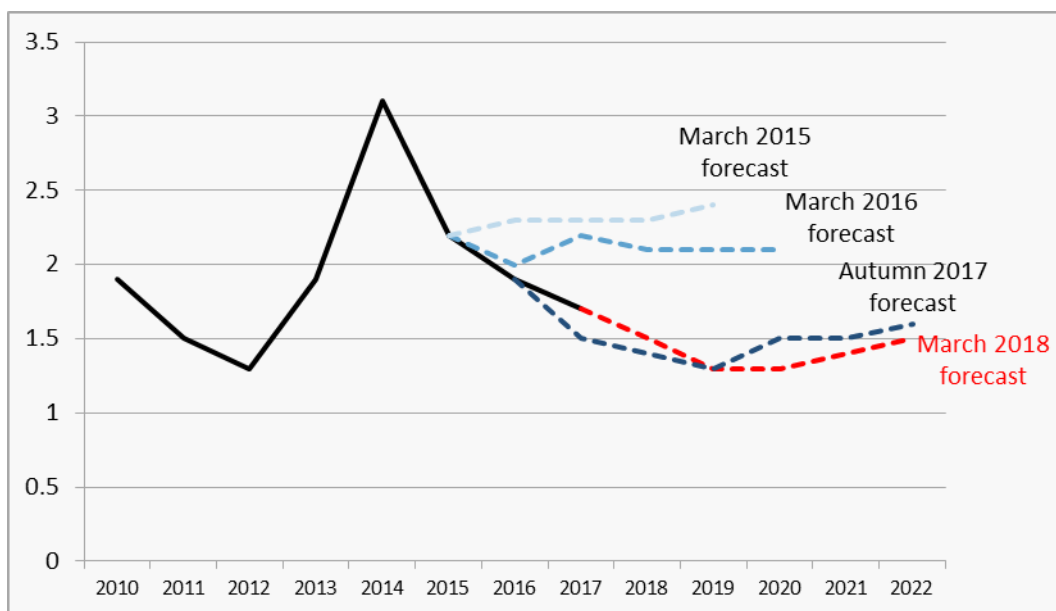
The Chancellor has ruled that new tax and spending announcements will henceforth be restricted to annual autumn Budgets.

This "Spring Statement" was, as expected, little more than an update to the official forecasts for the economy and public finances produced by the Office for Budget Responsibility, with only minor policy announcements included.

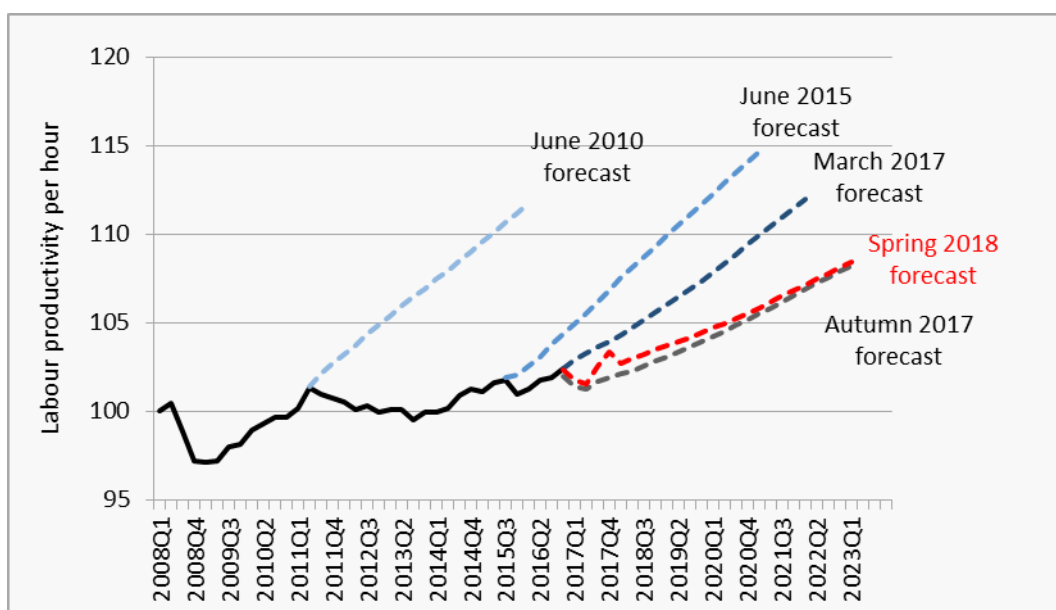
This summary briefing highlights some key elements of the official forecast and a few policy announcements relevant to Prospect sectors.

Economy

As expected, **official growth forecasts** from the independent Office for Budget Responsibility (OBR)¹ have been raised for the next couple of years. But they have been slightly downgraded for years following, and expectations for growth over the parliament remain significantly below those forecast in March 2016.



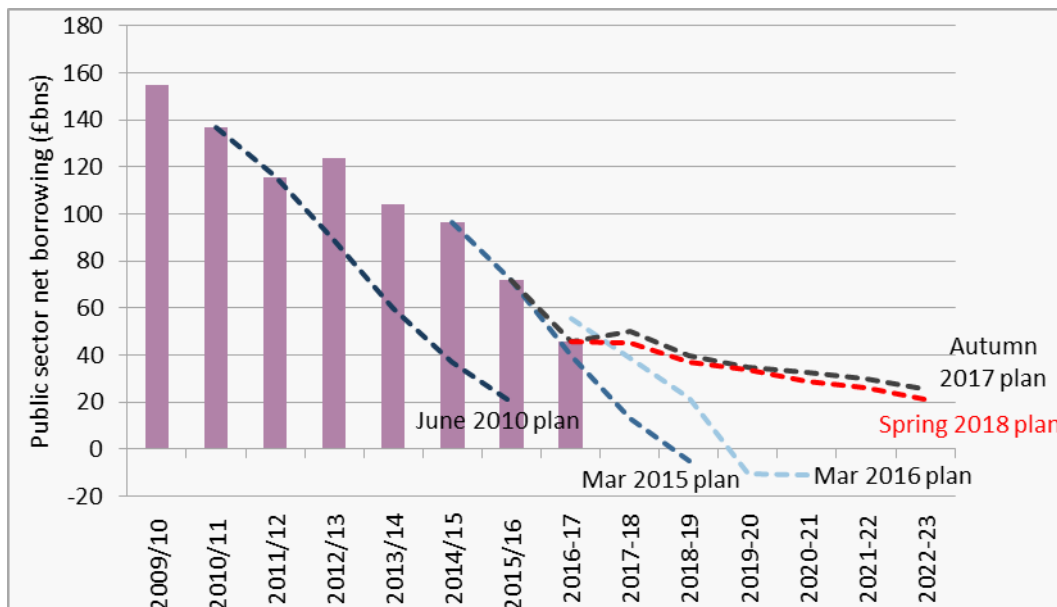
The OBR has not significantly raised its forecast for growth in **labour productivity** (which it significantly downgraded in November), despite productivity growth exceeding expectations in the last two quarters.



¹ <http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2017/>

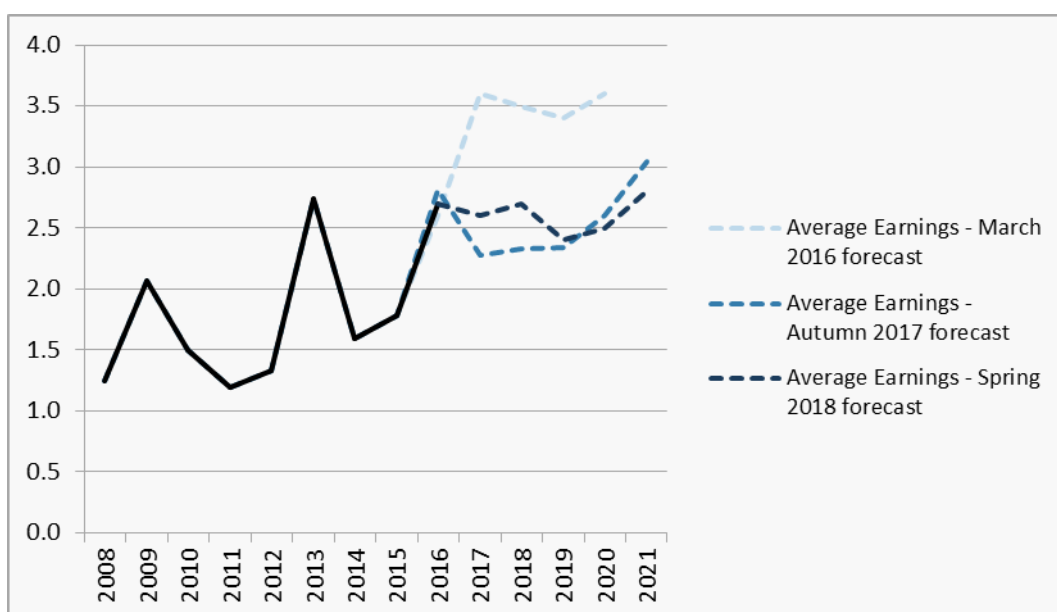
Public finances

The better growth outlook, and recent higher-than-expected tax receipts, have slightly improved the outlook for the public finances. Borrowing is now expected to fall a little faster than it was in November, though still behind previous deficit reduction plans.

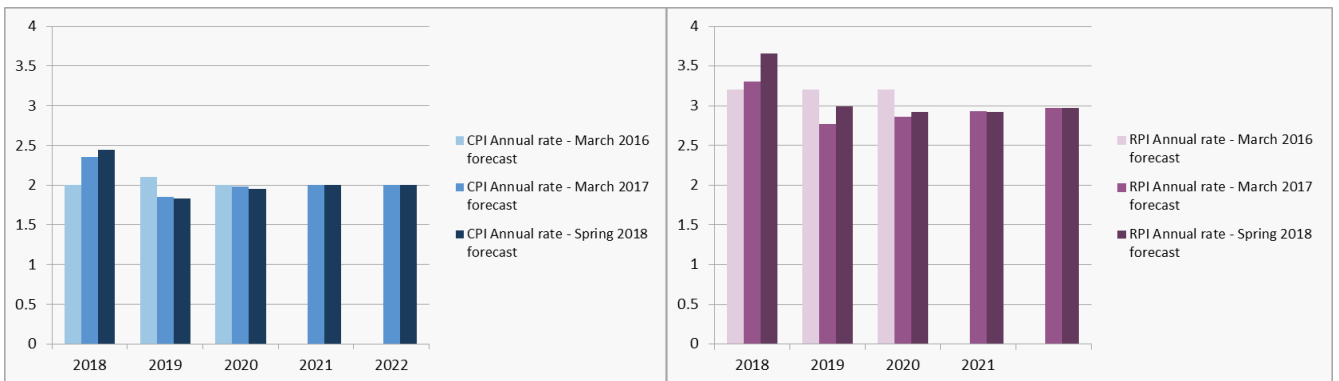


Wages and living standards

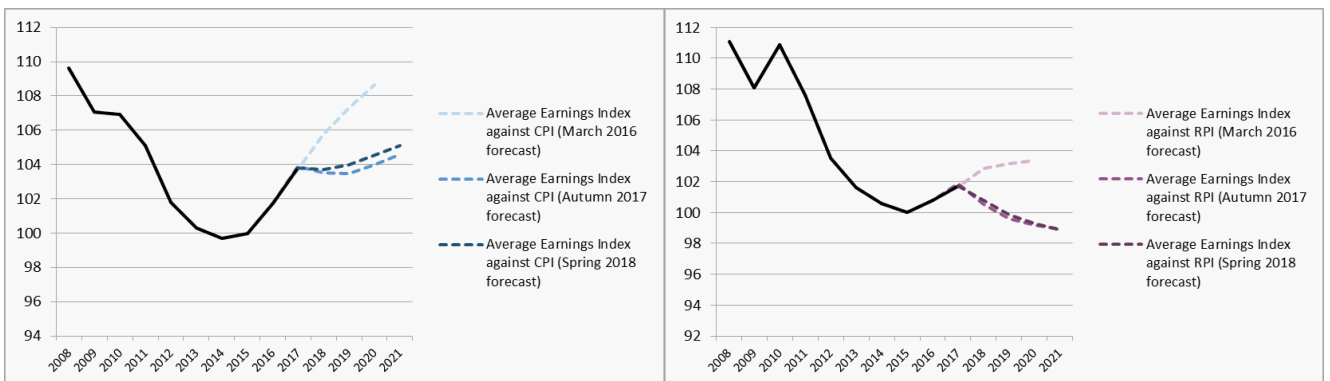
Forecast **average earnings growth** across the economy (including private and public sectors) has been revised up relative to the November forecast for the next few years, but back down in subsequent years, and remain significantly lower than forecast two years ago.



Forecasts for the **cost of living** (both CPI and RPI measures) have increased a little since the Autumn Budget, particularly RPI in 2018 and 2019.



The effect of these changes to inflation forecasts is to cancel out most of the improvement in expected nominal wage growth, especially against RPI.



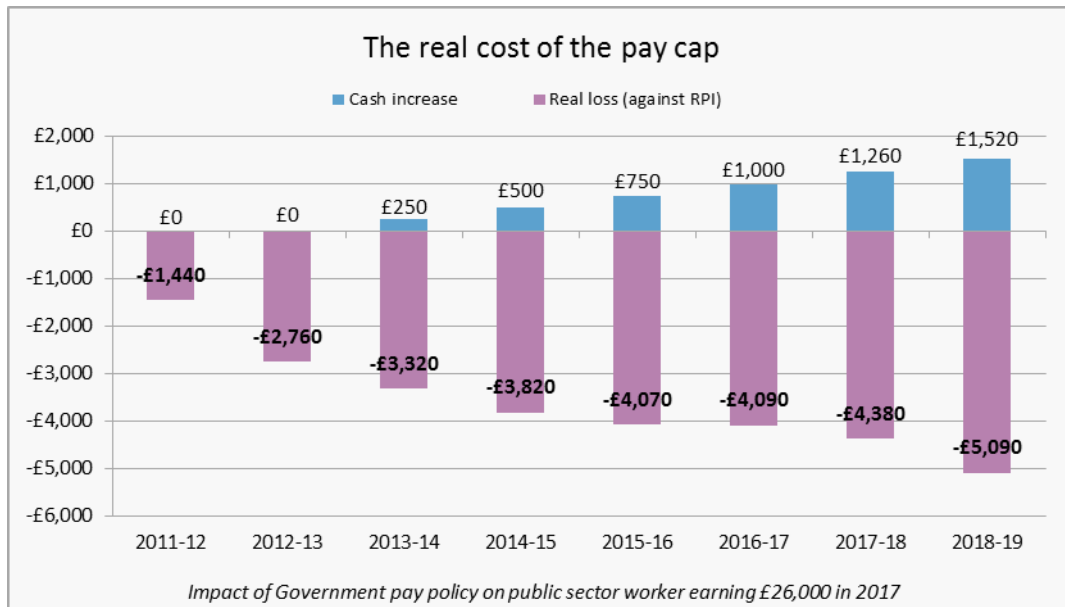
To illustrate the scale of these changes, on the March 2016 forecast a worker on median earnings of around £26,000 today could expect to be earning around £3,900 more in cash terms in 2021, and about £500 more in real terms (adjusting for RPI).

By the Autumn 2017 forecast, they could expect to be earning around £2,600 more in cash terms but £750 less in real terms (adjusting for RPI).

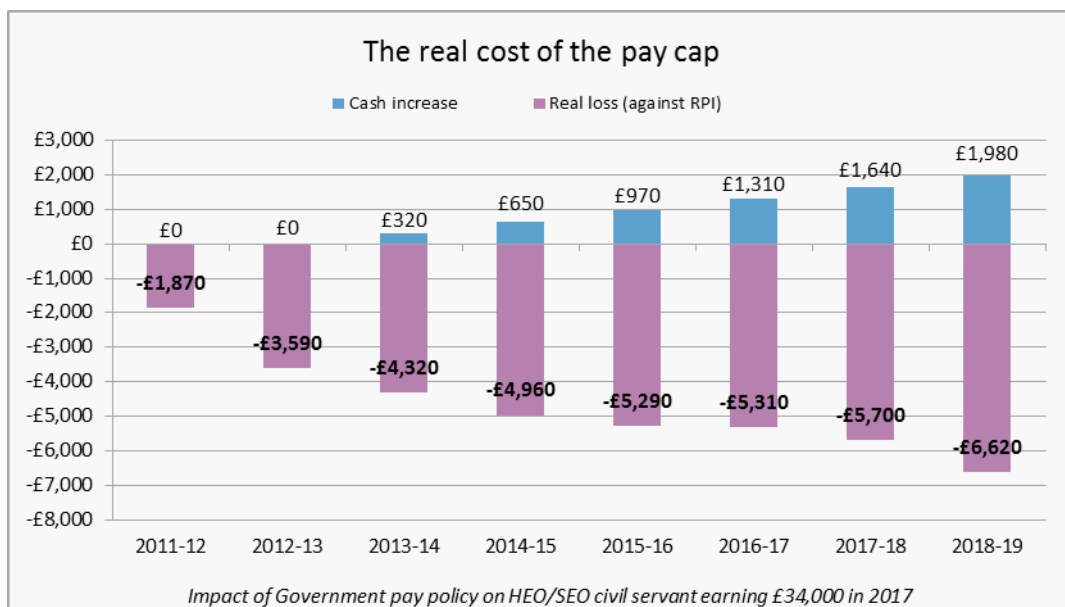
By today's forecast, that worker could expect to be earning around £2,750 more in 2021 – but still around £750 less when adjusted for RPI.

Public sector pay, employment and funding

Against the latest official inflation forecasts, the Government's **public sector pay policy** has cost the average public sector worker (earning around £26,000 in 2017) a total of around £24,000 over the 7 years since 2010 – and would cost another £5,090 if extended for the financial year ahead.



For a skilled civil servant – for example a median HEO/SEO earning £33,800 in 2017 – that figure increases to around £31,000 over the past seven years – and would cost another £6,620 if extended for the financial year ahead.



The Chancellor repeated his promise from the Autumn Budget statement that more money might be made available to support pay increases in the NHS “if, as I hope, management and Unions reach an agreement on a pay modernisation deal for our nation’s Nurses and Agenda for Change staff who have worked tirelessly since the Autumn in very challenging circumstances to provide the NHS care that we all value so highly.”

No mention was made of other public sector workers, however, and the Treasury has previously indicated that in no other areas will additional resources be made available to fund pay increases above 1%.

Announcements and developments relevant to key sectors

IT and telecoms

The 2017 Autumn Budget announced a £190 million **Local Full Fibre Network Challenge Fund** as part of the telecoms component of the “National Productivity Investment Fund” first announced in Autumn 2016.

The Spring Statement allocated the first £95 million of this fund and also confirmed £25 million for the first “5G testbeds”.²

Public services

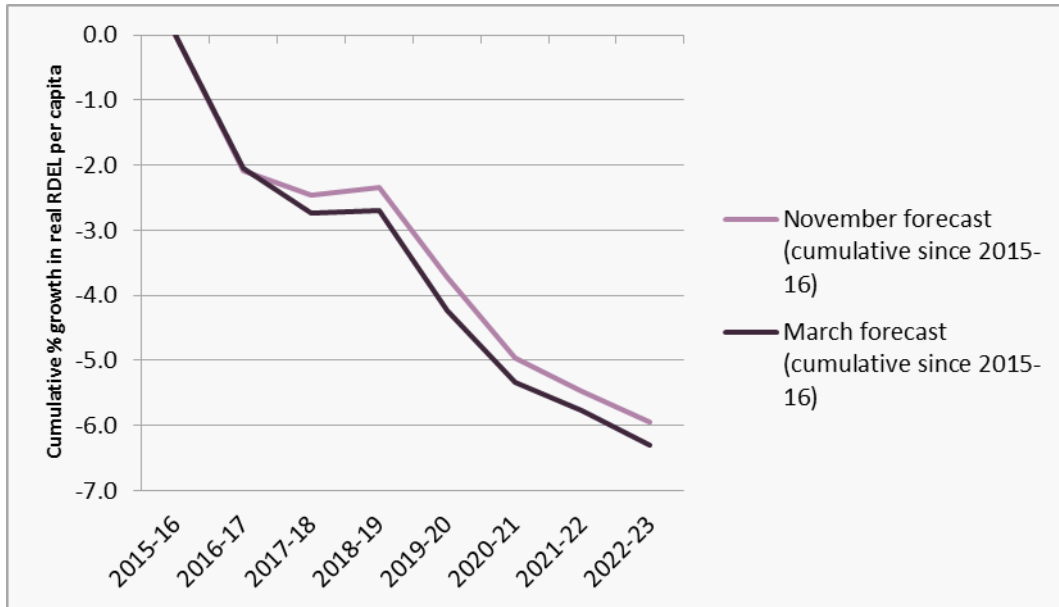
Alongside the Spring Statement the Treasury said it would Departmental allocations of around £1.5 billion of **Brexit preparation funding** for 2018-19 announced at the Autumn Budget.

The 2017 Autumn Budget committed to move to triennial business rate revaluations from 2022. The Spring Statement announced that this would be brought forward to 2021. This could have resource and workload implications for the **Valuation Office Agency**. At the time of the Budget announcement property consultants commented that “Ratepayers have been calling for three yearly valuations for some time now so the chancellor’s announcement is welcome, however this will not be deliverable unless the government provides the Valuation Office Agency with the funding necessary to carry out regular and accurate valuations.”³

The OBR forecasts included an **analysis of non-capital departmental spending** per capita showing that this was set to fall by 6.3% in real terms between 2015-16 and 2022-23, a somewhat steeper cut than expected in the Autumn. It should be borne in mind that this aggregate figure conceals significant variation across different departments and services, with some suffering much deeper cuts.

² <https://www.gov.uk/government/news/95-million-for-local-full-fibre-broadband-projects>

³ <https://www.retailgazette.co.uk/blog/2017/12/business-rates-changes-not-go-far-enough-central-london-retailers/>. See also response to Spring Statement from Knight Frank at <https://twitter.com/peterproperty/status/973575340873474048>



The Chancellor confirmed that a full **Spending Review** will take place next year, implying that the overall Spending envelope would be set in the Autumn Budget later this year:

"at this year's Budget I will set an overall path for public spending for 2020 and beyond, with a detailed Spending Review to take place in 2019 to allocate funding between Departments..."

"And if, in the Autumn, the public finances continue to reflect the improvements that today's report hints at, then, in accordance with our balanced approach, and using the flexibility provided by the fiscal rules, I would have capacity to enable further increases in public spending and investment in the years ahead."

Prospect's response

Responding to the spring statement, Prospect general secretary Mike Clancy said:

"Today's spring statement was a missed opportunity to take bold action to make our economy stronger, fairer, and more productive."

"The Chancellor should have announced a real end to the public sector pay cap and given all public servants a decent pay rise for the first time since 2010."

"And with the OECD today warning that the UK needs to do more to improve productivity, the Chancellor should have listened to Prospect and adopted a radical new approach involving business and unions to forge a new bargain aimed at improving productivity and expanding collective bargaining across the economy."

"With no respite for public servants, no strategy to address the productivity crisis and no commitment to give private sector workers real voice, this spring statement will go down as a huge missed opportunity by a government that needs to change course if they want to create an economy that truly works for everyone."