

THE EMERGENCY BUDGET AND ITS IMPACT ON BUILT ASSETS



“In his quest to reduce the UK’s unprecedented peacetime deficit the Chancellor announced wide-ranging and predominantly revenue focused efficiency measures along with carefully considered tax rises in his first Budget speech - the plan being to restore the balance within the term of this government. This Budget paves the way for innovative organisations to unlock value and enable opportunity from their investment in, and expenditure on, built assets.”

Graham Kean - Partner, Head of Public

With the sense that the coalition government has increasingly got the mood of the public on its side, an emboldened Chancellor defined three main ‘types’ of cuts in his first Budget speech:

Political posturing

These announcements, including closing the Euro Preparation Unit within the Treasury, have very little financial impact in real terms, but Osborne has signalled a very clear shift in direction by overturning decisions made by the previous administration.

Snowballs

Rather innocuously, Mr Osborne offers ‘help’ for local authorities who commit to zero increases in Council Tax. The effect of this will be to cause councils across the country to stop and think about their spending decisions. The size and scale of their impact will increase as they roll out across the country. There will be a delayed impact, but it will be a very real and significant one.

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Revenue cuts

The most significant category of announcements in the Budget as these presented the biggest area of opportunity for savings. The chancellor announced a raft of measures to reduce the cost base of Government. However, these may be difficult to implement due to inertia and the fact that every public sector employee will be impacted in one way or another.

The impact of these announcements on built assets

The major headline that the capital spending programme is to be protected is greatly welcomed. Non protected departments will see 25% cuts over 4 years, but we will have to wait for the detail until the Comprehensive Spending Review (CSR) on 20th October to see who the real winners and losers are. In the meantime, the emphasis will be on bringing forward projects that deliver the maximum economic benefits, so expect to see infrastructure, transportation and other social infrastructure schemes supported - especially where jobs will be created.

Education

The Budget announcement recognises the importance and relevance of the education spend in the country, in support of its future economic and social development. The Chancellor stated that capital programmes are not to be cut further - subject to the longer term CSR - which is good news for the sector as a whole. However, the targeting



of that capital could change to facilitate greater efficiency and delivery of 'value adding projects'. What that efficiency actually looks like will be the subject of further review. The announcement signals that there will still be opportunity for creative solutions in the market for infrastructure development – but 'more with less' will clearly become a mantra for the future.

Health

Although spending in the sector is currently being protected, we still expect a sizeable head-count reduction within the NHS. Major schemes are under review (we already see schemes stalling) and resources will be targeted towards front-line service delivery. As trailed, there will also be a pay-freeze for the majority of public sector workers for two years with a major impact in the NHS given its position as the biggest single employer. There is undoubtedly still major opportunity in the health sector to drive operational efficiencies and achieve better healthcare outcomes.

Affordable housing

With the TSA disbanded, the HCA will take on the responsibility for regulating the financial governance of social landlords. Registered providers will come under increasing scrutiny and with this clearly in the sight of the Chancellor, the sector will be forced to look at innovative new models to unlock capital and sustain delivery. The tax decisions made by Mr Osborne may also have serious, unintended consequences.

Our prediction is that the social housing sector will be radically reformed with £1.8 billion to be saved within the

parliament term. Priority will be placed on the provision of appropriately sized affordable homes matched to households, with maximum limits of benefit introduced. The income of registered providers will be squeezed significantly and radical and fast reshaping will be necessary.

Government

For central and local government, reduction in the operating cost base is now the prime focus. With property the second biggest cost after staff, expect this to figure high in terms of focus and priority for savings. Most are now aware of the potential savings from New Ways of Working, but more may be needed in terms of workforce reform to unlock the maximum savings for this sector. There are still significant opportunities to drive value here.

Regeneration

So what about regeneration and growth? With billions of pounds of potential value locked up in stalled schemes, the impact of the Regional Growth Fund and targeted capital investment outside the South East will help this sector to be part of the solution, making a positive contribution towards public sector finances.

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