Autumn Budget

November 2017 - Overview

Introduction

Since the Spring Budget, the UK has held a General Election, the negotiations to leave the European Union have continued – not always at breakneck pace – and there has been the usual collection of mixed news for the UK economy.

The General Election started as an expected coronation for Theresa May and ended as an embarrassment, with the Conservative party now dependent on Northern Ireland's DUP for a working majority in the Commons. The Prime Minister remains committed to delivering Brexit on March 29th 2019 and currently appears ready to offer the EU more money in the 'divorce settlement' to kick-start the talks on trade. But with negotiations on the coalition government in Germany having failed over the weekend, it is difficult to see how any talks can make much progress with the EU's largest net contributor facing what the BBC's Andrew Neil called the "biggest political crisis since the 1940s."

In March, Philip Hammond's nickname was 'Spreadsheet Phil' (with continued murmurings of discontent on the backbenches that has given way to much ruder epithets) and as he stood up to speak, the Chancellor would need to restore confidence in both the Government and his own personal credibility – otherwise his first Autumn Budget may well be his last.

The Chancellor's speech started with the usual collection of numbers and statistics. In truth, the news on the UK economy is mixed. The Swiss Bank UBS has just raised its forecast for UK growth in 2018 from 0.7% to 1.1% and all three sectors of the UK economy – manufacturing, services and construction – reported encouraging figures in October. But for most people, the fact is that wages continue to lag behind inflation, which the Bank of England believes will stay high for some time to come. With Christmas coming, the British electorate doesn't want fiscal facts and figures from the Chancellor, it wants a feelgood factor.

What were the rumours?

In 'the old days' it was very simple. The Budget was delivered in March. The Chancellor stood alone outside 11 Downing Street and held aloft his battered red despatch case which contained the speech – the contents of which were known only to the Chancellor and his Cabinet colleagues.
Now the Budget is delivered in November and the Chancellor will stand outside 11 Downing Street flanked by his entire ministerial team. The rumoured contents of his speech? This year – in what must be the most-leaked Budget speech ever – they seem to be known to anyone who can click 'news' on the BBC website.

Although these early rumours were swiftly replaced by the realities of the speech, it is worth detailing them here. Philip Hammond does have a reputation as an imaginative man and anything that didn't turn into reality today may crop up again in the future.
More money for research and development was widely expected and for transport links in and around major cities as he continues to wrestle with the UK's poor productivity. Also revealed prior to the speech was news on the roll out of 5G connectivity across the UK and investment in the infrastructure for driverless cars, which are now expected to appear on our roads by 2021.

The number of small businesses and self-employed people has risen rapidly over the last five years. By and large, they are natural Conservative voters and you would think a Conservative Chancellor would do everything he could to help them. Instead, SMEs and the self-employed may have been waiting for the Budget with some dread, following the Chancellor's ill-thought out raid on Class 4 National Insurance contributions in March and what freelancers in the public sector considered punitive changes to the IR35 regulations.

Prior to the speech there were rumours of plans to lower the VAT threshold. The most extreme suggestion would see a lowering of the threshold to £25,000 which could even catch hobbyists selling through eBay. The 'takeaway tax' had also clearly been discussed in the run up to the speech. Following the success of charging for plastic bags, the Chancellor was clearly considering a tax on single-use plastic items such as packaging, bubble-wrap and the polystyrene boxes used for takeaways.
Finally, it was widely expected that we'd see a shake-up in business rates – or at least the promise of one.

The Speech

After what seemed a rather lengthy Prime Minister's Questions, the Chancellor finally rose to speak at 12:39pm. He hitched up his trousers and launched into the good news about a British economy "which continues to confound those who seek to talk it down." He was – as he had to be – bullish about the future and determined that the UK should "seize the opportunities" offered by Brexit. Expressing a desire to make the negotiations with the EU a top priority, the Chancellor nevertheless tossed the pro-Brexit wing of his party a £3bn bone with a commitment to prepare for every possible eventuality.
Confirming some of the leaks regarding support for the technology sector, he said that Britain was at "the forefront of a technological revolution" (cue raised eyebrows in Silicon Valley and the Far East) and that business and government must invest to secure that future.

Despite this, the Budget would also take a balanced approach, protecting and promoting the interests of families as the Chancellor declared that he wanted the UK to "be a force for good in the world" as we build "a country fit for the future." With the 'mention key strapline' box well and truly ticked, he took a sip of water, politely declined the Prime Minister's offer of a cough sweet and launched into the numbers – or as he described it, "the part containing the long economicky words..."

The Numbers

Despite the fact that the Chancellor was optimistic about the forecasts from the Office for Budget Responsibility (OBR), the simple fact is that the forecasts are down from those in the March budget – although it should be pointed out that the OBR is currently being more pessimistic than the Bank of England.

Growth in the UK economy was forecast to be 1.5% in 2017 (down from an earlier forecast of 2%) and 1.4% in 2018: it would then fall to 1.3% for the next two years before rising to 1.5% in 2021 and 1.6% in 2022. The OBR also saw inflation peaking at 3% "in this quarter" before falling again to nearer the 2% target figure. Forecasts for productivity and business investment were also revised downwards but the OBR did expect another 600,000 people to be in work by 2022.

The State of the Public Finances

The Chancellor said that annual borrowing would be £49bn this year - £8.4bn lower than forecast in March. Borrowing should now fall in every subsequent year until it reaches £25.6bn in 2022/23. Public sector net borrowing is forecast to fall from 3.8% of GDP last year to 2.4% this year – and eventually to 1.1% in 2022/23. Debt will peak at 86.5% of GDP this year and then start to fall, reaching 79.1% of GDP in 2022/23. All of this, said the Chancellor, "was testament to the hard work of the British people" and meant that he could "choose to use the headroom" to invest in the economy, thereby helping families and businesses.

The Chancellor said that he wanted to put a "dynamic and innovative economy at the heart of Britain" and that this would require both public and private investment. As a first step, he announced that the National Productivity Investment Fund (NPIF) would be extended for another year and increased to £31bn, with a specific £2.3bn for investment in research and development in 2021/22. He then turned to other specific measures.

Personal Taxation and Allowances

This was a Budget short on specific measures that impact either an individual's 'debit' or 'credit' columns, as the Chancellor chose to address 'larger' topics such as infrastructure and Brexit. However, there was still a single nugget to take note of when it came to the personal allowance and higher rate tax threshold.

What	The Personal Allowance will rise to £11,850 from April 2018 and the threshold for paying higher rate tax will rise to £46,350. The current figures are £11,500 and £45,000 respectively.
When	From April 2018
Comment	These were announcements that were expected and are staging posts on the way to the pledge to increase the thresholds to £12,500 and £50,000 by 2020.

Pensions and Savings

What	The main ISA limit will remain unchanged at £20,000, whilst the Junior ISAs and Child Trust funds limit will rise in line with inflation to £4,260.
When	April 2018
Comment	A fairly minor change, not mentioned by the Chancellor in his speech, the Junior ISAs and Child Trust fund limit got an increase, whilst the main limit remained unchanged. After a few years of sizeable ISA rises, this could well be the norm for the next few Budgets.

What	The lifetime allowance for pensions will get a rise in line with the Consumer Price Index (CPI), going up to £1,030,000.
When	April 2018
Comment	Although this is a small rise in line with inflation, which will only impact those with large pension savings, the real term difference could be significant. If the whole £30,000 increase is taken as a lump sum after April 2018, for example, that's a tax saving of 55% and a real-term increase of £16,500 extra in income for the retiree.

What	Employees on maternity and parental leave will be able to take up to a 12 month pause from saving into their Save As You Earn employee share scheme.
When	From 6th April 2018
Comment	This is an increase from 6 months currently.

Business Investment & Business Taxation

What	The announcement of over £500m of extra investment for technology investment, including 5G, broadband and Artificial Intelligence.
When	Ongoing over the next several tax years
Comment	This was a widely trailed move and continues the government's commitment to spending on digital infrastructure and technology projects.

What	A commitment to a total £540m investment in initiatives that will support the growth in electric vehicles.
When	From next April
Comment	Another widely expected move and one which was coupled with the announcement that from next April, diesel cars which do not meet air quality standards will be hit with an additional tax. Meanwhile, those who charge electric vehicles at work will not be taxed on a benefit in kind.

What	The VAT threshold remained unchanged.
When	N/A
Comment	Despite the fears of the small business community and the Chancellor's dark mutterings about the registration threshold in Germany only being £15,000, the VAT threshold will remain unchanged at £85,000 for the next two years. "A banana skin dodged," as the BBC's economics correspondent put it.

What	Business rates will now be based on CPI, rather than the Retail Price Index (RPI).
When	April 2018
Comment	There was good news on business rates, with the Chancellor bringing forward the move to have business rates based on CPI as opposed to RPI. He brought the change forward by two years which he estimates will save businesses £2.3bn. Revaluation periods were also changed from every five years to every three years. The £1,000 discount for small pubs was also extended to March 2019.

What	The abolition of the so called 'staircase tax'.
When	The government will publish draft legislation shortly
Comment	Under 'staircase tax' rules, companies operating over several floors within the same property were handed separate business rates assessments for each occupied floor, as opposed to one bill for the entire premises. The backdated tax was initially introduced after a landmark Supreme Court ruling in August 2017. Thousands of small business owners will be celebrating following the announcement that this tax system will be abolished.

The Chancellor also announced that further action would be taken to combat tax avoidance and evasion, continuing a Budget trend over the last few years. Mr Hammond clearly continues to have the multinational digital companies in his sights as he announced that from April 2019, UK income tax will be applied to digital economy sales made here, but where the proceeds are paid to a 'low tax jurisdiction'. This, he estimated, would raise "£200m a year of additional revenue."

Other Measures

The Housing Market

This appeared to be the real meat of the Chancellor's speech: you suspect that more than one backbench 'colleague' had starkly pointed out to him that 'young people won't vote Conservative if you don't give them anything to conserve.' He started, though, by allocating a further £28m in support of the victims of the Grenfell fire disaster, and a similar amount as part of a commitment to half the number of people sleeping rough by 2022.

His main thrust, however, was in helping young people – both to buy property and to find affordable rented property. The Chancellor pointed out that the number of people aged 25-34 owning their own home has dropped from 59% to just 38% over the last thirteen years.

The Chancellor announced several measures, including increasing the supply of land for building and help for SME housebuilders, plus plans to train workers in the construction sector. In total, the package was worth £44bn over the next five years.

There was also the announcement of a raise to the empty homes premium, designed to encourage owners of empty homes to bring them back into use. Previously 50%, local authorities are now able to increase this to 100%.

When the dust had settled though, the commitment was to build 300,000 net additional homes a year by the mid-2020s: perhaps not the news that many had been hoping for, as the Chancellor confirmed his commitment to maintaining the green belt. There would, however, be investment in the Cambridge/Milton Keynes/Oxford corridor, ultimately leading to the building of 100,000 new homes in Oxfordshire by 2031. But he kept the biggest housing rabbit in his hat until the end of the speech…

What	An abolition of stamp duty for first time buyers on properties with a value up to £300,000 – and on the first £300,000 of a property with a value up to a £500,000.
When	Immediately
Comment	It is not often that middle-aged Conservative MPs shout "whoop!" but this was the positive news they had been waiting for. The Chancellor said that he had dismissed ideas for a stamp duty holiday and decided on a move that "will see 80% of first time buyers pay no stamp duty and save those buying a house between £300,000 and £500,000 an immediate £5,000."

Education and Skills

The Chancellor confirmed the commitment to three million apprentice starts by the year 2020, thanks to the apprentice levy, and announced £20m of funding for Further Education colleges who were introducing the new T (technical) level exams. There would also be extra funding to boost the teaching of maths at higher levels and a commitment to upskill a further 8,000 computer science teachers (at a cost of £84m) to a total of 12,000 teachers, as well as the establishment of a National Centre for Computing.

Finally, the chancellor announced a collaboration between the Government, the CBI and the TUC to support training in the construction sector and more broadly, digital skills.

Universal Credit and the Living Wage

Following widespread criticism of the implementation of the new system of Universal Credit, the Chancellor announced a series of measures – costing £1.5bn in total – designed to make it fairer and more in line with what he described as a “modern welfare system.” He then moved on to the National Living Wage and personal taxation.

What	The National Living Wage (NLW) will rise by 4.4% to £7.83 from the current £7.50.
When	From April 2018
Comment	There will also be a commensurate increase in youth rates, part of the Chancellor’s commitment to a ‘fairer Britain’ and equivalent to about a £600 annual pay rise for someone receiving the NLW.

Help for the Regions

As expected, the Chancellor announced a £1.7bn city region transport fund, to be shared between six regions with elected mayors and the rest of the UK: this appears to be primarily aimed at improving transport links within our cities. There was a further devolution of powers to Greater Manchester plus up to £35m to improve rail passenger communications, including a trial to improve communications on the Trans-Pennine rail route. Over the period through to 2020/21, there were increases in budgets earmarked for the Scottish government of £2bn, £1.2bn for Wales and £660m for the Northern Ireland executive.

Alcohol, Tobacco and Travel

“Happy Christmas, Mr Deputy Speaker,” beamed the Chancellor, announcing that there would be no increase on the duty on beers, wines and spirits as he sought to support “the great British pub.” The only exception to this would be an increase on the duty on white cider.

Owners of private jets may well be used to drinking something rather more refined than white cider, but they were hit in the Budget as the Chancellor announced that fuel duty on short haul flights would be frozen, as it would be for economy seats on long haul flights. However, this would be paid for by an increase on the duty applicable to premium seats and to private jets.

All but a few private jet owners may also be too old to qualify for the new young person’s railcard. Again, the move was widely trailed, with the chancellor confirming the introduction of a railcard for those aged 26-30.

The price of cigarettes is set to rise with duty on tobacco going up by 2%, plus inflation. There will also be an additional 1% duty on hand-rolling tobacco.

The NHS

As expected, the Chancellor announced extra money for the NHS, a £10bn increase in annual funding by 2020. There would also be an extra £2.8bn of resource funding over the next three years, with an immediate cash injection of £335m this year: £1.6bn between 2018/19 and a further £900m between 2019/20.

Conclusion

The Chancellor finished on a high and, like all good actors, he got off the stage with the cheers ringing in his ears. Britain was at “a turning point,” he declared, “but we will be looking forwards, not backwards.” Having spoken for just over an hour, he remembered his strapline one last time – “It is a Budget fit for the future and I commend it to the House” – and sat down to a better reception than he had probably expected at 12:30.

In truth, there was little within this Autumn Budget for each of us individually to either celebrate or bemoan. Most of the headline writers picked out the boost for Brexit or the cut in growth forecasts, perhaps dependent on political persuasion. There was coverage too for the housing pledges and on the internal political angle to the speech when it comes to the machinations of the Conservative party.

Having proposed cash to support Brexiteers and to those who felt a boost was needed to attract younger Conservative voters, the consensus seemed to be that Mr Hammond had presented a Budget most of his party would be content with. That may well be enough to mean that we see him at the despatch box at least one more time, though whether he is considered “fit for the future” beyond that, only time will tell.

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