

Spring Budget Briefing





Introduction

Having announced its abolition at the Autumn Statement, Chancellor of the Exchequer, Philip Hammond, delivered his first and final Spring Budget but, despite the imminent triggering of Article 50, the greatest challenge facing the UK economy was barely mentioned.

Hammond very much lived up to his cautious reputation, with a distinctly modest Budget in which most of the main announcements had been trailed beforehand and not a single 'rabbit' in sight. A marked departure from Osborne, he assured the House that despite higher than expected forecasts from the OBR, he would not be using this windfall for additional spending, highlighting the £50bn the UK was spending a year solely to cover the interest on its debt.

In line with the Prime Minister, 'fairness' was very much the theme of Hammond's Budget, with frequent references to delivering an economy that works for everyone. One major announcement stemming from this was the move to increase National Insurance Contributions (NICs) for the self-employed, representing an effective U-turn on the Conservative Manifesto commitment not to raise these contributions – a claim vehemently denied by Hammond's number two, the Chief Secretary. Elsewhere, the Budget gave in to political pressure and promised reforms to the much criticised business rate increases for SMEs expected later this year and promised an extra £2bn to fund social care.

The Budget also built upon the Industrial and Digital Strategies, with a focus on technical skills. One of the Chancellor's other key announcements was the introduction of new 'T-levels', which he stated would establish parity between academic and technical education.

At 64 pages and just 28 measures, this year's Budget was significantly lighter than those that have come before. This reality is likely not simply a reflection on the fact that we are expecting another Budget this year, but the manifestation of a Treasury that is busy dealing with other priorities. Whilst Brexit did not feature heavily this Budget, it will be the most important factor in shaping the UK economy in the coming years, permeating almost everything that Government does and, as such, we can see this modest Budget as a reflection of a Chancellor who is not entirely sure what is coming down the line.



General / Headline announcements

Whilst the Budget was lighter than usual, the Chancellor made a number of key announcements.

Growth

Notably, the Chancellor was able to announce higher growth and lower borrowing than previously forecast, whilst this windfall did not lead to any major announcements, Hammond used this as proof of the resilience of the UK economy. For 2017, growth was forecast at 2% up from 1.4% and borrowing down from £59bn to £51.7bn.

Business Rates

Following immense political pressure from his own party, the Chancellor delivered £435m of relief to help businesses facing major rises in their business rates.

Self-employment

Hammond stressed he wanted a tax system which treated the employed and self-employed in the same way and as such he would be looking to raise the NICs of some self-employed people. The main rate of Class 4 NICs for self-employed people will increase from 9% to 10% in April 2018, and to 11% in April 2019.

Social Care

In response to cross-party calls, Government announced it would be increasing the social care budget by providing an additional £2 billion to councils in England over the next 3 years to spend on adult social care services, with £1 billion of this provided in 2017-18.

Skills

The Budget, like the Industrial and Digital Strategies before it, put a major focus on skills training. Government will introduce T-levels which will increase the programme hours of technical skills training and include industry work placements, Government views these T-levels as creating parity between technical and academic learning.



Technology

Tech featured widely in today's Budget, although not particularly prominently in the Chancellor's speech. Much of what was revealed today merely set out further details on announcements made in the Autumn Statement. However, notably the Government has today published its 5G strategy separately to the Budget. The following key statements were made related to digital infrastructure, with many of these using the £740m of funding (by 2020-21) that was as part of the National Productivity Investment Fund (NPIF):

- The Government's 5G strategy has been published, this included a new National 5G Innovation Network to trial and demonstrate 5G applications. The first phase of this will see £16m invested in setting up a 5G hub to run trials of the technology and the Government's response to the National Infrastructure Commission's report and recommendations on 5G. This includes plans for the development of commercial options to improve coverage on roads and rail.
- Beginning in 2017, Government will invest £200m to fund a programme of local projects to test ways to accelerate market delivery of new full-fibre broadband networks. This will combine full-fibre broadband connection vouchers for businesses, 'directly connecting public sector buildings' (including schools and hospitals), and 'opening up public sector assets, such as existing ducts, to allow fibre to be laid more cheaply'.

Other announcements included:

- Actions to introduce UK VAT on telecoms roaming charges to calls made outside the EU. Estimated to bring in £305m in revenue between 2017 and 2022.
- A new Industrial Strategy Challenge Fund (ICSF) – This will 'support collaborations between business and the UK's science base'. An initial investment of £270m will be made in 2017-18 to kick-start the development of disruptive technologies. The first wave of challenges funded will include the development of: batteries to power the next generation of electric vehicles; artificial intelligence and robotics systems; and new medicine manufacturing technologies.
- Talent funding – The NPIF will provide £90m of funding for an additional 1,000 PhD places (around 85% of these will be in STEM disciplines).
- There will be a consultation on taxing the digital part of the economy before the next revaluation.



Transport

Whilst certainly not the focus of the Budget, policy measures around transport still featured fairly heavily.

The key announcements were:

- The initial investment of £270 million from the Industrial Strategy Challenge Fund will invest in the design of batteries to power next generation electric vehicles.
- £690 million more of National Productivity Investment Fund (NPIF) will be allocated to local authorities for local transport schemes with a further £490 million made available by early autumn 2017.
- £220 million of NPIF investment for pinch points on the strategic road network with details of individual schemes to be announced by the Department for Transport shortly.

Specifically on transport taxes, the Budget announced:

- An Retail Prices Index (RPI) increase in Vehicle Excise Duty for cars, vans and motorcycles registered before April 2017;
- A freeze in HGV Vehicle Excise Duty and Road User Levy rates from 1 April 2017 with a consultation on updating the existing HGV Road User Levy to be issued this Spring.
- A forthcoming call for evidence on the use of red diesel.
- Air Passenger Duty rates for 2018-19 will be updated in line with RPI with rates for 2019-20 to be set at the Autumn Budget.



Energy and Environment

Today's budget was light on energy however there was some focus on developing cutting-edge tech.

The key announcements were:

- The initial investment of £270 million from the Industrial Strategy Challenge Fund will invest in next generation electric vehicles and developing cutting-edge AI and robotics systems that will operate in extreme and hazardous environments including off-shore energy, nuclear energy, space and deep mining.
- The Government will consult on a detailed plan in the spring to improve air quality alongside detailed consideration of the appropriate tax treatment of diesel vehicles.
- Starting in 2021-22, the government will target a total carbon price and set the specific tax rate at a later date with further prices for the 2020s to be set out in the Autumn Budget;
- The existing Levy Control Framework will be replaced by a new set of controls with plans to be set out later in the year;
- The Government would publish a formal discussion paper on the case for allowing transfers of tax history between buyers and sellers of late-life oil and gas assets – a review will report at the Autumn Budget;
- The Aggregates Levy rate for 2017-18 will be frozen at £2 per tonne;
- The value of the Landfill Communities Fund (LCF) for 2017-18 will remain unchanged at £39.3 million. The cap on contributions by landfill operators will be increased to 5.3%. The Government will consult on extending the scope of Landfill Tax to illegal disposals of waste made without the required permit or licence.
- The Government will legislate to set new statutory packaging recycling targets for 2018-2020 (to ensure compliance with the Packaging Directive). By 2020, the Government will increase recycling targets for paper to 75.0%, aluminium to 64.0%, steel to 85.0% and for wood packaging to 48.0%. Meanwhile, targets for overall packaging recycling will increase to 75.4% and for recovery to 82% by 2020.



Health

Health, particularly funding for social care, took centre stage during Hammond's speech with the Government taking significant action in an attempt to help ease the increasing pressures on the health and social care systems.

The key announcements were:

- An extra £2bn of social care funding will be provided to councils in England between 2017-18 and 2019-20 – £1bn will be provided in 2017-18.
- The Government is 'committed to establishing a fair and more sustainable basis for adult social care' and will set out proposals in a green paper 'to put the system on a more secure and sustainable long term footing'.
- £100m of additional funding will be provided to NHS England in 2017-18 for investment in A&E departments.
- Government will invest £325m over the next three years to support local proposals for capital investment in Sustainability and Transformation Plans (STPs). A further round of local STP proposals will be considered in the autumn.
- The first wave of challenges funded as part of the Industrial Strategy Challenge Fund includes 'accelerating patient access to new drugs and treatments through developing brand new medicine manufacturing technologies'.

Contact

For further information on the 2017 Budget, or if you'd like to discuss your current plans for this Parliament and ways in which Political Intelligence could support your organisation in your public affairs activity, please get in touch:

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