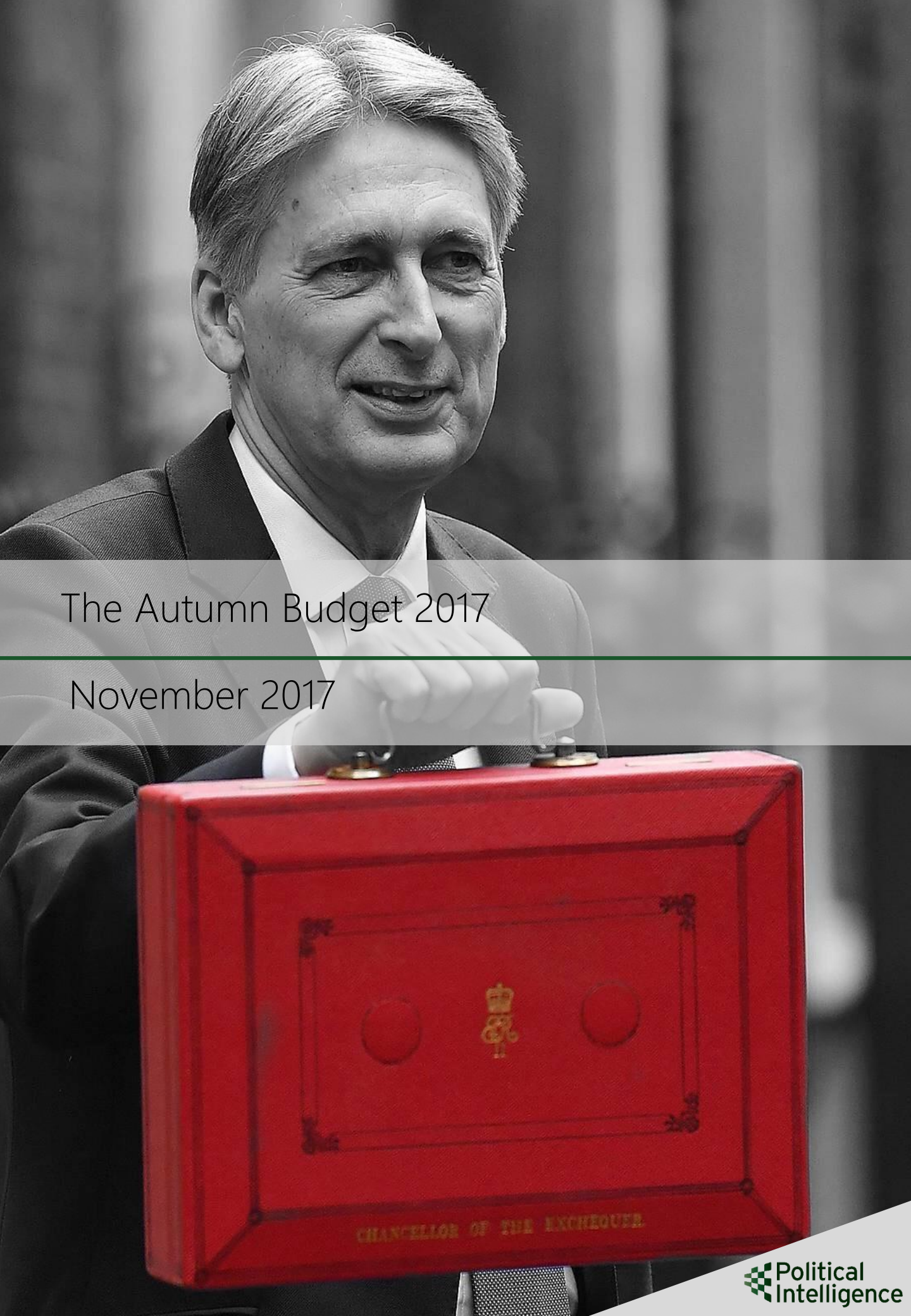
The Autumn Budget 2017

November 2017



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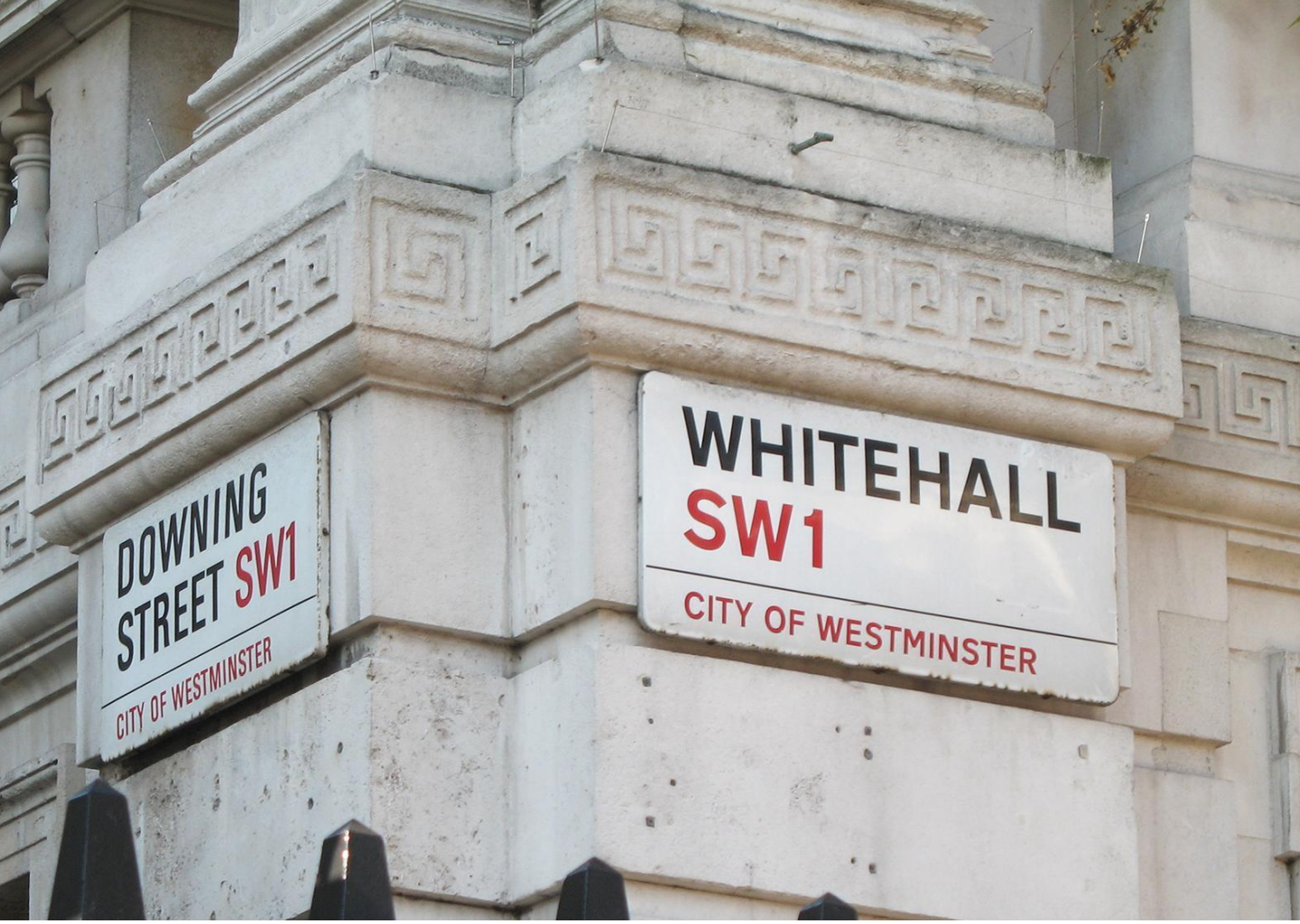

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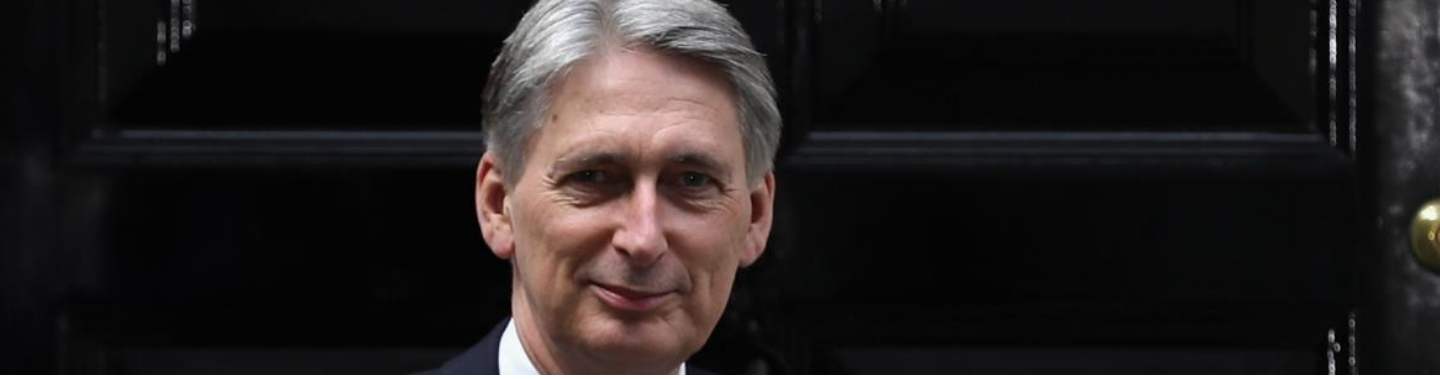


Overview

Today, the Chancellor of the Exchequer delivered his Autumn Budget. Despite the numerous downgrades to economic forecasts, he set out a positive vision for the UK economy and outlined the Government's resolve to "look forwards, not backwards".

Philip Hammond, ironically nicknamed 'Box office Phil' for his perceived caution and prudence, sought to manage expectations indicating that the Government would not be departing away from a "balanced approach" to government spending.

Nevertheless, the Budget announced several measures to reduce the cost of living – most notably the decision to scrap stamp duty for first-time buyers on properties worth up to £300,000 (this year's 'rabbit out of the hat' moment) - and invest in upcoming technologies and industries to boost growth. There was, consequently, very little mention of Brexit beyond the Chancellor's decision to set aside £3 billion for Brexit preparations over the next two years.

Despite the economy showing resilience since the referendum result, the economic picture appears challenging. GDP growth, productivity growth and business investment forecasts were all downgraded for the next few years. To that end, several measures were announced to address the UK's ongoing productivity problem which in the Chancellor's words remains "stubbornly flat".

Notwithstanding continued murmurings of difficulties between Hammond and May, he still managed to crack some jokes – including a nod to Theresa May's ill-fated Conference speech with the Prime Minister handing Hammond a packet of cough sweets, to MPs' delight.

Whilst this was not a 'box office' Budget, it will be remembered for policies which sought to address the concerns highlighted at the election and by Tory backbenchers – with notable measures to resolve the housing crisis, measures on universal credit and more cash to the NHS.

It now falls to the Prime Minister to further outline the vision of Britain post-Brexit through the publication of the Industrial Strategy White Paper on Monday.

Headline Announcements

Economic Forecasts and Spending

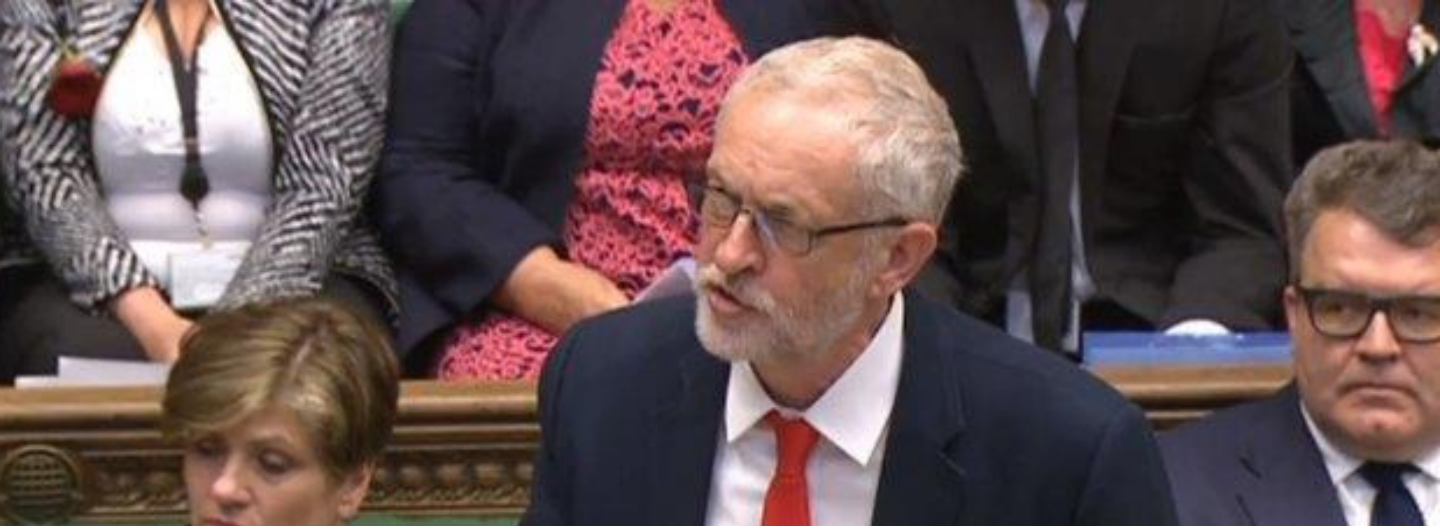
- The OBR has revised down its forecast for GDP to 1.4% in 2018, 1.3% 2019, 1.3% 2020 and rising again to 1.5% in 2021 and to 1.6% 2022.
- Borrowing is £8.4bn lower than forecast in March, at £49.9bn.
- The OBR expects the Government will meet its 2% structural deficit rule for 2020-21 two years before target, in 2018-19.
- Debt is forecast to peak at 86.5% of GDP in 2017-18 but is then forecast to fall to 86.4% next year. It will continue to fall every year thereafter, reaching 79.1% in 2022-23.
- £3 billion allocated to ensure that the Government can continue to prepare effectively for Brexit.

Pay and Taxation

- The Living wage will increase 4.4%, from £7.83 to £7.50 from April 2018.
- The lower rate personal income tax allowance will be raised to £11,850 in April 2018 while the higher rate threshold is to rise to £46,350.
- The fuel duty rise for petrol and diesel cars was frozen for an eighth year.
- Duty on beer, wine spirits and most ciders will be frozen but duty on high-strength 'white ciders' is to be increased.
- Universal credit: £1.5bn has been committed to removing the seven-day waiting period so that entitlement to Universal Credit starts on the first day of application.
- VAT threshold for small business to remain at £85,000 for two years

Housing

- Stamp duty will be abolished for all first-time buyer purchases up to £300,000, and purchases up to £500,000 will see no duty on the first £300,000.
- £44bn of capital funding help build 300,000 homes annually by 2020.
- An increased council tax premium of 100% will be introduced on empty properties.
- £34m will be spent on developing skills within the construction industry.
- Government will set up a review panel, chaired by Sir Oliver Letwin, to explain the gap between housing completions and the amount of land allocated and make recommendations for closing it.



The Opposition Response

The task of responding to the Budget is traditionally one of the greatest set-piece challenges for the Leader of the Opposition and Jeremy Corbyn decided to lead with a theme of the Government stealing Labour's policies. He added that 'as socialists, we are happy to share' and highlighted the abolition of stamp duty for first time purchases under £300,000 as taken from Labour's June manifesto.

Corbyn wisely spent much of his response highlighting the OBR's downward revisions to forecasts and the growing challenges facing the UK economy. He pithily described the Government as having 'a record of failure with a forecast of more'. The Labour leader then returned to his usual recent criticisms of Government – stating that they make allowances for the super-rich elite, whilst the real pain is being felt by the poorest 10%. He continued to criticise the Government's actions both in the run-up and response to the Grenfell Tower tragedy.

In terms of the delivery of his response, Corbyn adopted a passionate – and at times shouty – style, with particular vigour reserved for his criticism of the Government's inaction on the issue of social care funding. However, his response was relatively well-delivered and there was no repeat of Ed Balls' red-faced and calamitous shouting response to the 2013 Autumn Statement. In summary, the Labour leader can be fairly pleased with his response and the avoidance of any gaffes or mishaps that could have attracted unwanted attention.

Tech

Tech featured widely in today's Budget, with a special focus on new and emerging technologies such as AI and autonomous vehicles, as well as skills. An initial step towards tougher treatment of digital giants registered overseas for tax purposes was made, though with the acknowledgement that "it doesn't solve the problem".

R&D and Artificial Intelligence

- The National Productivity Investment Fund will receive a further £2.3bn of investment in R&D.
- The Government will seek to change the regulatory framework to encourage R&D in driverless cars, including rules on testing without a human safety operator.
- The Government will invest £75m to take forward recommendations from the independent review on AI including the facilitation of data access through 'data trusts' and will create a new Centre for Data Ethics and Innovation to allow and encourage growth in AI and data driven technologies in a safe and ethical way.
- A Regulators' Pioneer Fund will be created with £10m invested to help regulators develop more innovative approaches to "unlock the potential of emerging technologies".

Skills

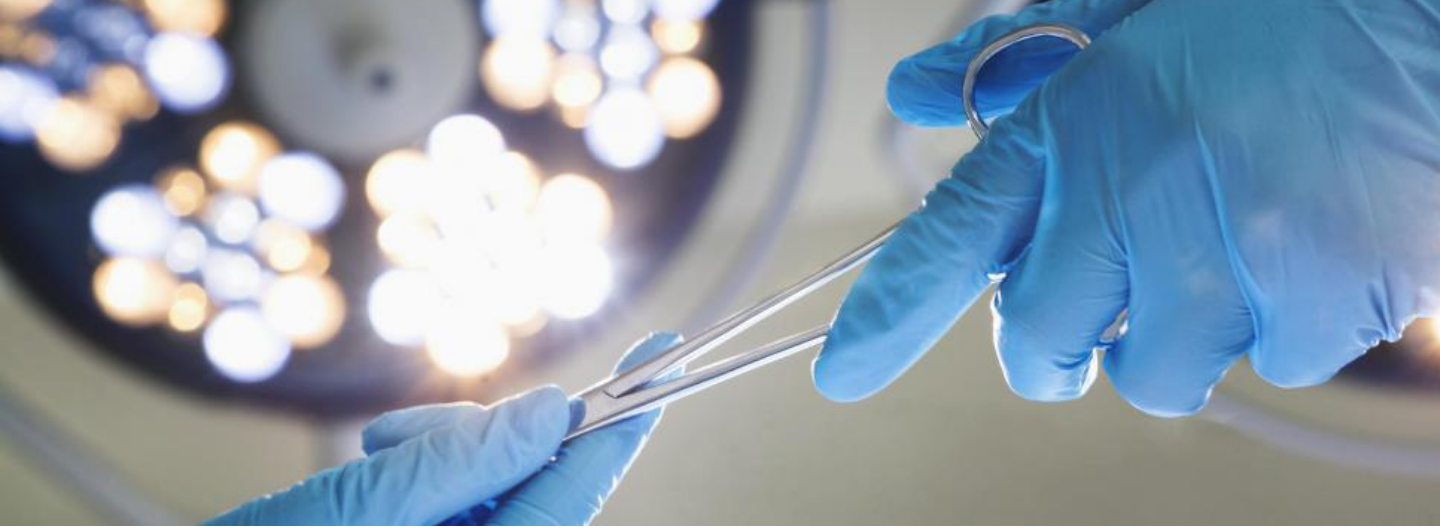
- A National Retraining Scheme will be launched by Government working with the CBI and TUC to ensure that skills remain up to date. This is alongside £20m for further education colleges to prepare for T-Levels and £30m for distance learning courses in digital skills as part of the £406m announced for maths and technical education.

Digital infrastructure

- As part of the Local Full Fibre Networks programme the LFFN Challenge Fund has been launched to stimulate commercial investment in full fibre networks by improving the viability for suppliers to deploy gigabit capable infrastructure, for example by improving the business case for the market.
- Government will shortly consult on commercial options to improve mobile communications for rail passengers and will invest up to £35m for trials including trackside infrastructure along the Trans-Pennine route.

Tax

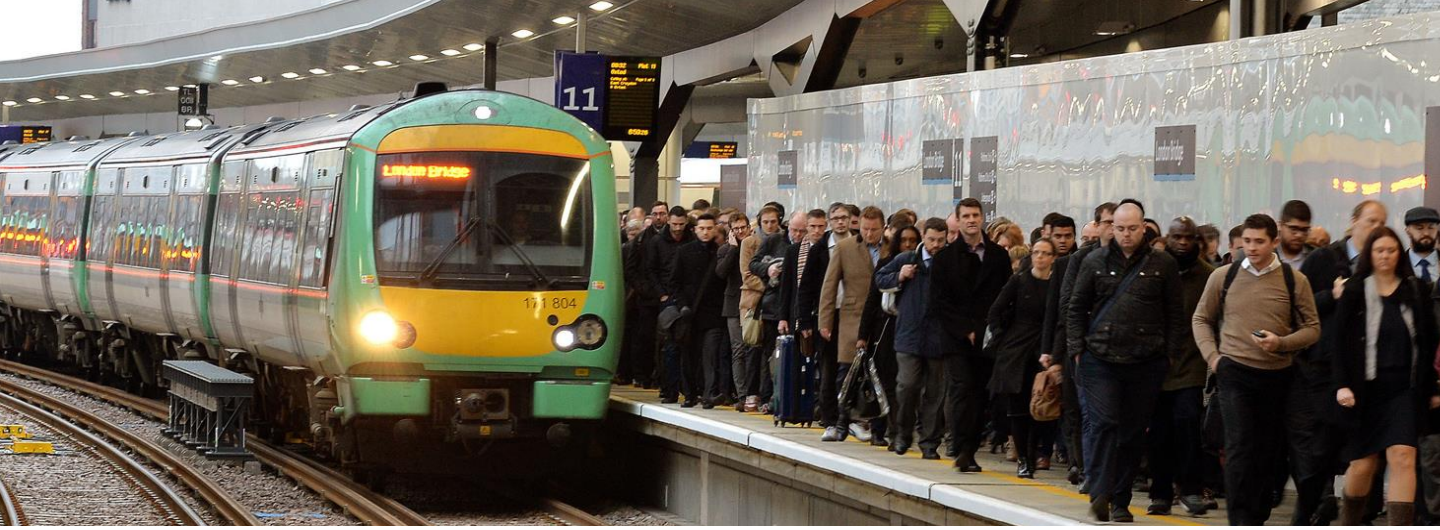
- Income tax will be applied to the royalties on UK sales of digital businesses when they are paid to low tax jurisdictions, raising £200m a year. In an attempt to better tax multinational corporations in the country where they generate value, the Government will also push for reforms to the international tax framework in the long term, as put forward in an accompanying policy paper.



Health

Announcements on public health and the NHS were thin in the Autumn Budget. The Chancellor did, however, announce plans for future funding, pledged what he called an 'exceptional commitment' of £6.3 billion in additional funding for the NHS in England:

- £2.8bn of additional funding will be given to the NHS to cope with current pressures, including concerns around a winter crisis. Of this funding, £335m will be made available immediately, with £1.6 being given in 2018/2019 and £900m will be provided in 2019-2020.
- The funding will be used to help the NHS meet its performance targets on A&E waiting times and improve efficiency and productivity.
- £3.5bn will be invested in upgrading NHS buildings and improving care. This is to allow the NHS to increase the proceeds from selling surplus NHS land and buildings.
- As part of the £3.5bn, £200m to support efficiency programmes to help reduce NHS pending on energy and fund technology that allow more time and resources to go towards patient care.
- In addition, the Budget announced a commitment to funding a pay rise for NHS nursing staff. The Chancellor did note that any pay deal would be on the condition that pay enables improved productivity and only if negotiations on wider NHS pay reform are successfully determined. He stated that any wage increase will therefore be recommended in 'due course'.
- Funding for any potential increase in pay for NHS staff will not come out of the existing NHS budget, with the Chancellor stating that he would 'provide additional funding for such a settlement.'
- In December, a green paper will be published setting out the Government's plans to transform mental health services for children and young people.



Transport

Spending on transport infrastructure featured prominently as part of the Government's plan for addressing the UK productivity gap. The announcement of the increase in the National Productivity Investment Fund spending included a new £1.7 billion 'transforming cities' fund to 'improve connectivity and support jobs across England's great city regions'.

In summary, the key transport announcements were:

- A £400m electric vehicle charging fund.
- £100m investment in the Plug-In-Car Grant to ensure its continuation until 2020 and £40m in charging research and development.
- The National Productivity Investment Fund to run for a year further and be expanded to over £31bn.
- Clarification of the law to ensure that people can park electric vehicles at work without facing a benefit in kind charge.
- From April 2018, the first year Vehicle Excise Duty rate for diesel cars that don't meet the latest standards will go up by one band.
- £30m of funding to improve digital connectivity on the Trans-Pennine route.
- A freeze on short-haul Air Passenger Duty (APD), and long-haul APD for economy passengers. The cost of this will be covered by an increase in taxes for private jets.
- The introduction of a new railcard for those aged 26 to 30 to be implemented in Spring 2018.
- Fuel duty frozen for eighth year in a row.
- An additional £45 million for in 2017-18 to tackle around 900,000 potholes across England.
- The announcement of a new National Infrastructure Commission study on freight.
- The investment of £84 million for 'state-of-the-art in-cab digital signalling across a range of trains', £5 million from NPIF on development funding for digital railway upgrade on South East and East London lines, and the creation of a new digital signalling scheme at Moorgate.

Energy

There was very little focus on energy in the Budget. The limited number of the announcements in this area pertained to energy taxes, with particular focus on the oil and gas industry. The awaited announcement from the Government that, come November 2018, it will be possible to transfer the tax history for oil and gas fields in the North Sea, will be welcomed by those in the industry who have been pushing for this. This decision is thought to save the Treasury £10 million on each field which is sold.

The key announcements were:

Transferable tax history for oil and gas – From the 1st November 2018 the Government will introduce transferable tax history for transfers of oil and gas fields in the North Sea.

Sustainable investment in energy – In order to keep energy costs low and protect consumers, the Government will not introduce new low carbon electricity levies until 2025.

Climate Change Levy (CCL) - To ensure that following Brexit, the CCL exemptions for businesses that operate mineralogical and metallurgical processes remain, the government will look at the definition of the exemptions in the Finance Bill 2018-19.

First Year Tax Credits – The government will extend this scheme until the end of the Parliament. This will allow companies making a loss to invest in energy-efficient technology.

Total Carbon Price – The Government believes that this is set at the right level and will continue to focus on a similar total carbon price until unabated coal is no longer used.