

Political Intelligence's top takeaways

# Autumn Budget 2018

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*Photo: Reuters*

# Overview

Following the Prime Minister's indication at the Conservative Party Conference earlier this month that an end to an austerity was in sight, a clear challenge was set for the Chancellor of spending more whilst still controlling the Government's £1.8 trillion debts. Indeed, despite speculation that Hammond was not similarly committed to this mantra, the clear theme of the set piece was "austerity is coming to an end, but discipline will remain".

With his hands tied by the ongoing uncertainty of the Brexit negotiations and the Government's lack of a majority, Hammond's Budget today was never expected to be a radical one. Hammond himself even commented on his inability to pull 'rabbits out of the hat' and acknowledged the increased NHS funding as a 'star bunny' that had 'escaped early'. However, the announcement that public borrowing was £11.6bn lower than had been forecast in March did enable Hammond to avoid big tax rises whilst also sprinkling extra spending commitments across many Government departments. Notable announcements included an extra £1 billion on defence across 2018-19 and 2019-20; £2.7 billion on universal credit over five years; and £400 million for schools this year.

The most headline-grabbing announcements will no doubt be the move to bring forward the increase in the personal allowance and the raising of the higher rate income tax threshold by a year (now effective from April 2019) and the introduction of a digital services tax on the UK revenues of big tech companies such as Amazon, Google and Facebook.

Meanwhile, one notable omission was Brexit – an interesting decision given, as Hammond has acknowledged, his economic plan will have to be redrawn in the event of no deal being reached by the UK's withdrawal date of 29<sup>th</sup> March 2019.



# Headline Announcements

## The economy

- The Chancellor announced that the Office of Budget Responsibility revised up its forecast for cumulative growth compared with the Spring Statement 2018. Next year's growth forecast was upgraded from 1.3% to 1.6%.
- The economy is forecast to grow by 1.4% (2020), 1.4% (2021), 1.5% (2022) and 1.6% (2023) in the four years that follow.

## Public finances

- The public finances have performed better than predicted. Compared with the Spring Statement 2018 forecast, public sector for 2018-19 is expected to be £11.6 billion lower.
- Borrowing is expected to fall in subsequent years to £31.8 billion (2019-20), £26.7 billion (2020-21), £23.8 billion (2021-22) and £20.8 billion (2022-23).

## The Chancellor also announced:

- An additional £500 million for Brexit preparations.
- An extra £1 billion to help welfare claimants transfer to Universal Credit as well as an increase to the 'work allowance' component.
- An increase in spending on mental health services in England by at least £2 billion a year.
- An extra £1 billion for the Ministry of Defence to boost cyber capability and anti-submarine warfare capacity.
- An end to the use of Private Finance Initiative contracts.
- That stamp duty would be abolished for all first-time buyers of shared ownership properties valued up to £500,000.
- That the personal allowance will rise, a year earlier than planned, from £11,800 to £12,500 in April 2019.
- A new digital services tax on the UK revenues of global technology companies with sales of more than £500 million from April 2020.



# Tech

With the exception of the introduction of a digital services tax, announcements in tech did not feature as widely as previous years. The following announcements were made by the Chancellor:

- Citing the importance of a tax system that adapts to changes in the new economy, Hammond introduced a 2% digital services tax on the revenues of social media, search engines and online marketplaces, reflecting the value they derive from UK users. He was clear that the tax would not affect SMEs, as the tax is applicable to companies generating a global revenue of over £500m a year.
- The tax will come into effect in April 2020 and is expected to raise £400m a year.
- £1.6bn of additional funding was announced to support the Industrial Strategy, to secure the UK's position as a world leader in technologies such as artificial intelligence (AI), nuclear fusion and quantum computing.
- £200m was announced from the National Productivity Infrastructure Fund for the improvement of rural broadband, and consultations aiming to reduce barriers to broadband roll out have been published relating to wayleaves and connectivity for new builds.
- On the issue of online VAT collection, the Government is publishing a response to the 2018 consultation on cross-border e-commerce and is now considering a 'split payment model' of VAT collection. An industry working group will be established to address challenges associated with this policy.

# Health

The Chancellor bemoaned the lack of a ‘rabbit out hat’ moment during this year’s Budget, adding that “some of my star bunnies appear to have escaped a bit early” in reference to the £20.5bn real-terms increase in NHS funding for 2023-24 that was announced in June. He did however, use the Budget to give further details on how this spending would be allocated, along with a number of new funding announcements:

- The Chancellor reiterated that the Government has set financial tests for the NHS to meet in producing their long-term plan, to ensure the funding is spent wisely. This includes achieving cash-releasing productivity growth and reducing variation across the system.
- Funding for mental health services will grow as a share of the overall NHS budget, with mental health spending increasing by more than £2 billion a year by 2023-24. This will go towards funding a 24/7 support hotline, more community services and more mental health specialist ambulances.
- Mental health for children and young people will be prioritised, with crisis teams in every part of the country as well as school-based mental health support teams.
- £10 million of capital funding will go towards air ambulance services in England.
- As announced earlier this month, £240 million in 2018-19, and a further £240 million in 2019-20, will go towards adult social care. The Chancellor announced a further £410 million in 2019-20 for adults and children’s social care – local councils are expected to use this funding to avoid placing additional demand on the NHS.

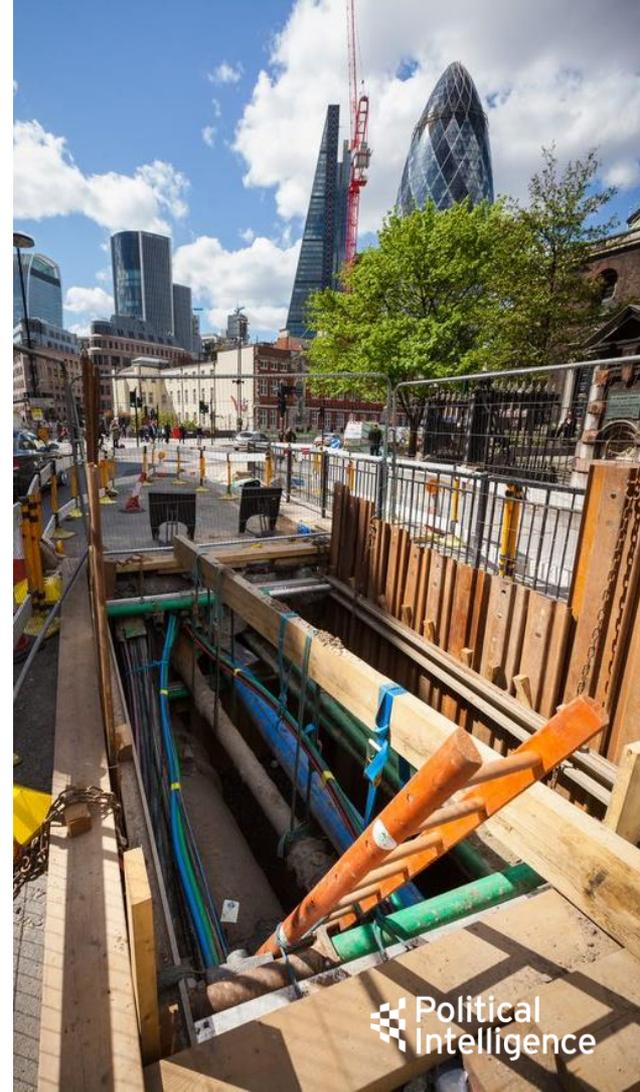


# Energy

Announcements on energy in the Budget were limited and were predominantly focused on technological development, particularly around green energy, and strengthening the UK's decommissioning industry.

The key announcements were:

- **Industrial Energy Transformation Fund** – A £315m Industrial Energy Transformation Fund will be established to support businesses with high energy use to transition to low carbon energy.
- **Enhanced Capital Allowances (ECAs)** – ECAs and First Year Tax Credits for energy and water efficient plant and machinery will end in April 2020. ECA will also be extended for companies investing in electric vehicle charging points.
- **Improving business energy efficiency** – A consultation on the implementation of a new Business Energy Efficiency Scheme will be launched.
- **Nuclear fusion** – An additional £20 million will be made available in 2019-20 for the UK Atomic Energy Agency to fund work on fusion technologies.
- **Strengthening the UK's offshore decommissioning industry** – The rules on decommissioning will be simplified to make the process of selling older fields to new investors more straightforward. A consultation on strengthening the UK's decommissioning industry will also be launched.
- **Carbon price support (CPS)** – From 2021-22, the Government will reduce the CPS rate, if the Total Carbon Price remains high. In the event of 'No-Deal', a Carbon Emissions Tax will be introduced to help meet the UK's commitments under the Climate Change Act.
- **Climate change levy (CCL)** –The CCL electricity rate will be lowered in 2020-21 and 2021-22, whilst the gas rate will increase. Other fuels will continue to align with the gas rate.
- **Oil and gas fiscal regime** – Headline tax rates will be maintained at their current level.

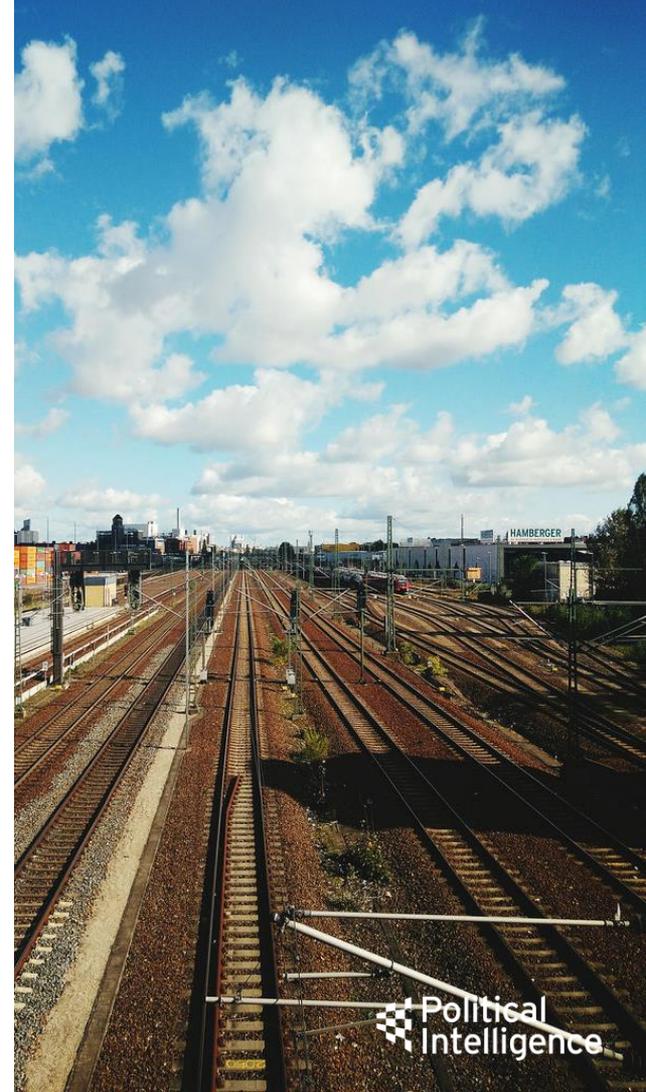


# Transport

Funding for the UK's transport infrastructure saw significant increases in this year's Budget, with the area featuring prominently in the Chancellor's statement.

In summary, the key transport announcements were:

- £30 billion to improve roads, paid for through road taxes. £25.3 billion of which spent on the UK's Strategic Roads Network (motorways, trunk and A roads).
- £420 million set aside for local authorities to repair damaged roads, fill potholes and make bridges safe. Additional £150 million for small improvements such as roundabouts.
- £1.6 billion extra to support modern industrial strategy leading to a 30% growth in infrastructure spending for roads, railways, research and digital infrastructure.
- E-passport gates, currently used by EEA citizens, opened to those from the USA, Canada, New Zealand, Australia and Japan.
- Fuel duty frozen for the ninth year in a row.
- £37 million extra for Northern Powerhouse Rail, with an additional £20 million for the development of a plan to connect Cambridge and Bedford by rail.
- Short-haul Air Passenger Duty (APD) will not rise in 2020-21, whilst long-haul APD will increase in line with inflation. Long-haul economy will rise by £2, business and first class by £4 and those travelling by private jet by £13.
- Working group established to consider APD devolution.
- £770 million to improve city transport infrastructure, including £240 million for six metro mayors transport investment programmes.
- £90 million extra to trial smart transport including on-demand buses as part of larger £2.4 billion transforming cities fund.



About us

# Political Intelligence

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For further information on the 2018 Budget, or if you would like to discuss your current plans for this Parliament and the ways in which Political Intelligence could support your organisation's public affairs activity, please get in touch:

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