



Era of austerity coming to an end?

Autumn Budget 2018

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Overview and analysis

Chancellor Philip Hammond's third Budget was the first to be delivered on a Monday since 1962 and the last before the UK leaves the EU in March 2019, and comes during an impasse in the negotiations between the UK and the EU27.

The uncertainty of Brexit was a major factor in this Budget and the Chancellor confirmed, that if required, next year's Spring Statement could be converted into a full "fiscal event" and added that he would increase funding to departments for Brexit preparations to £2bn for 2019-20.

Amid the current political and economic uncertainty, Mr Hammond had some positive news from the Office of Budget Responsibility (OBR) that growth going forward would be "resilient", improving next year from the 1.3% forecast in the Spring Statement to 1.6%. In 2020, he confirmed that he expects 1.4%, 1.5% in 2021 and 2022 and 1.6% in 2023. He added that Government borrowing this year would be £11.6bn lower than forecast at the Spring Statement. It is then set to fall from £31.8bn in 2019/20 to £26.7bn in 2020-21, £23.8bn in 2021/22, £20.8bn in 2022/23 and £19.8bn in 2023-24 - its lowest level in more than 20 years. Mr Hammond further confirmed that national debt peaked in 2016/17 at 85.2% of GDP and would then fall in every year of the forecast from 83.7% this year; to 74.1% in 23-24.

Such an upgrade to the public finances and the better than expected state of the UK's deficit allowed the Chancellor to back the Prime Minister's Conservative Party Conference pledge to end "austerity" and present a Budget that included commitments to raise the personal allowance tax threshold a year early; increase funding in the NHS and defence; inject £1 billion for Universal Credit transition; abolish PFI, and introduce a new Digital Services Tax from 2020. Perhaps the most notable announcement related to the forthcoming 2019 Spending Review that confirmed the Chancellor's intention to increase departmental spending during the five-year period from 2020.

Mr Hammond declared, "austerity is coming to an end but discipline will remain" as he sought to set out some dividing lines with Labour's "tax and spend" policy suite. However, his real objective was to not create any additional difficulties for the Government as it (1) struggles to finalise a Brexit deal with the EU27 and (2) secure and consolidate support amongst its backbenchers and from the DUP to prevent a vote against the Budget and a possible no confidence vote.

Much will depend on whether the Prime Minister is able to deliver a positive exit agreement with the EU27 and the Chancellor confirmed that he was holding back some "fiscal" headroom in case he needed to alter his economic plan if Britain leaves the EU without a deal.

Major decisions on public spending will only be made once an orderly Brexit deal has been agreed, and if the UK fails to secure a deal with the EU then a different approach on the future of the UK's economy will need to be developed, including a possible full "fiscal event" at next year's Spring Statement to set a new economic strategy following a disorderly Brexit.

Headline announcements

NHS, social care and PFI

The centerpiece of the Budget Statement was the announcement of an additional £20.5bn increase for the NHS over the next five years and confirmation that the Government plans to abolish the use of the Private Finance Initiative (PFI) for future projects. Mr Hammond commented that there was compelling evidence that PFI did not deliver value for taxpayers or genuinely transfer risk to the private sector. He also confirmed that the Government would shortly publish a Green Paper on the future of Social Care.

Universal Credit

The Chancellor confirmed the Government's intention to progress the Universal Credit reforms and announced an injection of £1bn into Universal Credit transition over five years; and £1.7bn increase in Universal Credit payments, designed to reduce hardship from such a huge reconstruction and simplification of the benefits system.

Plastic packaging tax

Mr Hammond outlined a new tax on the manufacture and import of plastic packaging that contained less than 30% recycled plastic. The Government will consult on the detail and implementation timetable. Mr Hammond added that he has no plans to introduce a levy on disposable plastic cups and stated, "I have concluded that a tax in isolation would not, at this point, deliver a decisive shift from disposable to reusable cups across all beverage types."

Digital Services Tax

Perhaps the most interesting taxation policy announcement focused on large digital companies that do significant business in the UK but pay very little corporation tax. Commenting that the current situation highlighted a flaw in the international taxation system, Mr Hammond confirmed that the UK would bring forward a new Digital Services Tax. He added that it would only be paid by profitable firms that have at least £500m a year in global revenues and that there would be a consultation first before the tax comes into effect in April 2020.

Personal Allowance Tax Threshold

Mr Hammond confirmed that he would raise the

personal allowance tax threshold a year early. From April next year, the personal allowance will be £12,500 and the Higher Rate Threshold will be £50,000. The personal allowance currently stands at £11,850, with the Higher Rate Threshold £46,350.

National Roads Fund

The Chancellor confirmed a commitment to hypothecate English Vehicle Excise Duty to roads spending, announcing that the National Roads Fund will be £28.8 billion between 2020-25. The Fund will provide long-term certainty for roads investment, including the new major roads network and large local major roads schemes, such as the North Devon Link Road.

The Budget also announced the draft Roads Investment Strategy 2. This is the largest ever investment in England's strategic roads and will enable the government to progress transformative projects including the A66 Trans-Pennine, the Oxford-Cambridge Expressway, and the Lower Thames Crossing. The Government expects to spend £25.3bn on this strategy, funded by the National Roads Fund, between 2020-25.

Local authorities will receive £420m to fix potholes on roads and renew bridges and tunnels, and there will be a £150m fund to improve local traffic hotspots such as roundabouts.

Rejuvenating high streets

Mr Hammond also announced a package of measures to rejuvenate high streets including reducing business rates by a third for all retailers in England with a rateable value of £51,000 or less. He explained that the new proposals would mean an annual saving of "up to £8,000 for up to 90% of all independent shops, pubs, restaurants and cafes". The Chancellor also announced £675m of co-funding to create a "Future High Streets Fund" to support councils to draw up plans for the transformation of their High Streets. He commented, "this will allow them to invest in the improvements they need and to facilitate redevelopment of under-used retail and commercial areas into residential.

Budget 2018 Red Book Announcements

Public Finances

OBR forecasts:

- Growth has been forecast up to 1.6% in 2019, 1.4% in 2020/21, 1.5% in 2022, 1.6% 2023.
- The unemployment rate is at its lowest for over 40 years, there are over 3.3 million more people in work since 2010 and the OBR forecasts 800,000 more jobs by 2022. Forecasting sustained real wage growth in the next four years.
- Since 2009-2010 the deficit has fallen by four-fifths, from 9.9% to 1.9%.
- Public debt peaked in 2016-17 and is now falling. On average, spending on public services will grow 1.2% above inflation a year from next year until 2023-24.

The Chancellor confirmed that there would be a full Spending Review in 2019, departmental spending allocations will be finalised at this Spending Review.

Health and Social Care

NHS:

- The Government will increase the NHS budget by £20.5bn after inflation by 2023-24
- Mental health funding – £2bn-a-year real terms funding boost for NHS mental health services by 2023. This includes a new mental health crisis service, including comprehensive mental health service in A&E and a 24hr mental health crisis hotline. Children and young people's crisis teams will be available in all parts of the country.
- Support for air ambulance trusts – The Government is making available £10m of capital funding in England to back them in this work.

Social care:

- Additional social care funding – In the short term, the Budget provides an additional £240m in 2018-19 and £240m in 2019-20 for adult social care.
- The Budget provides a further £410m in 2019-20 for adults and children's social care. Where necessary, local councils should use this funding to ensure that adult social care pressures do not create additional demand on the NHS.
- The Budget provides councils with an additional £55m in 2018-19 for the Disabled Facilities

Grant to provide home aids and adaptations for disabled children and adults on low incomes.

- Children's social care improvement – The Budget provides £84m over 5 years for up to 20 local authorities, to help more children to stay at home safely with their families.

Taxation

Digital Services Tax:

- From April 2020, the Government will introduce a new 2% tax on the revenues of certain digital businesses.
- This will be narrowly targeted tax on specific digital platform business models including: search engines, social media platforms and online marketplaces.
- It will apply only apply to tech giants, rather than smaller UK start-ups.
- The tax will only apply to businesses that are profitable and make over £500m per year.
- This will come into effect in April 2020 and is expected to raise of £400m per year.

Small businesses tax cut:

- Business rates will be cut by one third for firms with a rateable value of less than £50,000. This will come into effect from April 2018 saving £900m
- Public lavatories will receive 100% business rates relief.

Duties:

- Fuel Duty freeze: The Government will freeze Fuel Duty for the ninth year in a row.
- Tobacco duty to continue to rise with inflation.
- Freezing beer and cider duty for the next year, will also freeze duty on spirits. There will be RPI increases on wine.
- White ciders will be taxed at a higher rate.
- Online games of chance will increase to 21%.
- Short-haul rates of Air Passenger Duty will not rise.
- 26-30 railcard will be introduced next year.

Personal Allowance and Higher Rate Threshold:

- The Personal Allowance – the amount you earn before you have to start paying income tax– will increase by a further £650 in April 2019 to £12,500
- The amount people will have to earn before

they pay tax at 40% will increase from £46,350 to £50,000 in April 2019.

Additional taxation announcements:

- The Government will increase the Annual Investment Allowance to £1m, to support business investment.
- Off-payroll working rules – known as IR35 – will be extended to the private sector, but these changes will be delayed until April 2020, and only apply to large and medium-sized businesses.
- Entrepreneurs relief – To support longer-term business investments, from 6 April 2019 the minimum period throughout which the qualifying conditions for relief must be met will be extended from 12 months to 24 months

Transport

Roads:

- £28.8bn for road network – this includes £25.5bn for Highways England for major road upgrades between 2020 and 2025, which will be largely funded by vehicle excise duty, the first time the tax has been ring fenced for use on the road network.
- An extra £3.5bn of “new money” will be allocated to major roads which fall under the remit of local councils.
- An additional £420m for potholes: Councils in England will get an extra £420m to tackle potholes.
- £150m to improve local traffic hotspots such as roundabouts.

Additional transport announcements:

- Increasing Transforming Cities Fund to £2.4bn - the Transforming Cities Fund will be extended by £680m to support local “sustainable” including new buses, trams and cycling routes.
- Future Mobility Zones – £90m to trial next-generation methods of transport, with the creation of new “future mobility zones” in three city regions. £20m of this will be allocated to the West Midlands
- Northern Powerhouse rail – a further £37m to support the development of Northern Powerhouse Rail, building on £300m already committed to ensure HS2 infrastructure can

accommodate future potential Northern Powerhouse Rail and Midlands Engine Rail services.

- East West Rail – A new East West Rail company has been established to accelerate the delivery of the central railway section between Cambridge and Bedford. The Government is providing a further £20m to develop a strategic outline business case for the railway

Housing and Communities

Stamp Duty:

- The Government will extend first-time buyers relief in England and Northern Ireland so that all qualifying shared ownership property purchasers can benefit.
- This will apply to first time buyers of shared ownership buyers under £500,000

Delivering housing investment:

- A further £500m for housing infrastructure fund, taking the total to £5.5bn to support the building of 650,000 new homes.
- British Business Bank will deliver a new scheme providing guarantees to support up to £1bn of lending to SME housebuilders.
- Providing £653m to 2021-22 for strategic partnerships with nine housing associations to deliver over 13,000 homes.
- £75m from the Home Building Fund for St Modwen plc, to fund infrastructure to build over 13,000 new homes.
- A new five-year strategic business plan for Homes England, to be published on 30 October 2018.

Local authorities:

- The Government will be lifting the borrowing cap to allow local authorities to build more housing.

Support for High Streets / town centres:

- Future High Streets Fund – The Government will launch a new Future High Streets Fund to invest £675m in England to support local areas to develop and fund plans to make their high streets and town centres fit for the future.
- It will include £55m for heritage-based regeneration, restoring historic high streets to boost retail and bring properties back into use as homes, offices and cultural venues.

- High streets planning – Planning rules will be eased to allow home-building on empty sites on the UK's high streets.

Communities:

- Village halls, Miners' Welfare facilities and Armed Forces organisations' facilities – The Government will provide up to £8m to help with the cost of repairs and alterations to village halls, Miners' Welfare facilities and Armed Forces organisations' facilities.
- First World War commemoration – To mark the centenary of the First World War Armistice, the Government will commit £10m to support veterans with mental health needs, and will make available an additional £1 million for First World War battlefield visits for school students.

Welfare

Universal Credit:

- Universal Credit Work Allowance increase – The Budget announces that the amount that households with children, and people with disabilities can earn before their Universal Credit award begins to be withdrawn – the Work Allowance – will be increased by £1,000 from April 2019.
- Extra help for households moving onto Universal Credit – the Budget announces an extensive package of extra support for claimants as they make the transition to Universal Credit worth £1bn over five years.

Business and Industrial Strategy

New Technologies and Innovation:

- Long-term support for research and development – The Budget allocates £1.6bn to strengthen the UK's global leadership in science and innovation.
- Industrial Strategy Challenge Fund – As part of this investment in R&D, the Government will increase the Industrial Strategy Challenge Fund by £1.1bn, supporting technologies of the future, including: IoT technology, virtual reality and electric motor technology.
- Quantum technologies – The Government will invest a further £235m to support the development and commercialisation of

quantum technologies, including up to £70m from the Industrial Strategy Challenge Fund, and £35m to support a new national quantum computing centre.

- Nuclear fusion – The Budget announces an additional £20m in 2019-20 for the UK Atomic Energy Agency to accelerate its ground-breaking work on the development and commercialisation of fusion technologies.
- Catapults – To support entrepreneurs and businesses to access and adopt cutting-edge technologies, the Government is confirming £115m to extend funding for the Digital Catapult, which has centres in the North East, South East and Northern Ireland, and the Medicines Discovery Catapult in Cheshire.

Global Britain:

- Supporting exports – To provide additional fixed rate finance to overseas buyers who choose UK goods and services, UK Export Finance (UKEF) will make a one-off increase to their Direct Lending Facility of up to £2bn over 2020-21 and 2021-22.
- Enhancing the UK border experience – Visitors from the US, Canada, Australia, New Zealand and Japan will be able to use the gates at Heathrow for EEA citizens with smart passports.

Energy

Carbon pricing:

- Carbon price support (CPS) – The Government will freeze the CPS rate at £18/tCO₂ 16 for 2020-21. From 2021-22, the Government will seek to reduce the CPS rate if the Total Carbon Price remains high.
- Carbon pricing following EU exit – In the event no-deal, the Government would introduce a Carbon Emissions Tax to help meet the UK's legally binding carbon reduction commitments under the Climate Change Act

Education and Skills

Schools:

- £400m fund to help schools buy the extras that they need. a one-off capital payment directly to schools – averaging £10,000 per primary school and £50,000 per Secondary School.

- Holocaust commemoration and education fund – The Government will provide a charitable organisation with £1.7m for educational projects in schools to mark the upcoming 75th anniversary of the liberation of the Bergen-Belsen concentration camps.

Apprenticeships:

- The Government will make up to £450m available to enable levy paying employers to transfer up to 25% of their funds to pay for apprenticeship training in their supply chains.
- The Government will provide up to £240m, to halve the co-investment rate for apprenticeship training to 5%.
- The Government will also provide up to £5m to the Institute for Apprenticeships and National Apprenticeship Service in 2019-20, to identify gaps in the training provider market and increase the number of employer-designed apprenticeship standards available to employers

Skills:

- National Retraining Scheme – The Government will work with employers to give workers the opportunity to upskill or retrain. The Budget allocates £100m for the first phase of the National Retraining Scheme (NRS).
- T levels – The Government will provide £38m of capital funding to support implementation of the first three T levels in 2020 across 52 providers.

Brexit

- The Chancellor announced that he is increasing funding to help departments to prepare for Brexit to over £4bn.
- The Government is providing £500m of additional funding for departments to prepare for Brexit for 2019-20. This is on top of the £1.5bn already announced for that year.

Defence & Security

Ministry of Defence:

- Defence spending – The Budget provides an additional £1bn for the Ministry of Defence across 2018-19 and 2019-20.

Police and Criminal Justice:

- Counter-terrorism police funding – The Budget provides an additional £160m in 2019-20 for counter-terrorism policing to ensure that forces across the country are well equipped to work closely with our communities and keep citizens safe.
- Prisons and the wider justice system – The Budget will fund the construction of HM Prison Glen Parva and provides £30m this year to improve security and decency across the prison estate. A further £21.5m will also be invested in the wider justice system.

Environment

Plastic waste:

- Introduce a new tax on manufacture and import of plastic packaging that contains less than 30% recycled plastic.
- Reform the Packaging Producer Responsibility System, which will aim to increase producer responsibility for the costs of their packaging waste, including plastic.

Disposable cups:

- The Government has concluded that a levy on all cups would not at this time be effective in encouraging widespread reuse.
- The Government expects industry to go further and will return to the issue if sufficient progress is not made.
- In the meantime, the Government will look in the Resources and Waste Strategy at the best way to tackle the environmental impact of cups.

Devolved Regions and Local Authorities

Devolved regions:

- over £950m more for the Scottish Government through to 2020-21
- over £550m more for the Welsh Government through to 2020-21
- over £320m more for a Northern Ireland Executive through to 2020-21

Reaction round-up



Labour

Jeremy Corbyn criticised Philip Hammond for delivering a “broken promise Budget” as he insisted austerity needs to end because it has failed.

Leading the response to the Budget, Corbyn also said the proposals announced will “not undo the damage done” by the squeeze on spending. He told the Commons: “The Prime Minister pledged austerity was over - this is a broken promise Budget. What we’ve heard today are half measures and quick fixes while austerity grinds on. And far from people’s hard work and sacrifices having paid off, as the Chancellor claims, this Government has frittered it away in ideological tax cuts to the richest in our society.” He added “The Government claims austerity has worked so now they can end it. That is absolutely the opposite of the truth - austerity needs to end because it has failed.”

Corbyn added, the “precious NHS is a thermometer of the wellbeing of our society”, adding: “But the illness is austerity - cuts to social care, failure to invest in housing and slashing of real social security. It has one inevitable consequence - people’s health has got worse and demands on the National Health Service have increased.”

He also criticised pay levels for public sector workers, adding: “Every public sector worker deserves a decent pay rise, but 60% of teachers are not getting it - neither are the police nor the Government’s own civil service workers.” He added that the economy is being damaged by a “shambolic Brexit.”



SNP

Derek Mackay, the Scottish Government’s Finance Secretary, said:

“According to this Budget, the Scottish Government’s resource block grant from the UK Government – the money we are able to invest in day to day public services - remains almost £2bn lower next year compared with 2010-11. This Budget falls a long way short of delivering for Scotland.

The changes announced to Universal Credit do not go far enough. They are just a drop in the ocean compared to the impact the roll-out of Universal Credit will have. I continue to call for the roll-out of Universal Credit to be halted – and halted straight away.”



Liberal Democrats

Vince Cable, Liberal Democrat Leader, said:

"Philip Hammond tried to strike an upbeat note today, declaring "austerity is over". Cosseted inside Westminster for the afternoon, he hid away from the storm clouds gathering over our economy. In truth, austerity cannot be brought to an end without difficult decisions involving an increase in taxation. Excluding the Government's promises on the NHS, maintaining real spending on public services will require an additional £19bn in extra tax and borrowing. And Brexit itself is making the situation worse.

Today's Budget takes place against a backdrop of falling growth (2.9% in 2014, down to just 1.7% last year, with the UK now among the slowest growing economies in the G7). The long, slow process of deficit reduction has so far failed to decrease overall debt, which is now 85% of GDP. Meanwhile, high personal debt and historically low savings rates place many households at risk. The Conservatives have simply taken their eye off the ball in running a successful economy, while they pursue Brexit at any cost.

In those circumstances, Britain needs our Liberal Democrat alternative, which would steady our economy and put money back in the pockets of ordinary people."



House of Commons
Treasury Committee

Nicky Morgan

Nicky Morgan, Chair of the Treasury Committee, said Britain's economy will be "worse off because of Brexit." She urged ministers to "seriously consider" alternatives to their current plan. She said the UK has the "best possible deal" at the moment and suggested no Brexit agreement will better it."

She also voiced concerns over the forecasts which underpinned Chancellor Philip Hammond's Budget, given the uncertainty over what will happen in the coming months. She told the Commons: "Brexit is the greatest and most imminent source of uncertainty looming over this Budget. It's just stating the obvious to say that the nature of the United Kingdom's withdrawal from the EU could upend the economic forecasts on which this Budget is based."

"Now the OBR is still playing its cards close to its chest, it's still forecasting a relative benign Brexit with a smooth transition and no implications for productivity - which is I'm sure what we all hope for. But it's forecast of continued reductions in public borrowing depend on those benign assumptions becoming a reality."



CBI

Carolyn Fairbairn, CBI Director-General, said:

“This was a rock-solid Budget, bringing more treats than tricks for business.

“It recognises the enormous contribution enterprise has made to balancing the UK’s books through jobs, pay and tax and responds to many of the recommendations that firms have made.

“But while the Chancellor has reduced some of biggest barriers to growth, he has missed some opportunities.

“That said, the new investment in broadband, research, housing and infrastructure will help tackle the UK’s glaring regional equalities head on.



TUC

Frances O’Grady, TUC General Secretary, said:

“Working people cannot be fobbed off again with promises of a better tomorrow that never comes.

“The Budget does not undo the austerity that has devastated public services, and it lacks the investment needed to speed up wage growth after the longest pay squeeze in 200 years.”



FSB

Mike Cherry, Federation of Small Businesses National Chairman, said:

“This is the most small-business-friendly Budget that this Chancellor has delivered. He has listened to our requests across many areas of tax and public policy, putting him firmly on the side of Britain’s small businesses.

“Through the Budget, the Chancellor is now using the strength of the Treasury to back small business. We have already seen a significant change of tone in recent months towards helping businesses, right from the top of Government, and today represents the change of policy that backs this up. This is long due recognition that small firms are the UK’s job creators and community leaders. The productivity challenge for this country will only be resolved by backing small business, and today marks an important step to achieve this.”



Chartered Institute of Taxation

Glyn Fullelove, Chair of CIOT's Technical Committee, said the 'Got-It-Alone Digital Services Tax is a second-best solution:

"The proposed Digital Services Tax is a blunt instrument that is likely to over-tax companies (who have relatively small profit margins) on UK created value and under-tax others. The expected yield of £400m (from a tax rate of 2%) suggests that the Chancellor is targeting £20 billion of revenues attributable to UK users of digital platforms."

"We suspect that identifying and allocating these revenues will be problematic and may lead to companies disputing how much tax is due. The best outcome would be that the announcement today spurs the international community to find a globally agreed solution to taxing digital multinational companies by 2020 so that this UK Digital Services Tax is never actually introduced."



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