Autumn Budget 2018

October 2018

Pagefield

Understanding your world

Overview

A Budget for Britain's Future?

All Budgets are key moments for Chancellors and Prime Ministers but this one comes at a time when all eyes are focused on what our relationship with the EU will look like once we leave next March.

By the time this Chancellor is next on his feet in the Commons with his red box we will have left the EU.

This was therefore the government's moment to show they have an economic plan to take the country through that potentially turbulent period and to safeguard growth, jobs, wages and investment.

The Prime Minister's declaration at party conference that 'austerity is over' is all part of her work to build this narrative. The Chancellor will surely have agreed to support her in it, and reiterated that statement today in his "Budget that paves the way for a brighter future".

Recognised for his economic prudence over political nous, pressure has built on Mr Hammond to deliver a statement that can be positioned as a success in the UK - and across Europe - while the final deal on Brexit is still being kicked back and forth between London and Brussels.

The public disagreement between No 10 and HM Treasury on whether 'no deal' would result in an emergency Budget highlights how keen the Prime Minister is to strike the right balance before the conclusion of negotiations.

Therefore the Chancellor and his Prime Minister took this opportunity to show that the painful medicine the country has endured since the financial crisis has paid off and they want to reward the country for its patience.

In political code that means a handful of nice offers to voters and business to convince them that the Tories have a plan and they are the party to stick with in the coming years. This included:

- Announcing "a new path for public spending" with beneficiaries including NHS mental health services, local government social care units, the armed forces, the police and schools
- Increasing the tax-free personal allowance and higher rate threshold for income tax in April 2019
- Providing £1bn of additional funding over 5 years to help with the implementation of Universal Credit
- Steps to help struggling high streets including business rates cuts and a new Future High Streets Fund
- Announcing the abolition of the Private Finance Initiative for all future projects
- New rounds of investment in technology, R&D and infrastructure to support the delivery of the industrial strategy
- Attempts to grow business confidence with increases to exports support, the Annual Investment Allowance and extensions to funding for start-up loans

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Reaction

- Commenting on the OBR prediction of real wage growth for each of the next five years, James Forsyth suggested that the Conservative Party will have a “better than expected time of it” at the next General Election if this turns out to be true
- On the left side of the spectrum, the IPPR argued that £650mn is a drop in the ocean compared to the true need receiving state funded social care since 2010
- The British Chamber of Commerce and the Institute of Directors praised the increase to the Annual Investment Allowance to £1mn in the Budget - something the IoD “called for over a year ago”
- Stephen Bush and the IFS suggested that although the Digital Services Tax is not a bad idea, £400mn is a derisory amount of money as far as government spending goes. The IPPR suggested that this is a good step forward, a comment that is echoed by commentators like Ian Martin. The IEA argued that this tax “would be a crude way to address the challenges posed by the business models of tech companies”
- Commenting on additional education funding, Angela Rayner criticised the Chancellor for suggesting that says schools need "little extras" when head teachers are begging parents for donations to cover textbooks and stationery

The Budget

1. State of the Economy

Whilst the Prime Minister recently said that austerity had well and truly ended, the Chancellor was somewhat more measured this afternoon, announcing that “era of austerity is finally coming to an end” with updates to growth forecasts, deficit reductions, higher employment and wage growth.

Praising the hard work of the people of Britain, he presented ‘substantial’ upgrades to the public finances. Whilst employment figures and wage growth are undoubtedly strong, the minor upgrades to GDP growth for the next two years masks sluggish growth for following years.

The Chancellor also believed that the economy would be set for a Brexit double deal dividend - a boost from the end of uncertainty and a boost from releasing fiscal headroom currently being held in reserve. What is clear, is that the end of austerity is indeed on its way. The previously announced additional spending on the NHS, combined with new spending measures today, effectively ends the promise to eliminate borrowing by the mid-2020s.

The principal OBR forecasts announced were as follows:

- Growth – GDP forecast remains at 1.3% for 2018, but is upgraded for 2019 at 1.6% (vs previous estimate of 1.3%) and 1.4% for 2020 (vs 1.3% previous estimate). Future years remain unchanged

- Borrowing - Deficit £11.6bn lower than forecast at the Spring Statement. National debt peaked in 2016/17 at 85.2% of GDP and is forecast to fall in every year from 83.7% this year; to 74.1% in 23-24

- Wages - Regular pay growth at 3.1% is the highest in almost a decade and inflation is forecast to hit its 2% target next year

- Employment – Forecast to deliver 800,000 more jobs by 2022, resulting in 4.1m net new jobs since 2010.

Overall, the Chancellor has been able to end austerity by spending what the OBR describes as ‘the fiscal windfall’, as opposed to any meaningful tax hikes

The Budget

2. Business, Brexit and Trade

Brexit

For a Budget that was widely expected to set the scene for the conclusion of the government's negotiations over the shape of the UK's departure from the EU, the word 'Brexit' featured surprisingly infrequently in today's Budget:

- The Chancellor has confirmed an additional £500mn of funding for Brexit preparedness on top of the £3.7bn allocated to departments, devolved administrations and contingency funds
- The government introduced a power to allow consequential minor amendments to UK tax law after Brexit to maintain the effect of tax legislation
- The government also confirms that if it has not agreed a future relationship with the European Investment Bank Group before the UK leaves the EU on 29 March 2019, it will provide the British Business Bank with the resources to enable it to make up to £200 million of additional investment in UK venture capital and growth finance

Trade

Outlining a plan for 'Global Britain', the Budget details steps to help promote the UK as a global business leader by:

- Providing a one-off increase to UK Export Finance's Direct Lending Facility of up to £2 billion
- Improving links with global partners, such as the Institutional Investor Roundtable, to encourage inward investment
- Allowing citizens from the USA, Canada, New Zealand, Australia and Japan to use e-passport gates at UK airports from 2019

Corporate tax

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Regulation

The Budget announces an intention to ensure that "regulation is fit for the future" in order to protect consumers and encourage high levels of investment. Today's announcements include:

- Increasing the capacity of the UK Regulator's Network in order to improve outcomes for vulnerable consumers, coupled with the publication of a plan in Spring 2019 detailing how government will improve collaboration between regulators
- A forthcoming review of the process for setting strategic policy statements to Ofgem, Ofcom and Ofwat

The Budget

3. Housing

Ever since the Prime Minister was given the keys to Number 10, she made "fixing the broken housing market" a mission-critical priority. Re-building relationships with Generation Rent could yield huge political gains at a time when the Conservative Party are struggling to compete with Jeremy Corbyn's retail offer to under 30s. Central to this is building new homes. The targets set under the Coalition and the subsequent Cameron Government never manged to convince the public or deliver political goodwill.

Today, the Chancellor followed up on the Prime Minister's commitment at the Conservative Party Conference in Birmingham to empower local councils and outlined a range of measures to build new homes, reform the planning system and support first-time buyers.

Housebuilding

- The Housing Infrastructure Fund will increase by £500mn to a total £5.5bn, unlocking up to 650,000 new homes.
- The British Business Bank will deliver a new scheme providing guarantees to support up to £1 billion of lending to SME housebuilders.
- A new five-year strategic business plan for Homes England, to be published on 30 October 2018.
- £8.5mn of resource support so that up to 500 parishes can allocate or permission land for homes sold at a discount.

Planning system

- The Government will respond to Sir Oliver Letwin's report on land banking in February 2019. The review concluded that greater differentiation in the types and tenures of housing delivered on large sites would increase the market absorption rates of new homes – the binding constraint on build out rates on large sites – and has set out recommendations to achieve this aim

First-time buyers

- The government will extend first-time buyers relief by scrapping stamp duty in England and Northern Ireland so that all qualifying shared ownership property purchasers can benefit. This change will apply to relevant transactions with an effective date on or after 29 October 2018, and will also be backdated to 22 November 2017

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4. Defence

Last week's reports that Defence Secretary Gavin Williamson had 'won' the defence funding battle with the Chancellor were confirmed today, with significant funding announced for the Ministry of Defence (MoD). The chancellor announced additional funding for defence, including £1bn extra to go to the Ministry of Defence to cover 2018-2019 and 2019-2020.

These funds will predominantly be used to fill the gaps in military funding and stave off cuts to equipment and frontline troops. At the beginning of this year the UK's public spending watchdog, the National Audit Office, outlined a funding gap of between £4.9bn and £21bn, in its review of the MoD's equipment plan for 2017-2027.

The Chancellor announced:

- An additional £1bn to boost the UK's armed forces, cyber capabilities, anti-submarine warfare capacity and the nuclear deterrent.
- £10mn of funding for mental health care for veterans
- An additional £160mn of funding for counter terrorism police for 2019 - 2020.
- In addition to the funding announced in March 2018, Defence will have benefitted from an additional £1.8bn over 2018-19 and 2019-20.
- The UK will continue to honour the NATO commitment to spend 2% of GDP on defence.

5. Manufacturing

Support for manufacturing is largely delivered through additional investment in the Government's Industrial Strategy, as well as an increase in UK Export Finance lending:

- £1.6bn of new investments to support the Industrial Strategy, ranging from nuclear fusion to quantum computing
- Increase in UK Export Finance direct lending facility by up to £2bn
- As part of the government's increased investment in the Industrial Strategy Challenge Fund, up to £121mn will be spent through Made Smarter to support the transformation of manufacturing through digitally-enabled technologies, such as the Internet of Things and virtual reality

6. Transport

The Chancellor has announced a series of measures intended to boost productivity and build a prosperous economy across all of the UK's regions.

Roads

- £30bn to improve roads including a £28.8bn National Roads Fund and an additional £420mn to local authorities in 2018-19 to tackle potholes, repair damaged roads, and invest in keeping bridges open and safe
- To support projects across England that ease congestion on local routes, the government will also make £150mn of the National Productivity Investment Fund (NPIF) funding available to local authorities for small improvement projects such as roundabouts

Rail

- Up to £37mn additional development funding to support Northern Powerhouse Rail
- £20m of development funding for East-West Rail
- The government is considering the recommendations of the Independent Affordability Review of Crossrail 2, and will consider the case for the project at the Spending Review
- A new 26-30 railcard will be introduced by the end of 2018, offering a one-third discount
- A more streamlined process for compensating passengers affected by rail delays. A one-click delay repay system will be introduced as a requirement for future rail franchises and will be available to those passengers with advance purchase and season tickets

Regions

- An extension of the Transforming Cities Fund by a year until 2022/23 to provide an additional £240m to the six metro mayors for "significant" transport investment in their areas:
    - £21mn for Cambridgeshire and Peterborough
    - £69.5mn for Greater Manchester
    - £38.5mn for Liverpool City Region
    - £23mn for West of England
    - £71.5mn for the West Midlands
    - £16.5mn for Tees Valley

- A further £440mn will be made available to the city regions shortlisted for competitive funding. Ten city regions are eligible for this funding, and the government will shortly be announcing a further two.
- £90m from the NPIF will be allocated to the Transforming Cities Fund to create Future Mobility Zones. This will trial new transport modes, services, and digital payments and ticketing

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7. Technology, Telecoms and Media

The Chancellor announced a series of taxes, funding measures and consultations in the technology, telecoms and media sectors. The headline announcement – the UK Digital Services Tax – is the latest push from the government to ensure global tech giants, such as Google, Facebook and Amazon, pay more tax on the profits they make in the UK. The Treasury have also signed off further investment in digital infrastructure, AI and quantum computing.

Tax

- A UK Digital Services Tax' – aimed narrowly at established tech giants – to levy 2% of the revenues that online platforms make from UK users. It is not an online sales tax and it will only be paid by companies that are profitable and generate at least £500mn a year in global revenue. The tax will come into effect in April 2020 and is expected to raise £400 million a year in tax revenues
- Hammond reiterated that the UK would continue to work at the OECD and G20 to seek a globally agreed solution on taxing online platforms, and if one emerges, the UK will consider adopting it

Investment

- A commitment to increase the National Productivity Investment Fund (NPIF) to over £38bn and extend its duration until 2023-24
- An investment of £1.6bn to build on the UK's position as a world leader in science and innovation, including investment in AI, quantum computing, future manufacturing and nuclear fusion.
- An investment of £150mn for fellowships to attract the best global researchers in digital technologies
- An investment of £200mn – made available from the NPIF – to extend the roll-out of full-fibre broadband in rural communities
- A further £115mn of funding for the Digital Catapult to help support entrepreneurs and businesses
- An initial £3mn pilot to address local digital skills gaps in Greater Manchester through training courses

Consultations and reviews

- A set of consultations to mandate gigabit-capable connections to new build homes and speed up the delivery of upgraded connections to tenants
- The Office for AI and Government Digital Service (GDS) will review how Government can use AI, automation and data to drive public sector productivity – forming part of the innovation strategy led by the Cabinet Office
- The Data Science Campus at the ONS and the GDS will conduct an audit of data science capability across the public sector

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8. FMCG

One of the most well received announcements in today's Budget was the news that beer, cider and spirits will not go up in price after Chancellor Philip Hammond announced a tax freeze. In what has been described as an "early Christmas present" for pubs and consumers across the country, the Chancellor scrapped a planned tax hike in line with inflation, which would have seen prices rise by 3.4%. The freezes mean that for next year consumers can expect to see a saving of 2p on a pint of beer, 1p on a pint of cider and 30p on a bottle of Scotch or gin.

The Chancellor announced:

- Alcohol duty rates and bands – duty rates on beer, most cider and spirits will be frozen. Duty on most wine and higher strength sparkling cider will rise by RPI inflation from 1 February 2019. The government will review the current Small Brewers Relief to ensure it is supporting growth in the sector

- Alcohol structures consultation – as announced at Autumn Budget 2017, the government will introduce a new duty band for still cider and perry from 6.9% to 7.5% alcohol by volume (abv), to target white ciders. This will be legislated for in Finance Bill 2018-19, and a rate of £50.71 per hectolitre will apply from 1 February 2019

- Post duty point dilution – following a review by HMRC launched at Autumn Budget 2017, and in order to ensure a level playing field with other duty regimes, the government will legislate to ban post duty point dilution from April 2020

- Tobacco duty rates – duty rates on all tobacco products will increase by two percentage points above RPI inflation until the end of this Parliament. Hand rolling tobacco will increase by an additional one percentage point. These changes will come into effect from 6pm on 29 October 2018. To signal its intent to put an end to the illicit trade in all its forms, the government will act on the recommendations of the recent All Party Parliamentary Group report by supporting the creation of a UK-wide Anti-Illicit Trade Group. This will bring together senior officials, representing each of the four parts of the United Kingdom, to share best practice and develop a national strategy for tackling this criminal activity and the societal ills that it fuels

- Minimum Excise Tax – the Minimum Excise Tax for cigarettes will rise to £293.95 per 1,000 cigarettes. This will take effect from 6pm on 29 October 2018

- Tobacco for heating – as announced at Spring Statement 2018, the government will legislate in Finance Bill 2018-19 for a new duty rate for tobacco for heating. In these products processed tobacco is heated (but not burned like conventional tobacco) to produce, or flavour, vapour. This will be set at the same level as hand rolling tobacco and take effect on 1 July 2019

- Soft Drinks Industry Levy (SDIL) – the government will legislate in Finance Bill 2018-19 to make the SDIL a common duty with the Isle of Man

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9. Environment

In keeping with Environment Secretary Michael Gove's efforts to drive the green agenda across Westminster, this afternoon the Chancellor announced a series of measures to tackle single use plastics – most of which are designed to incentivise businesses. A number of these measures will be set out in more detail in the Government's forthcoming Resources and Waste Strategy.

- Following the government's call for evidence, it will take action on the problem of single-use plastics waste. This forms part of the government's wider strategy to address plastics waste, with further detail to be set out in the Resources and Waste Strategy later this year. This will address the current situation where recycling rates of plastic are too low, plastic producers use little recycled plastic and some problematic items are rarely recycled and often end up in the natural environment. The Budget also announces funding for plastics and waste innovation

- Plastic packaging – to reduce the problem of excessive and environmentally harmful plastic packaging, and incentivise manufacturers to use recycled plastic, the government will:

    - Introduce a tax on the production and import of plastic packaging from April 2022. Subject to consultation, this tax will apply to plastic packaging which does not contain at least 30% recycled plastic, to transform financial incentives for manufacturers to produce more sustainable packaging
    - Reform the Packaging Producer Responsibility System, which will aim to increase producer responsibility for the costs of their packaging waste, including plastic. This system will provide an incentive for producers to design packaging that is easier to recycle and penalise the use of difficult to recycle packaging, such as black plastics

- To ensure a coherent approach, the government will consult on both of these together in the coming months. Future revenues raised from these measures will enable investment to address single-use plastics, waste and litter to meet the government's ambitions for resources and waste

- The government recognises the problems caused by disposable cups, which are difficult to recycle and often littered. The government has concluded that a levy on all cups would not at this time be effective in encouraging widespread reuse. Businesses are already taking steps to limit their environmental impact, but 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

10. Charity

The charity sector will be pleased with announcements to reduce the administrative tax burden on charities and specific charities will welcome boosts to their funding, particularly air ambulance services, mental health charities and veteran charities

There have also been several questions left unanswered by the Budget. Despite rumours circulating this weekend, there was no mention of a crackdown on fundraising platforms charging fees on Gift Aid, despite calls from the Charity Tax Group and the Institute of Fundraising to do so earlier this year. Additionally, no update was given on how the government plans to use up to £2bn in dormant assets to support the sector

From April 2018, the following measures to reduce the administrative tax burden will be introduced:

- Increase to the upper limit for trading that charities can carry out without incurring a tax liability from £5,000 to £8,000 where turnover is under £20,000, and from £50,000 to £80,000 where turnover exceeds £200,000
- Allow charity shops using the Retail Gift Aid Scheme to send letters to donors every three years when their goods raise less than £20 a year, rather than every tax year
- Increase the individual donation limit under the Gift Aid Small Donations Scheme from £20 to £30, which applies to small collections where it is impractical to obtain a Gift Aid declaration – it is anticipated that this will be at a total cost to the public of £5 million per year in addition to this, the Chancellor has made specific announcements regarding charity funding. This includes:
- £1.7 million to be given to a charitable organisation for educational projects in schools to mark the upcoming 75th anniversary of the liberation of the Bergen-Belsen concentration camps
- The government will introduce an exemption for the purpose-built vehicles operated by national charity Blood Bikes, who transport blood and medical supplies, from April 2020
- £10 million of funding for air ambulance services in England
- While the Government did not waive VAT on the sale of items to commemorate the 100th Anniversary of the First World War, it has made a £10mn commitment to the Armed Forces Covenant Fund Trust to support veterans with mental health needs