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# Autumn Budget 2017

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November 2017



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# Overview

## **Will Spreadsheet Phil do enough to keep his job? That was the question everyone was asking ahead of today's eagerly-awaited and politically crucial Budget.**

Philip Hammond today faced perhaps the most difficult Budget of any Chancellor in recent times. A minority government, Brexit, fundamental splits in the Conservative party and deteriorating relations between No 10 and No 11 Downing Street all led many to believe that Hammond was simply going through the motions, set up to fail by many within his own party.

It was a crucial Budget for Theresa May too. A challenging election result and difficult party conference performance last month, as well as perceived weakness following recent Cabinet resignations (and non-resignations), meant today's Budget was an opportunity to reinvigorate the Government, outlining a strong economic vision for the UK post-Brexit and parking some tanks on Labour's young-voting lawn.

Despite concerns about debt, deficit and tax, the political priority today was about two things: offering young people a reason to vote Tory and – to put it bluntly – not messing up. Millennials favoured Labour (or more accurately Jeremy Corbyn) at the last election and today was an opportunity to win them over.

With a recent YouGov poll showing that just 15% of under-30s would support the Conservatives at the next election, May and Hammond need to move fast.

Hammond performed well against these priorities. He delivered what many have been quick to label his 'Banter Budget' with ease and confidence, delivering a number of gags along the way. His flagship policy was a commitment to dedicate £44 billion in capital funding to support the housing market. Other measures to tackle the housing crisis included a pledge to build 300,000 new homes a year by the mid-2020s and measures to prevent land-banking and tackle empty homes. Hammond's real rabbit to save his hat was his announcement to suspend stamp duty for first time buyers on homes up to £300,000 and for the first £300,000 on properties in London. No doubt a hugely popular measure that will serve the Conservatives well as they seek to attract younger voters (and their parents) and reposition themselves firmly as the party of home ownership.

A confident and gaffe free performance today will have helped the Conservative Party start to win over prized millennial voters and the broader electorate. However, it is still Brexit, Conservative splits, and strained relations at the top of government, which will dominate the headlines whilst Theresa May and Philip Hammond reside at Numbers 10 and 11. There is always the devil in the detail of a Budget and we await the IFS's postmortem, but while Spreadsheet Phil's position remains precarious a good performance today means he hangs on to fight another day.

## Opposition response

Jeremy Corbyn gave a passionate, if at times aggressive, response to The Chancellors' speech this afternoon. Labour's key message was that the Budget was nothing more than an advertisement for just how out-of-touch this Government is with the reality of people's day to day lives.

Corbyn was keen to stress that lower pay, falling wages and slower economic growth were hampering the poorest in society whilst hammering home the number of children and pensioners in poverty.

There were some missed opportunities for the Tories, Corbyn pointed out to the Conservative front bench. These included a failure to end period poverty as well as the missing £10 million needed to establish the child funeral fund campaigned for by Swansea East MP Carolyn Harris.

Socialists are willing to share, he told the Commons, and Hammond's supposedly reactionary offering had failed to deliver. 'Nothing has changed' he teased, a painful reminder of a much-maligned phrase for many of the Conservatives on the other side of the Chamber.

As Hammond sits back tonight, sipping a slightly cheaper gin and tonic, no doubt thinking it was a 'job well done' it will be interesting to see how the media react and cover Corbyn's passionate response and, of course, the details of the Budget itself.

**The Pagefield Team**

22nd November 2017.



# The Budget



## 1. State of the Economy

The Chancellor opened his statement with an unsurprisingly optimistic overview of the UK economy, repeatedly emphasising a future full of change, challenges and opportunities.

Choosing to “run towards change”, Hammond argued for a balanced approach which maintained fiscal responsibility while building an economy fit for the future. He prefaced the Office for Budget Responsibility (OBR) forecasts by highlighting that debt was now peaking and will start to fall from 2018/19, lower levels of unemployment and reaffirming his pledge of fiscal responsibility, first set out last autumn.

However, this did not paint the whole picture. Headline news from the budget will be the fact that growth forecasts are now lower than envisaged after his last Budget— specifically:

- UK economy now expected to grow by 1.5% in 2017 (downgraded from 2% in March), 1.4% in 2018, 1.3% in 2019 & 2020, 1.5% in 2021 and 1.6% in 2022
- The other unsatisfactory forecast likely to grab a lot of headlines is the continued poor productivity performance, with output per hour now predicted to be 4.6% lower at the start of 2022 than thought in March

Fortunately for Hammond, the projections weren't all gloomy. Positive forecasts included:

- 3 million jobs created since 2010, with 600,000 more expected in work by 2020
- The deficit to fall every year of forecast. With borrowing as a share of GDP rising from 2.3% last year to 2.4% this year, owing primarily to timing effects and one off factors then falling over the remainder of the forecast period to 1.1% of GDP in 2022-23, its lowest level since 2001-02
- Debt as a proportion of national income to peak this year, and then fall as a share of GDP
- UK is on track to meet the government's fiscal rules
- Structural deficit to be 1.3% of GDP in 2020-21, versus the original goal of under 2%





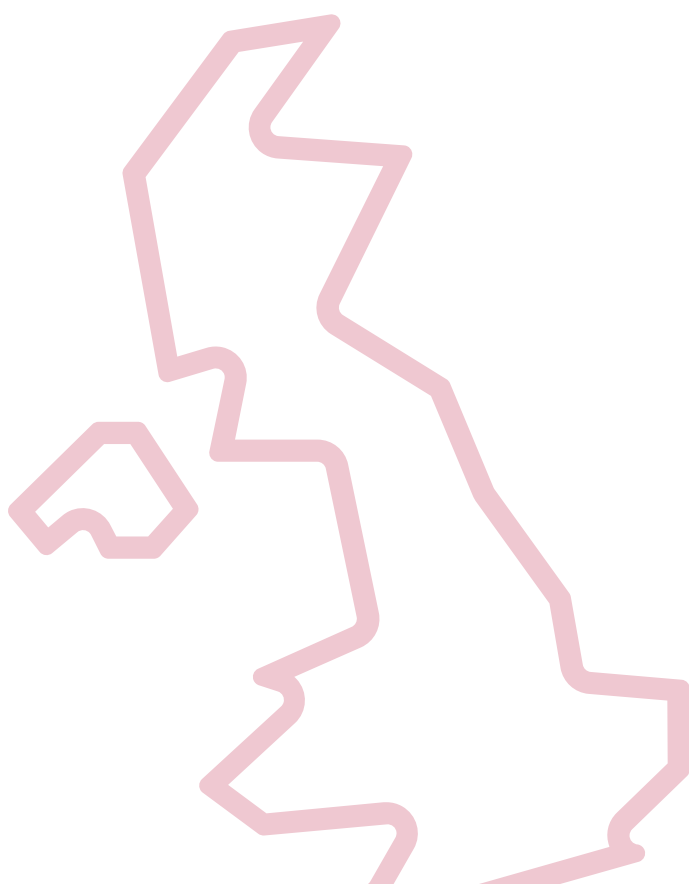
## 2. Brexit

The Chancellor began his Budget statement today with a statement on Brexit, saying that while the UK 'seeks a deep and special partnership' with the EU based on 'free and frictionless trade in goods and services', the Government has to ensure that the country is prepared for every possible outcome.

The Chancellor's promise to set aside £3 billion in preparation for Brexit is likely to placate hard-line Eurosceptics within the Conservative Party, who have been critical of Hammond's reluctance to commit funds in preparation for a no deal scenario. It is also likely to embolden those moderate elements of the party who suspect the Government is moving towards a "no deal" option and may increase tensions within the Conservative party.

### Preparing for Brexit

- Announcing that alongside the £700 million of additional funding that has been provided to support preparations, an additional £3 billion is to be set aside to prepare effectively for an EU exit
  - In addition, the Chancellor stated that he would be 'ready' to allocate further sums, if and when needed
- Making available an additional £1.5 billion in each of 2018-19 and 2019-20.
- Confirming that departmental allocations for preparing for EU exit in 2018-19 will be agreed in early 2018
  - Ahead of these allocations, government departments will continue to refine their 2018-19 plans with the support of HM Treasury and the Department for Exiting the European Union
  - Departmental allocations for 2019-20 will be agreed later in 2018-19, when there is more certainty on the status of our future relationship with the EU



# The Budget



## 3. Business

This was intended to be a business friendly budget, with an emphasis on small and scale up businesses, skills and devolved growth. Against a backdrop of increasing Brexit uncertainty, this budget may be seen by many as a step in the right direction, supporting growth in the UK through innovation, investment and tax reform.

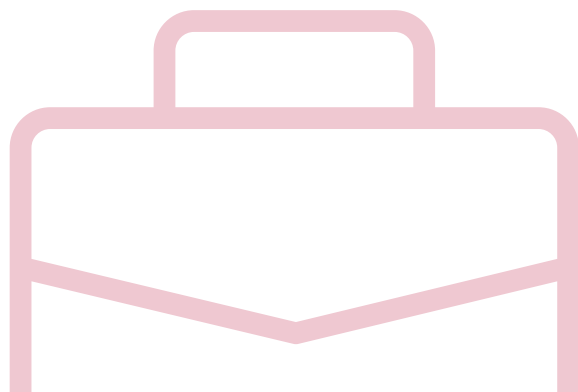
### Small and Scale Up Businesses

- Introducing an action plan to unlock over £20 billion of new investment in UK scale up businesses, including a new £2.5bn fund in the British Business Bank and the doubling of EIS investment limits for knowledge intensive companies
- Bringing forward the planned business rates switch from RPI to CPI by two years to April 2018, saving businesses £2.3bn over the next five years
- Fixing the VAT threshold for small businesses at £85,000 for two years to allow for consultation on how its design could better incentivise growth
- Changing the “staircase tax” to allow for businesses impacted to have their original bills reinstated and backdated if they so choose

- Extending the £1000 business rates discount for pubs with a rateable value of less than £100,000 until March 2019
- Piloting 100 per cent business rates retention in London next year

### Skills and Devolution

- Extending the “National Productivity Investment Fund” for a further year, with a budget of £31bn - an increase of £7bn from last year
- Launching a new “National Retraining Scheme” in collaboration with the CBI and TUC
- Delivering 3 million apprenticeship starts by 2020 courtesy of the apprenticeship levy
- Creating a new £1.7bn Transforming Cities Fund
- Backing the Northern Powerhouse and the Midlands Engine, alongside the development of a local industrial strategy for Manchester
- Offering additional devolution deals for the West Midlands and North of the Tyne in addition to city deals for Tay Cities and Stirling, a growth deal for the borderlands and the opening of negotiations for a Belfast City deal





# The Budget



## 4. Tax and finance

The Chancellor pledged to keep taxes low whilst providing some help to families and businesses under pressure. Hammond announced help for first time buyers by granting many an exemption from stamp duty, also announcing an increase in personal allowance, freezes to alcohol duties and a number of measures to clamp down on tax avoidance.

### Personal taxation

- Personal allowance to increase from April to £11,850 and the higher rate threshold (HRT) to £46,350
- The Government has committed to raising the personal allowance to £12,500 and the HRT to £50,000 by 2020

### Stamp duty

- The Chancellor announced that stamp duty will be abolished immediately for first-time buyers purchasing properties worth up to £300,000
- To help those in London and the South East, the first £300,000 of the cost of a £500,000 purchase by all first-time buyers will be exempt from stamp duty
- This will benefit 95% of all first-time buyers, with 80% paying no stamp duty

### Business

- VAT threshold remains at £85,000 for two years for small businesses, with the design to be consulted upon
- Businesses hit by the staircase tax will have their original bill reinstated
- Hammond announced the launch of an opinion paper on the tax challenge posed by digital businesses
- There will be £2.3 billion investment in research and development, increasing R&D tax credit to from 11% to 12%
- The Government has published a position paper setting out the challenges posed by the digital economy for the international corporate tax framework and its proposed approach for addressing those challenges

### Excise duties

- Duty on beer, wine, spirits and most ciders will be frozen, equating to 12p off a pint of beer and £1.15 off a bottle of whisky by next April. Duty on high-strength “white ciders” to be increased via new legislation
- Tobacco duty will rise by 2% above inflation while the minimum excise duty on cigarettes introduced in March will also rise and duty on hand-rolled tobacco will be an additional 1%



### Tax avoidance

- HMRC will start to charge more tax on digital economy royalties relating to UK sales when those royalties are paid to a low tax jurisdiction, raising about £200 million a year
- £1.2 billion a year will be targeted in lost VAT from online shopping
- The Chancellor announced further steps taken in the Budget which are forecast to raise £4.8 billion in additional tax revenue between now and 2022-23

### Transport tax

- Fuel duty will be frozen for its eighth year, making 2018 the eighth consecutive year
- Vehicle excise duty increased for the most polluting diesel cars from April 2018, not affecting van owners, this will go towards a new £220 million clean air fund to improve air quality across the country
- Existing diesel supplement in company car tax to rise by 1 per cent
- Air Passenger Duty for short-haul and long-haul economy flights will be frozen from April 2018, paid for by an increase on Premium class tickets and private jets
- The devolution of Air Passenger Duty is to be delayed

### Environmental tax

- The Chancellor has pledged to use the tax system to protect the environment, launching a call for evidence on how the tax system could reduce the amount of single-use plastics waste, building on the carrier bag charge



# The Budget



## 5. Housing

Chasing their tail from the 1980s, the Conservative Party know more than anyone else the political capital to be amassed by housing the next generation. Ever since the Prime Minister and Communities Secretary launched the seminal White Paper in February this year, the Government has been searching for bold and ambitious solutions designed to address the UK's flailing housing market.

Communities Secretary, Sajid Javid, has been vocal in the run up to this Budget publicly and privately lobbying the Chancellor to 'find' approximately £50 billion to invest. Though, today was the Chancellor's moment to present his panacea.

Hammond decried it would be this Government that invested in housing, committing a total of £44 billion of capital funding, loans and guarantees to support the industry, and setting the target of delivering an additional 300,000 homes a year.

Though immediate political constraints in the form of a leafy constituency renders the Prime Minister obdurate on her position to encroach onto the greenbelt, the Chancellor outlined policies to unlock available land and make better use of underused in urban areas. A review will be led by Sir Oliver Letwin MP, into the gap between approved planning applications and completed developments, providing an interim report in time for Spring Statement 2018.

DCLG have been talking up the importance of small and micro builders for a while and Hammond took sharp aim at the oligopoly of the major house builders this afternoon. He announced a further £1.5 billion for the Home Building Fund, providing loans for small and medium enterprises in the housebuilding sector. In a parallel effort to simulate the market, the Chancellor announced £34 million of funding for investment in training skills in the construction sector.

Speculation leading up to today postulated over how the Chancellor would reach out to 'Generation Rent' and attempt to usher the youthful masses away from Jeremy Corbyn into the arms of the Conservative Party. This attempt was abolishing Stamp Duty for first time buyers for properties up to £300,000. Critics will claim it is a spurious political gesture, but it may just generate some much needed political capital for the Government and Conservative Party.



## Stamp Duty

- Abolishing stamp duty land tax (SDLT) for first-time buyers purchasing properties worth up to £300,000. In London the first £300,000 of the cost of a £500,000 purchase by first-time buyers will be exempt

## Land use

- Setting up a review panel, chaired by Sir Oliver Letwin MP, to explain the significant gap between housing completions and the amount of land allocated or permissioned, and make recommendations for closing it
- Strengthening the ability of the Homes and Communities Agency (to be renamed Homes England) to use investment and planning powers to intervene more actively in the land market
  - The Budget commits a further £2.7 billion to the competitively allocated Housing Infrastructure Fund (HIF) in England

## Construction

- Announcing a further £1.5 billion for the Home Building Fund, providing loans specifically targeted at supporting SMEs who cannot access the finance they need to build
  - The Government will explore options with industry to create £8 billion worth of new guarantees to support housebuilding, including SMEs and purpose built rented housing
- Supporting industry to help ensure that there is a workforce to build homes by providing £34 million to scale up innovative training models across the country, including a programme in the West Midlands

## Other

- Providing £400 million of loan funding for estate regeneration to transform run down neighbourhoods and provide new homes in high demand areas
- Investing £28 million in three Housing First pilots in Manchester, Liverpool and the West Midlands, to support rough sleepers with the most complex needs to turn their lives around

# The Budget



## 6. Science, Technology and Innovation

The Chancellor set out plans to deliver an economy driven by innovation that will see the UK become a world leader in new technologies. Key announcements include ground-breaking approaches to regulatory frameworks for AI and driverless cars, further investment in R&D and digital innovation.

New technologies – investment, regulation and AI: The Budget sets out steps to make the UK a leader in the autonomous vehicles industry.

- Creating a new Centre for Data Ethics and Innovation to enable and ensure safe, ethical and ground-breaking innovation in AI and data driven technologies
- Investing over £75 million in the key recommendations of the independent review on AI, including work to facilitate data access through ‘data trusts’
- Creating new AI fellowships, and initially fund 450 PhD researchers
- Establishing a new £10 million Regulators’ Pioneer Fund. This will help regulators to develop innovative approaches aimed at getting new products and services to market
- Aiming to see fully self-driving cars, without a human operator, on UK roads by 2021. Changes to the regulatory framework will include setting out how driverless cars can be tested without a human safety operator. The National Infrastructure Commission (NIC) will also launch a new innovation prize to determine how future road building should adapt to support self-driving cars

### Digital innovation:

A series of announcements aimed at securing the UK’s world-leading position in digital innovation.

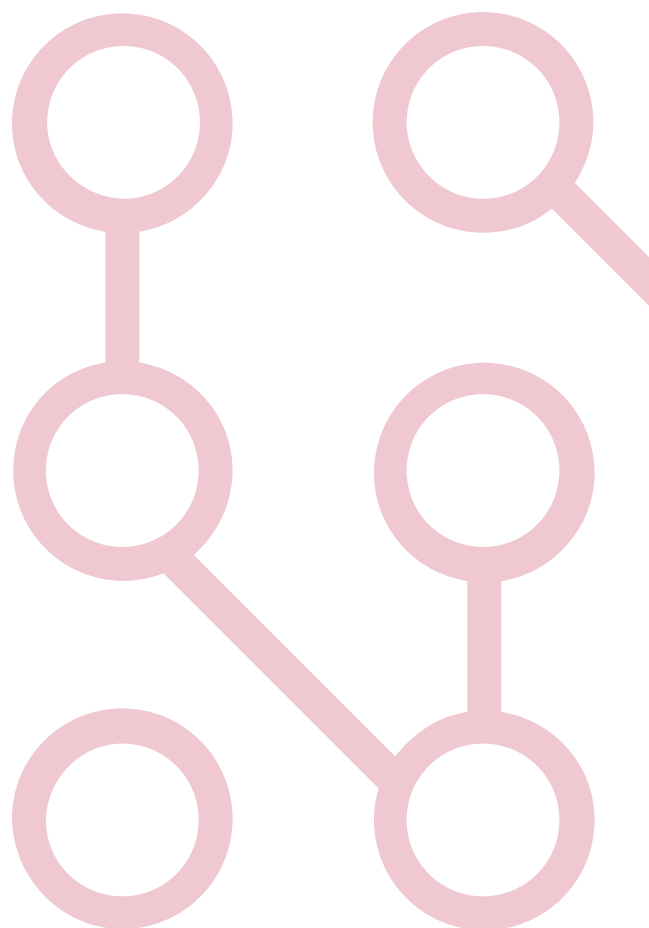
- Investing £21 million over the next four years to expand Tech City UK’s reach and support regional tech companies and start-ups to fulfil their potential. Tech Nation will roll out a dedicated sector programme for leading UK tech specialisms, including AI and FinTech, with regional UK hubs
- Providing a further £1 million to extend the UK Games Fund until 2020, aiding access to finance and business support for early stage video game developers
- Establishing a new Geospatial Commission to provide strategic oversight to the various public bodies who hold valuable data

- Working with the Ordnance Survey (OS) and the new Commission, by May 2018, to establish how to open up freely the OS MasterMap data to UK-based small businesses in particular. The Budget provides £40 million a year over the next two years to support this work.
- Publishing a position paper on tax challenges posed by digital economy

**Research and development:**

The Budget builds on an existing commitment to make the biggest R&D investment for 40 years.

- The £4.7 billion NPIF investment in science and innovation announced at Autumn Statement 2016 will grow by a further £2.3 billion of additional spending in 2021-22. The Industrial Strategy White Paper will provide further detail on what this funding will support
- Increasing the rate of the R&D expenditure credit from 11% to 12% from 1 January 2018, and introduce an Advanced Clearance Service for R&D expenditure credit claims
- Committing to replacing European Investment Fund if necessary
- Changing immigration rules for scientists and researchers endorsed under the Tier 1 route to apply for settlement after three years, make it quicker for highly-skilled students to apply to work in the UK after their degrees, and reduce red tape on sponsoring researchers



# The Budget



## 7. Transport & Infrastructure

As was widely trailed, the Chancellor unveiled a new railcard for people aged 26-30 that will be launched early next year, offering a third off most train fares. This is part of the Government's push to build support among millennials, who have been among the hardest hit groups since the 2007-08 financial crisis.

The Government has also announced plans to expand the National Productivity Investment Fund (NPIF) with an aim of supporting innovation and an upgrade of the UK's transport and infrastructure. The expansion will include the £1.7 billion Transforming Cities Fund that was announced by the Prime Minister earlier this week, in an attempt to place cities "at the heart" of the Government's industrial strategy by improving transport links and promoting local growth within city regions. Half of this will be allocated to the UK's regions with elected metro mayors, with the remainder open for competition by other cities. This will be welcomed by the six regions with elected metro mayors, but regions such as Yorkshire may feel snubbed by this announcement.

### Infrastructure investment

- The NPIF will run for a further year and be expanded to over £31 billion
- Up to £1 billion will be loaned to local authorities in England at a discounted rate to support infrastructure projects which represent high value for money
- Public investment in infrastructure by the end of this parliament will have doubled in a decade from £12 billion in 2012-13 to at least £24 billion in 2022-23
- The Infrastructure and Projects Authority will publish an update to the National Infrastructure and Construction Pipeline in December 2017

### Transforming Cities Fund

- A £1.7 billion fund from the NPIF will be allocated to support intra-city transport.
- Half of the fund will be allocated on a per capita basis to the six regions which have elected metro mayors (Cambridgeshire and Peterborough, Greater Manchester, Liverpool City Region, West of England, West Midlands and Tees Valley)
- The remaining half will be allocated via competition for transport projects in other cities

### Digital Rail upgrade

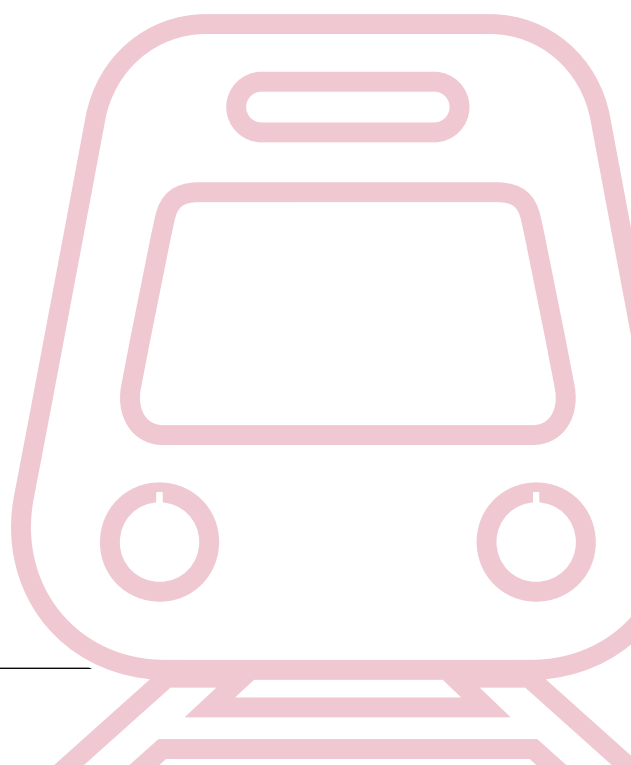
- An £84 million fund for fitting state-of-the-art in-cab digital signalling across a range of trains
- £5 million from the NPIF for development funding for digital railway upgrade on the South East and East London lines
- A consultation on options to improve mobile communications for rail passengers and an invested of up to £35million to enable trials. This will be used to:
  - Upgrade the Network Rail test track in Melton Mowbray
  - Install trackside infrastructure along the Trans-Pennine route
  - Support the rollout of full-fibre and 5G networks

### Electric vehicles

- A new £400 million Charging Investment Infrastructure Fund
- A commitment to electrify 25% of cars in central government department fleets by 2022
- £100 million to guarantee continuation of the Plug-In Car Grant to 2020
- An abolishment of any benefit in kind charge on electricity that employers provide to charge employees' electric vehicles (from April 2018)

### Travel Discounts

- Introducing a new rail card for those aged 26 to 30 in spring 2018, cutting a third off rail fares



# The Budget



## 8. Welfare and Health

The Chancellor doubled down on the Government's commitment towards Universal Credit, but recognised the concerns around the delivery element of the policy – which had been highlighted by the Opposition as well as backbenchers from within his own party. To tackle this, he announced a number of operational reforms, costing a total of £1.5 billion, to alleviate some of the pressures claimants have faced when transitioning from the benefit system to Universal Credit during its initial rollout.

The Chancellor appears to have also responded to pressure on NHS spending – announcing a £10 billion capital investment fund for hospitals, in addition to a further £2.8 billion in extra funding to address waiting times and pressures on the NHS this winter. He refrained from lifting the public sector pay cap for Nurses, despite continued pressure from the Opposition frontbench, instead announcing that the Health Secretary, Jeremy Hunt, would be continuing discussions with unions and the NHS Pay Review Body, and that he would make provisions where necessary once recommendations had been made.

### Universal Credit

- Removing the seven-day waiting limit on Universal Credit claims and announcing that credit will be paid in from the start of the claim process
- Announcing that households would be able to access a full month of Universal Credit payments within the first five days of applying for Universal Credit
- Announcing that all claimants receiving housing benefit would be able to receive two weeks of payments during their transition to Universal Credit – addressing the restrictions many faced around monthly rent payments
- Extending the repayment period for advances on credit from six months to twelve months
- Allowing claimants to apply for an advance online. This was previously only available within job and assessment centres

### NHS

- Announcing an additional £10 billion capital investment for hospitals to bolster frontline services during this term of parliament (2017-22)
- Immediately providing £2.8 billion in resource funding for the NHS to improve A&E performance, reduce waiting times for patients, and enable the NHS to treat more people during this Winter. When broken down, this funding designates £350 million of the total £2.8 billion to 2017, £1.6 billion for 2018, and the remainder for 2019
- Announcing that the Health Secretary, Jeremy Hunt MP, will continue discussions in regards to a pay increase for Nurses with unions and the NHS Pay Review Body. The Chancellor promised, that when the talks were complete, that he would make provisions for their recommendations





## 9. Education

The Chancellor stressed that Britain is at the forefront of a new industrial revolution, and that Government must support by investing in skills, education and infrastructure. He pledged that Government will ensure that the benefits accrued from technological change will be distributed widely and evenly throughout the UK, outlining measures that will be taken to enhance the skills and capabilities of the population.

### Technical and vocational qualifications

- Achieving three million apprenticeship starts by 2020
- Allocating a further £20 million to accelerate the creation and implementation of T-Levels

### Mathematics and digital skills

- Expanding of the 'Teaching for Mastery of Math' programme to a further 3,000 schools
- Introducing an additional £40 million for the recruitment and training of maths teachers and the introduction of a 'maths premium' providing schools with an additional £600 per pupil taking A-level or core maths
- Launching plans for specialist maths academies for 'highly talented mathematicians'

### Computer science and digital skills

- Tripling the number of computing teachers to 12,000
- Establishing – in conjunction with the computing industry – a 'National Centre for Computing', providing people with the skills needed to thrive in a digital economy

### Enabling retraining

- Launching a collaborative project with the CBI and the TUC, to set the strategic direction for a national retraining scheme
- Allocating £30 million to digital skills distance learning courses and providing continued support for the TUC's 'union learn' initiative



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