Autumn Statement 2016 Overview

An Insights and Analysis Briefing from
The Whitehouse Consultancy

Overview

Our sector analysis

This year's Autumn Statement showed the hallmarks of being Philip Hammond's creation. It was cautious, steady, and to use a phrase from the Gordon Brown era, sought to project the image of prudence that the Chancellor has cultivated.

While commending the resilience of the economy following the outcome of the EU referendum, Hammond emphasised that, with borrowing and the national debt projected to increase and GDP forecasts being downgraded, there was little room for generous giveaways. Although George Osborne's target to eliminate the deficit by 2020 was abandoned to give the UK more breathing space in the face of future market shocks stemming from the Brexit negotiations, the Chancellor looked to ensure confidence in the country's financial stability through new fiscal rules requiring public finances to be brought into the black by the next Parliament, a reduction in public sector debt, and a cap on welfare spending.

The headline focus of the Autumn Statement was on helping families who are "just about managing", the so-called JAMs. Proposed changes to income tax thresholds – first announced at the Conservative conference in 2014 – will undoubtedly be popular, while the Government continued its march into Labour territory with a further increase in the living wage and a ban on letting agent fees.

The most interesting aspect of the statement was the announcement of a modest deficit driven stimulus programme with a focus on productivity. This includes £23bn to be spent on regional transport projects, housing and digital infrastructure through a National Productivity Investment Fund, and a reduction in corporation tax to 17%.

"A cautious and steady Autumn Statement"

Critics have described the statement as being long on caution, but short of ambition. That is a description Hammond will take on the chin, given the managerial style he has brought to his government portfolios. Others have described the increase in borrowing – £122bn more than anticipated over the next five years and increasing public debt to 91% of GDP – as "eye watering". Optimists, however, point to the fact that the OBR has raised its growth forecast for 2016 and said it does not expect a recession as a sign that the fundamentals of the economy remain strong.

It is perhaps fitting that this will be the last Autumn Statement, a move welcomed by those who view it as an unnecessary feature of the parliamentary calendar. As for the question of how successful the statement will be in improving productivity, promoting growth and returning the country to a position of surplus, with uncertainty still the theme of the year and too many external factors likely to impact the economy over the next few months, it is too early to tell.

Carl Thomson
Director
The Whitehouse Consultancy

Autumn Statement 2016 Overview

Economy & financial services

Looser fiscal rules

Borrowing predicted to be **£122bn higher** than in the Budget earlier in the year, as Hammond makes more money available to manage the consequences of Brexit.

Growth is expected, but it'll be slower

The Office for Budget Responsibility (OBR) has upgraded its growth forecast from **2% to 2.1% in 2016**, but downgraded its 2017 forecast from **2.2% to 1.4%**. Lower productivity growth is expected to add **£18.1bn** to government borrowing.

Corporation tax cut

Following the announcement in March's Budget, the Chancellor committed to **cutting corporation tax from 20% to 17% by 2020**, the lowest in the G20.

"One fiscal event a year diminishes the temptation for populist policies"

Philip Hammond's first – and last – Autumn Statement wasn't all doom and gloom for the City, but was hardly full of cheer either. The OBR's predictions are that growth will slow, borrowing will increase, and uncertainty for businesses will increase as planned Brexit negotiations get underway, with some investment being postponed or cancelled.

However, companies will be cheered by the planned cut in corporation tax to 17% by 2020. They'll also welcome the National Productivity Investment Fund, and a continuation of Treasury-backed infrastructure bonds. Perhaps the most welcome decision is to scrap biannual fiscal statements. Reducing to one fiscal event a year should diminish the temptation for populist policies and lead to higher quality legislation in the longer term.

Frances Powrie
Senior Political Consultant

Autumn Statement 2016 Overview

Health

No additional funding for NHS, or importantly social care

This is despite cross-party calls for a cash injection to alleviate concerns around a **"winter of discontent"** for the NHS.

Growing dispute of Government's £10bn NHS figure

Leader of the Opposition Jeremy Corbyn used the PMQs preceding the Autumn Statement to expose conflict among Conservative MPs on the NHS. Corbyn quoted the Conservative-Chaired Health Select Committee, who told Hammond that the **£10bn figure is "misleading"** and creates the "false impression" that the NHS is awash with cash.

Review of longer-term spending commitments, potentially including NHS ringfence

It appears that Number 10 and the Treasury **no longer view the NHS as a special case**. Instead, it must follow other sectors in adapting to the tough fiscal regime.

"Downing Street is in no mood to the give the NHS more money"

Jam tomorrow, jam yesterday, but never jam today. The buzzword of the day, Just About Managing (JAMs), was particularly relevant to the NHS, as the Chancellor confirmed the spending commitments set out in the Comprehensive Spending Review (CSR) will remain for the rest of the parliament (in the preceding PMQs Jeremy Corbyn praised the increased funding heaped on the NHS under previous Labour governments). All government departmental budgets have been frozen as per the CSR, apart from the MoJ, and the reality is Nos 10 & 11 Downing Street are in no mood to give the NHS more money, particularly as its budget has been either ringfenced or increased over the last six years.

This places greater importance on the success of Sustainability and Transformation Plans (STPs) in delivering the £22bn of efficiency savings the Five Year Forward View has committed to, as clearly no additional funds are imminent. A lack of new money for social care will heighten Labour's arguments about the incoherence of current health and social care policy. If a resulting crisis does emerge in the social care sector, as many predict, this could create an NHS creditability challenge, particularly if compounded by the political consequences of hospital closures that will result from emerging STPs.

Robert Ede
Senior Political Consultant

The Whitehouse Consultancy

Autumn Statement 2016 Overview

Energy

Delays to Carbon Price Support and LCF

Important decisions on the future shape of the levy control framework, and the carbon price support have been delayed until March 2017 at the earliest.

Uncertain future for renewable investment

The Chancellor has chosen not to publish the government's response to **Charles Hendry's review of Tidal Lagoons**, or reveal the outcome of the ongoing privatisation of the Green Investment Bank.

Boost for electric vehicles

As part of a new productivity fund, the Chancellor has made a further **£390 million** available for cleaner transport deployment, including **£80 million funding** for EV charging infrastructure.

Improved outlook for north sea oil and gas

HMT estimate revenues from the north sea will reach **£900 million by 2017-18**, as the price of crude shows signs of recovery.

"An absence of clarity over the carbon price support creates headaches"

The Chancellor chose to lead on a pledge for £23bn in new infrastructure investment, but this cross-sector fund, reminiscent of the policies advocated by Labour's Miliband and Balls, is likely to result in only selective interventions in the energy industry. The delays to announcing the future funding regime for renewables will also concern private sector investors, whilst an absence of clarity over the carbon price support post-2021 creates a headache for power plant submitting bids into the upcoming capacity market. However, additional funding for low-emissions vehicles and renewable transport fuels is a welcome boost – and the £4.7bn of additional productivity funding in R&D may present opportunities for disruptors in the energy market.

Robert Ede
Senior Political Consultant

The **Whitehouse** Consultancy

Autumn Statement 2016 Overview

Education

£50 million of new capital funding per year for expansion of existing grammar schools

The controversial announcement reflects proposals in the recent '**Schools that Work for Everyone**' White Paper.

Department for Education budget to be unchanged

An increase in the size of the deficit will not result in any cuts to the education budget, although the **real-terms funding cut of around 8%** for schools between 2015 and 2020 will still occur.

Adult education budget in London to be devolved to city from 2018/19

London joins eight other regions with which **skills devolution** deals have been reached.

"Stability in the education budget is to be welcomed"

Any hope that the Chancellor might choose to smile on the education sector with substantial investment in schools infrastructure was largely dashed, with only £50m per year in capital funding to expand existing grammar schools from 2017/18 being announced. This is a bit of a hedging of bets by the Government, as building new selective schools will require a change in the law – a measure that is by no means guaranteed to get through Parliament.

More broadly, stability in the education budget is to be welcomed. Although inadequate to support existing and future need, the prospect of further cuts that would have made an already difficult situation worse have disappeared for the moment.

The Government's move to devolve adult education to London has built on agreements that have already been made with regions including Tees Valley, West Yorkshire and Greater Manchester. However, local accountability will bring local blame if things do not go according to plan.

Rowan Allport
Associate Political Consultant

Autumn Statement 2016 Overview

Transport & infrastructure

Ultra-low emission vehicles given boost

£390 million committed to support ultra-low emission vehicles, renewable fuels and connected and autonomous vehicles, helping ULEV charging infrastructure and development of alternative aviation and heavy goods vehicle fuels.

£1.1bn committed to addressing congestion and roads

Roads and local transport will be targeted for improvements during the current Parliament to relieve congestion and delivering much-needed upgrades. **An extra £220 million will be invested** to tackle pinch-points, and the Expressway road between Oxford and Cambridge has been backed with a **£27 million fun**d.

MoJ to consult on proposals to tackle whiplash culture

A consultation on plans to reduce escalating numbers of **whiplash claims** and allow insurers to cut premiums. Proposals include raising small-claims limits for all personal injury claims to £5,000 and removing compensation for pain, suffering and loss of amenity for minor soft tissue injury claims or reducing compensation by setting a fixed payable amount.

> "Plans for whiplash reform are back on the agenda"

Targeting the development of future markets like electric and autonomous vehicles will be welcomed by many. The Government envisages major expansion of electric and advanced hybrid vehicles in the next five years – aligned to both the decarbonisation agenda and the opportunities for the UK to become a world-leader in future transportation.

Proposed reforms to personal injury claims were announced in last year's Autumn Statement but were mothballed as the MoJ focused on prison reform. But the change in ministers means the plans are back on the agenda, with the capacity to significantly reduce the volume of whiplash claims and cut car insurance costs. The number of whiplash claims is 50 per cent higher than a decade ago, despite the fact that our roads are among the safest in Europe and fewer accidents are being reported.

Benjamin Rochelle
Senior Political Consultant

To discuss how we can help your organisation please contact:

Helen Munro

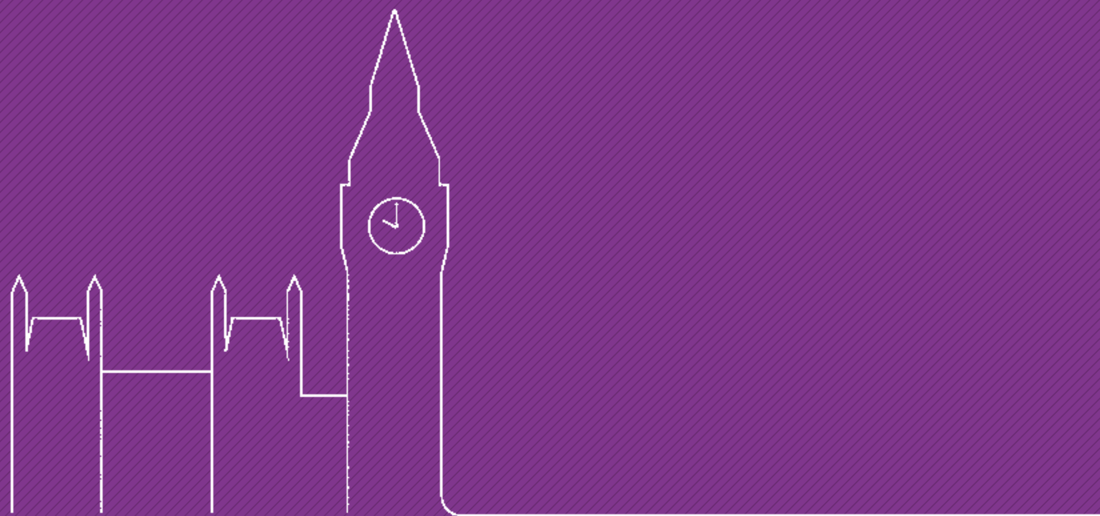
t: +44 (0)20 7014 3204

m: +44 (0)7577 448808

e: helen.munro@whitehouseconsulting.co.uk

@WhitehouseSE1

www.linkedin.com/company/whitehouse-consultancy



The **Whitehouse** Consultancy

Issues-led communications