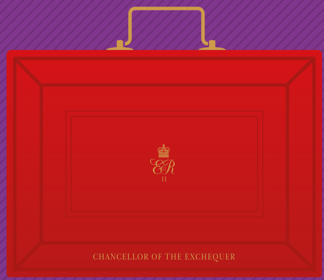

Budget 2017 Overview

An Insights and Analysis Briefing from The Whitehouse Consultancy

The Whitehouse Consultancy

Issues-led communications 020 7463 06901 info@whitehouseconsulting.co.uk www.whitehouseconsulting.co.uk

Budget 2017

Introduction

> "While Philip Hammond is in a happier place than he might have expected, his job in balancing a raft of competing demands is no less challenging."

Philip Hammond's first and last spring budget could have been given in very different circumstances.

When the UK voted to leave the EU eight months ago, many an economist – the Governor of the Bank of England included – expected the economy to suffer. Growth would stall. Unemployment would rise. And the Chancellor would face arguably the toughest budget since the dark days of the credit crunch and the beginning of austerity.

That, of course, hasn't happened. The UK economy has exceeded the expectations of many, outperforming other developed nations, thanks to sustained consumer spending, global economic growth and prudent political management. But while Philip Hammond is in a happier place than he might have expected, his job in balancing a raft of competing demands is no less challenging.

Domestically, the Chancellor has been pressed to find more money for the NHS and social care, while also being urged by business not to raise revenue by putting up rates. And with Brexit casting a long shadow, Mr Hammond also needs to find the money to fund the UK's departure from the European Union.

It's a complex set of challenges for the Chancellor, who also needs to reassure the public and prospective foreign investors that Britain is and will remain open for business.

Helen Munro
Managing Director

For information and analysis on the impact of Brexit, the negotiations process and timetable, please visit **www.whitehouseconsulting.co.uk/project-brexit/**

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Budget 2017

Health

£2bn for social care over three years

In response to persistent pressure, there'll be an **extra £2bn of funding for social care** over the next few years – including £1.2bn available in 2017/18.

A green paper on social care funding

The Government will **publish a green paper later this year** on the future of social care funding – but despite recent reports, it's already ruled out a "death tax" on estates to help plug the gap.

Capital funding for advanced STPs

Hammond hailed the progress made in developing STPs, but acknowledged that some plans need further capital investment – with **£325m of capital funding announced** for the most advanced STPs.

£100m for GP triage in A&E

£100m of funding was announced to pay for GPs **to provide triage services in A&E departments** next winter – with the hope that this will reduce inappropriate use of A&E and hence pressure on services.

"Social care funding will remain a tough nut to crack."

It was no surprise that social care was the focus of the health-related announcements, with pressure building from a range of stakeholders over the winter. £2bn over three years (with £1.2bn available for 2017-18) is not nothing, but it falls far short of the £2bn the King's Fund says is needed to make social care sustainable for just one year. Perhaps the Chancellor's announcement of a green paper on the future of social care funding is a recognition of this. The real question, following the work of the Dilnot Commission in the last Parliament – with its recommendation on capping the cost of care still unimplemented – is what new light can be shed on this topic. With a "death tax" ruled out, social care funding will remain a tough nut to crack. But without a long-term funding solution, it'll continue to put extra pressure on an already squeezed NHS.

Frances Powrie
Senior Political Consultant

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Budget 2017

Education

£320m for new free schools

The funding will be used to open **30 free schools between now and 2020** with a further 110 in the next parliament.

Extra funding for school infrastructure over the next three years

£216m will be allocated to help redevelop and refurbish existing schools working out at around £9,000 per school. The National Audit Office says that it would cost £6.7bn to bring all school buildings up to a satisfactory standard.

New Education White Paper

A new White Paper is to be published "in the coming months" and will build on proposals in the recent Schools that Work for Everyone green paper including the **expansion of the grammar school system**.

Free school transport extended to disadvantaged children who attend a selective school

An existing entitlement to **free transport for pupils eligible for free school meals**, or whose parents claim the maximum working tax credit payments, will be extended to cover selective schools

> "New free schools could choose pupils on academic merit if the Government can get parliamentary support to lift the ban."

The Government's funding for new free schools will be spread out over the next few years, with £20m spent during the next 12 months, £30m in 2018-19, £50m in 2019-20 and £280m in 2020-21. The Prime Minister's pledge to end the ban on grammar schools during this parliament means that any of the new free schools could opt to choose pupils on academic merit if the Government can find the necessary parliamentary support to lift the ban.

Meanwhile the Chancellor's announcement that disadvantaged pupils will be offered free transport to grammar schools 15 miles from their home is intended to silence claims that children who cannot afford to travel to their nearest grammar will be excluded by default. Expect the move to prompt criticism from grammar school sceptics with concerns that it could adversely impact pupil numbers and therefore funding levels at comprehensive schools within 15 miles of selective schools.

Benjamin Rochelle
Senior Political Consultant

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Budget 2017

Financial Services

Growth forecast for 2017 increased to 2%

OBR revises expectations for this year's growth upwards following continued growth post Brexit referendum

National Insurance for self-employed to rise

NI contributions for self-employed will increase from 1% to 10% from April 2018

Reduction in tax free dividend allowance

Allowance to be reduced from £5,000 to £2,000 from 2018

Renewed focus on tax avoidance

Measures to include tackling abuse of foreign pension schemes and new penalties for enabling tax avoidance that's defeated by HMRC

Business rate relief with cap on increases for small businesses

Businesses losing small business rate relief to have bill increases capped at £50 per month

"Do National Insurance increases for the self-employed break a Tory manifesto pledge?"

Markets will likely welcome the OBR's upwardly revised forecast for growth, while additional measures to tackle avoidance are unsurprising from a Conservative government that's made significant efforts to clamp down on tax avoidance since 2010. The headline announcement is the increase in National Insurance Contributions for the self-employed from 2018. The immediate question is whether this breaks a Conservative manifesto pledge, while longer-term we will have to see what impact this has on levels of self-employment that have driven reductions in unemployment to an 11-year low. The Chancellor has also bowed, at least somewhat, to business concerns by trying to cap business rate increases particularly for small businesses – but ultimately the revenue rates bring in makes abolishing them entirely a non-starter with the Treasury.

Chris Rogers
Associate Director

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Budget 2017

Transport

Hike in Vehicle Excise Duty

VED rates for cars, vans and motorcycles registered before April 2017 will **increase with vehicle owners paying a minimum of a full year's VED** regardless of how long they own the vehicle.

£690m competition to tackle congestion

The Government will create a **£690m competition** for local authorities to reduce urban congestion and get local transport networks up and moving.

No launch of the diesel scrappage scheme

The Government has delayed announcing a diesel scrappage scheme and is instead exploring appropriate tax treatment for diesel vehicles which will be set out in the Autumn Budget.

> "Continued investment highlights the Government's aim for the country to be at the forefront of future vehicle technology."

The Treasury's decision to increase Vehicle Excise Duty will present serious challenges for businesses and vehicle owners across the UK. An Oxford Economics Report commissioned by the British Vehicle Rental and Leasing Association (BVRLA) has found that the Government's new measures will amount to a tax bill of £55 million for the car rental sector and lead to 24,800 fewer vehicles on the road. The Treasury has indicated that there may be appetite to review the impact of these measures later this year.

Meanwhile continued investment into driverless cars and the design, development and manufacture of batteries for electric vehicles highlights the Government's aim for the country to be at the forefront of delivering future vehicle technology. The Industrial Strategy Fund, which was first announced by the Prime Minister at the CBI conference last November, will support collaborations between business and the UK's science base and address the future needs of the transport industry as well as considering potential new markets which will deliver economic impact, jobs and growth across the country.

Benjamin Rochelle
Senior Political Consultant

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Energy

Levy Control Framework to be replaced

A new set of controls will be set out later this year, despite earlier Government promises to clarify support for renewables during the Spring Budget

No relief for roof-top solar

Despite a persistent lobbying campaign, the Treasury has **resisted calls to give relief from the commercial PV installations** when new business rates enter into force next month.

Oil and gas sector receives additional boost

As OBR figures show lower-expected tax receipts from the North Sea, the **Government will review how it can support late-life assets**.

£270 million for disruptive technologies

The first tranche of the Industrial Strategy Challenge Fund has been announced, which will include money towards the **development of next generation electric vehicles**.

"The list of delayed initiatives and strategies grows longer by the day."

In many ways, this was a quiet Budget. Philip Hammond and his Treasury team announced just 25 new policy measures – a significant deviation from the system-wide approach favoured by his predecessor George Osborne. Under this more selective process, the energy and climate sector finds itself struggling to achieve political airtime.

Perhaps the greatest concern from the Budget are the clues that preparations for Brexit are distracting Whitehall from domestic policy development. The list of delayed initiatives and strategies grows longer by the day. We are still awaiting clarity on: the Emissions Reduction Plan, the coal phase-out, tidal lagoons, remote island wind, the future of large scale solar and onshore wind, the SMR competition, and the smart power strategy. Industry patience is not eternal, and attention now turns towards the Autumn Budget in November, which must justify expectations in the way that this Spring Budget did not.

Robert Ede
Senior Political Consultant

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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

w: www.whitehouseconsulting.co.uk

@WhitehouseSE1

www.linkedin.com/company/whitehouse-consultancy