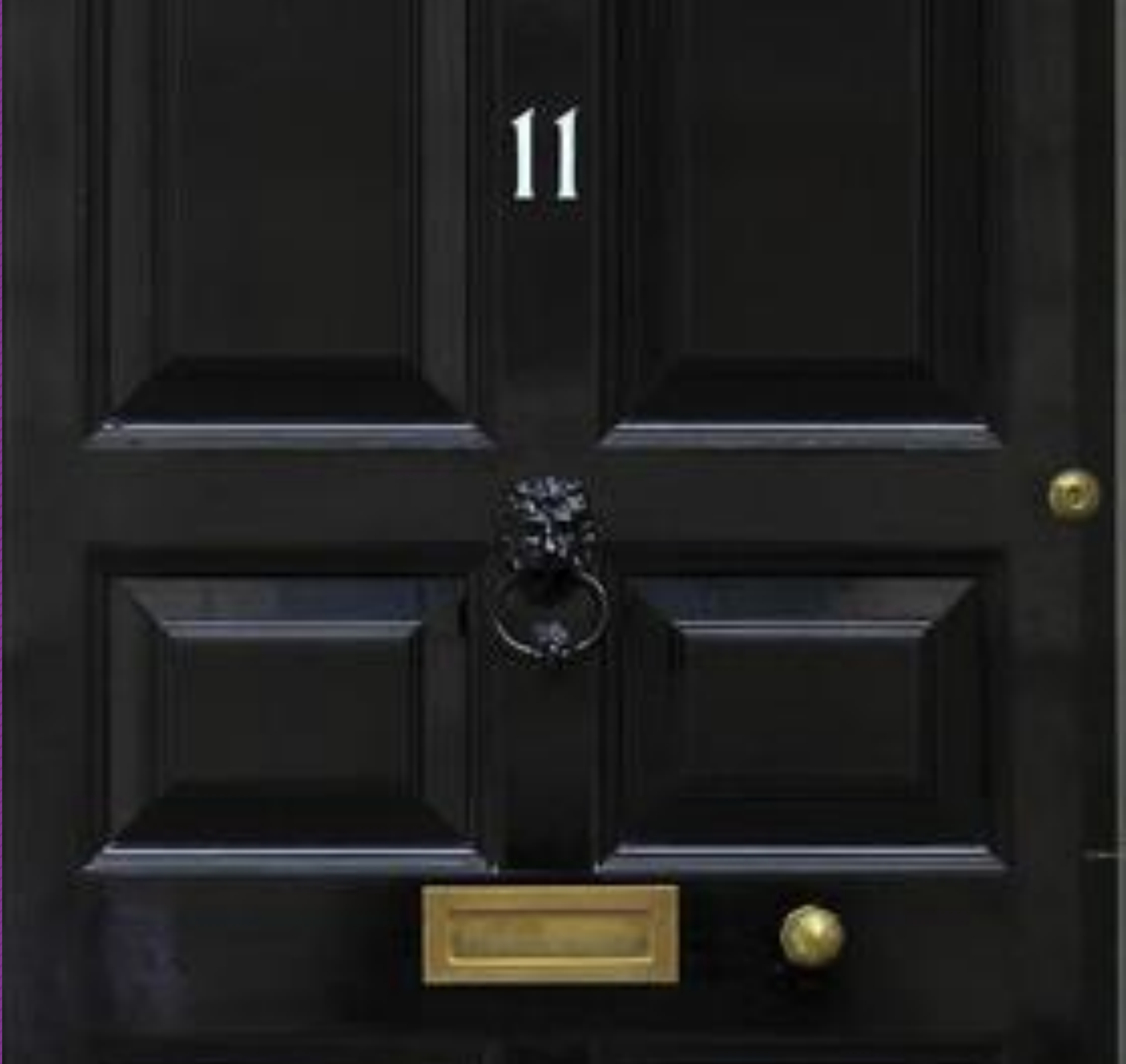
The Whitehouse Consultancy

Autumn Budget 2018
Whitehouse analysis

Monday 29th October 2018



Summary:

Chancellor Philip Hammond used this year's Budget to declare that "austerity is finally coming to an end." Note he did not say "over."

Hammond scattered around more cash than expected – for schools, social care, defence, mental health and... potholes. But these moves will largely be held up as gesture politics. £400 million extra for schools in this financial year to cover "the little extras" averages a mere £10,000 per primary school and £50,000 per secondary school. This will have minimal impact if it's supposed to cover TAs, teachers, SEND support, crumbling buildings and the apprenticeship levy.

Changes to universal credit should mean that fewer people actually lose out when they move onto the new benefit and the £1 billion for the MoD to "boost our cyber capabilities and our anti-submarine warfare capacity" is a major win for Defence Secretary Gavin Williamson. But is it enough to convince the public that the Chancellor really means to "spend, spend, spend"?

Ultimately the main domestic event of this financial year is not today's Budget but the Brexit negotiations. There was, in fact, very little mention of the other 'B' word in today's Budget but the Chancellor will be all too aware that this statement will have to be ripped up in the event of a no deal with an emergency budget required in the new year.

Chris Whitehouse, Chairman

Economic forecast from the OBR

- **Growth is likely to move up slowly over the next five years: upgraded from 1.5% to 1.6% in 2019, and likely to be 1.4% in 2020, 1.4% in 2021, 1.5% in 2022, and 1.6% in 2023.**
- **3.3m more people are in work since 2010 and employment is predicted to increase by 800,000 by 2023.**
- **Inflation is likely to be 2% in 2019 and there will be sustained real wages growth over the next five.**

Fiscal

- **The deficit is likely to be down to 1.4% next year and falling to 0.8% by 2023/24.**
- **Borrowing is £11.6bn lower than was forecast in March. It will fall from £31.8bn in 2019/20 to £19.8bn in 2023/24. This will enable the government to reduce the national debt and inject more money into the forthcoming Comprehensive Spending Review.**
- **National debt peaked at 85.2% in 17/18, fell to 83.7% this year and is likely to fall to 74.1% in 2023/24.**

Brexit

- **An extra £500m has been allocated for departments to prepare for Brexit (bringing the current total to £4 billion) – this will be allocated across departments in forthcoming weeks.**
- **The Chancellor has said that he will take action during the year if the economic or fiscal outlook should change.**

Sector analysis:

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Brexit

The Chancellor announced that he was prepared to do "whatever is necessary" to support the United Kingdom as it departs the European Union. At the weekend, Mr. Hammond confirmed that if the UK is to leave the EU without a deal, then he may be forced to introduce an emergency budget in the Spring in order to support investment in the UK and boost consumer confidence.

An additional £500 million has been allocated to Government departments for Brexit preparation, whilst the Government's decision to increase the UK Export Finance's direct lending facility by £2 billion shows a firm desire to boost the country's 'Global Britain' outlook. However, economic and political uncertainty overshadowed many of the announcements. Given the OBR predicts that the UK economy will not grow by more than 1.6 per cent between now and 2023, the IMF has cut the global growth forecast,

Yet the Chancellor has more room to manoeuvre and spend than many analysts had predicted. Pay growth is at its highest level since 2009, with regular pay (excluding bonuses) showing 3.1 per cent year-on-year growth in October, thus demonstrating strong domestic demand for products. However, given the increased likelihood of no-deal given the continuing debate over the future of the Irish border, there was little to reassure businesses on the whole.

There were no announcements about extra investment in key transport hubs, such as ports, or attempts to alleviate fears over upcoming delays to importing goods. Furthermore, there were no announcements about new technologies at the border, and no news about ways in which the Department for Exiting the European Union could better support and advise businesses as they prepare for Brexit and the possibility of a 'no deal'.

Health and Social Care

The news that the Government is planning to invest £20 billion into the National Health Service by 2023/24 is nothing new, with the proposal to provide extra resources first announced at the beginning of the summer. What the Chancellor did do in this week's budget was to provide further clarity on where the additional funding is headed. A new 24/7 mental health service hotline is to be established, with extra money for mental health ambulances and a new mental health crisis service.

The Chancellor also managed to find some extra cash for Air Ambulances, which were handed an additional £10 million, and health research and development, which will be awarded £50 million.

Cue cheers from the Conservative benches and claims that Mr. Hammond has "succeeded" in providing a financial buffer to Brexit and delivering extra funding to the Health Service. Fiscal Phil, was credited with maintaining the image of a responsible Second Lord of the Treasury, whilst giving the public sector the breathing space it needs in order to invest in priority services.

However, many fear the celebrations are premature. Critics are already arguing that any additional funding for the Health Service won't revolutionise the patient experience, as rises in inflation mean that the costs of supporting the NHS as it currently stands are expected to increase £19 billion by 2023/24. Expectations need to be managed, and the room to expand the Health Service's operations dramatically may not be as considerable as some would lead us to believe.

Whilst the additional funding for research and development will be warmly welcomed alongside the creation of new scientific research fellowships, especially given Britain's leading role worldwide as a base for technological and health innovation, questions remain over the impact any such increase in investment could have. In 2015, the National Institute for Health Research alone directed £3.5 billion of investment from the Government, charities and life sciences industry in to health research; and that's without taking in to account the significant amount of money spent by the private sector developing new drugs and products.

One sector of health which celebrated additional funding was social care, which was guaranteed £650 million of extra funding, vital if the UK is to meet the health demands of an aging population. However, many have questioned whether the investment in social care has come at the price of other key health policies, including public health and community nursing, which received no mention in the Budget despite the widespread reorganisation of their services. Supporters of the government will say the Chancellor is facing up to Britain's problems. Others will argue that he is ignoring the sectors of healthcare which do not grab public attention and newspaper headlines.

Overall, The Budget was a mixed bag for healthcare. Many were hoping for widespread reforms and more announcements about where the £20 billion extra guaranteed for the NHS would come from, and where it would go. A safe speech, by the Chancellor, but will it allow the government to keep critics at bay, survive Brexit and push the Conservatives in to territory where they can win an overall majority? Only time will tell.

Tech

One of the biggest headline announcements in the Budget, with much speculation in the weeks leading up to it, is that the Government will look to implement a new UK Digital Services Tax, targeting large tech companies that pay low levels of tax in the UK.

The Chancellor also made clear who this was aimed at noting "it will be carefully designed to ensure it is established tech giants – rather than our tech start-ups – that shoulder the burden of this new tax". Specifically, the only companies liable to pay this 2% tax will be those which generate at least £500 million a year in global revenues, putting Google, Facebook and Twitter in the firing line.

This is set to come into effect in 2020 and expected to raise over £400 million a year. However, the Chancellor made clear that his preferred option is international cooperation to hold these companies to account for the tax they pay. The complication here is that the US are determined to resist such a tax that will largely target Silicon Valley based businesses. There are further concerns that if the UK creates a tax environment that is too hostile for these companies, many may relocate large parts of their operations elsewhere.

The Government still has to consult on the new tax, but it will continue to talk to the OECD and G20 about a joint solution that could replace the UK Digital Services tax.

The recent announcement that former Deputy Prime Minister Nick Clegg has joined Facebook as the head of its global affairs and communications team also gave Hammond one of the best jokes of his speech: "I'm already looking forward to my call from the former leader of the Liberal Democrats".

Defence

- An additional £1 billion across 2018-19 and 2019-20. Together with the funding announced in March 2018, Defence will have benefitted from an additional £1.8 billion over 2018-19 and 2019-20.
- An additional £160 million in 2019-20 for counter-terrorism policing, ensuring that forces across the country are equipped to work closely with communities and keep citizens safe.
- Up to £70 million pledged to construct the national element of the Defence and National Rehabilitation Centre (DNRC) near Loughborough. The new facility was formally gifted to the nation by the Duke of Edinburgh in June, with the old site at Headley Court closing.
- A £10 million donation to mark the Centenary of the Armistice by supporting veterans with mental health needs.
- £1.7 million spent on educational programmes in schools to mark the 75th anniversary of the liberation of concentration camps.

The cash boost for the MoD means that the armed forces will avoid any immediate cuts to personnel or capability. The Royal Marines won't be reduced in size, the potential scrapping of HMS Bulwark or HMS Albion will be avoided and the number of F35 fighters on order will remain the same. This is a win for Defence Secretary Gavin Williamson who has fought hard to get this cash.

The MoD isn't totally out of the woods. The department faces a black hole of £20bn and will have to wait until next year's spending review to hear whether additional funding can be secured. But for now at least Mrs May has appeased the restless cohort of Tories for whom defence remains a top priority.

Education

- **Schools have been given a £400 million in-year bonus for teachers, to support them in buying the "little extras". This funding equates to an average of £10,000 per primary school and £50,000 per secondary school.**

- **Hammond pledged £1.7 million of funding to the teaching of the Holocaust "and the British soldiers who liberated them."**

Despite the Chancellor highlighting that 86% of schools are now rated good or outstanding and a number of new funding announcements he was challenged by both the opposition and the unions. Shadow Education Secretary Angela Rayner criticised the funding by saying it "isn't really extra but it is certainly little" while the NEU Joint General Secretary Kevin Courtney has said that the new one off funding announced will do "nothing" to address the serious funding gaps facing many schools. The additional funding for schools to cover the "little extras" will have minimal effect if it's intended to cover TAs, teachers, SEND support, crumbling buildings and the apprenticeship levy.

Energy

The Chancellor had little to say about the energy industry except to highlight that he would be maintaining the current tax regime for oil and gas. However, there were in fact a number of policies outlined within the Budget Red Pages.

- **The Government will maintain the current oil and gas tax regime.**

Following positive tax changes for the oil and gas industry in last year's Budget, the industry will be relieved to see that the Chancellor has decided to retain the current regime. The Chancellor also reiterated a pledge to make the UK, the world's leaders in decommissioning, specifically targeting the North Sea industry. As part of this the Government will consult on making Scotland a "decommissioning expert hub".

- **In the event of a no deal Brexit and the UK ceasing to operate in the EU Emissions Trading System, the Government would introduce a Carbon Emissions Tax.**

According to the Government a Carbon Emissions Tax would help ensure the UK stays in line with its legally binding carbon reduction commitments under the Climate Change Act (2008). This would apply to all installations currently participating in Emissions Trading System from 1st April 2019. A rate of £16 would apply to each tonne of CO2 emitted above an installation's emissions allowance, broadly in line with the current European Trading Scheme prices.

- **The rate for the Climate Change Levy will be lowered for electricity in 2020/21 and 2021/22, whereas the rate for gas will be raised.**

The levy, designed to encourage non-domestic users to be more efficient with their energy use, is likely being changed to reflect the growing decarbonisation of electricity, but lack of progress in decarbonising gas. The Budget also notes that other fuels, including coal, are likely to align with the gas rate.

Environment

Despite the high hopes of many environmental campaigners, the Budget failed to hit the mark . Given the rhetoric from Michael Gove and the Chancellor himself on tackling the scourge of plastics, the measures set out were relatively minor.

- **Government is to introduce a tax on plastic packaging imported to or manufactured in the UK that is not made up of at least 30% recycled materials.**

Plastic packaging has been one of the most attacked areas of waste, with the supermarkets in particular facing strong criticism from consumers and campaigners. However, the proposed tax will go through a consultation and is not due to come into force until April 2022 giving supermarkets time to adapt. It is also unclear as to which exemptions might be applied to the tax. Alongside this a further £20 million fund was announced with the aim of tackling plastics and boosting recycling.

- **Government will not introduce a tax on single use plastic cups, maintaining that this won't deliver a "decisive shift" away from plastic waste.**

Following a consultation into a single-use plastic tax by the Treasury that received a staggering 162,000 responses, the largest response in the Treasury's history, Hammond has concluded that now is not the time for a single-use tax. The winners from this will be the fast food and takeaway industry. However, Hammond did caveat the announcement with a warning, that if industry doesn't make progress on this issue he will return to it. The question for industry now is what the Chancellor's definition of progress is?

Housing

This is a policy area of paramount importance to the future electoral success of the Conservative Party. With the difficulty young people face getting onto the housing ladder, many are blaming the Conservative Party and turning to Labour. As part of a corrective strategy, the Chancellor has unveiled a range of giveaways to young people. However, there are still question marks over how the Government will increase the level of housebuilding which, whilst improving, is still at low levels.

- **Help to Buy will be extended by two years to 2023**

The Chancellor said that Help to Buy, the cornerstone strategy of the Conservative Party, to get young people onto the housing ladder has already helped 121,500 young people and that the number of first-time buyers is at an 11-year high. However, the scheme has also faced criticism for overinflating house prices, whilst others argue that the money behind the scheme has been absorbed by housebuilding firms.

- **Retrospective inclusion of first-time buyers of shared ownership in the stamp duty relief.**

First time buyers were given stamp duty exemptions in the 2017 Autumn Budget for properties worth up to £500,000. Now the Chancellor has announced a cut to stamp duty for first time buyers of shared ownership properties up to the same amount. Further to that, this is a retrospective cut meaning that it will go back to all property purchases since last year's Budget.

Transport

- **Fuel duty freeze**

The freeze to fuel duty for the ninth successive year will save the average driver a cumulative £1000 by 2020 according to the Treasury. Had the fuel duty escalator continued as planned from 2011 onwards, fuel duty would today be 83.33 pence per litre rather than 57.95 pence per litre, 43.8% higher.

- **Following the implementation of the Worldwide harmonised Light vehicles Test Procedure, the Government will review the impact on Vehicle Excise Duty (VED) next Spring.**

The new test, created in the wake of the VW emissions cheating scandal, is likely to have the effect of raising a number of cars up VED tax brackets. For the car leasing sector this is likely to have a major impact and incur significant cost.

- **Local authorities to receive £420 million to tackle potholes.**

This policy will be met positively by all MPs who are regularly called to engage with constituents on the matter of potholes. The announcement will also be welcomed by transport groups who have been warning that the UK's roads are in need of new funding for basic maintenance.

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