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AUTUMN STATEMENT HIGHLIGHTS

23 November 2016

The Chancellor of the Exchequer Phillip Hammond delivered his inaugural Autumn Statement today, coinciding with the latest update on forecasts for growth and borrowing from the Office for Budget Responsibility (OBR).

In his speech Philip Hammond praised the work of his predecessor George Osborne and reiterated the need to carry on with his good work and continue to play to our strengths. However, he also said that we must also tackle our weaknesses including low productivity, the housing gap and an imbalance in the growth and prosperity of individuals across the country.

Chancellor Hammond said this was an Autumn Statement which would build an economy for everyone and every part of the UK.

The major priorities of this Annual Statement were, he said to, “Prioritise high value investment which will directly contribute to raising the UK’s production. We lag both the US and Germany in terms of productivity by 30 percentage points, France by over 20 points and Italy by 8 points.” To tackle this he today announced a National Productivity Investment Fund (see below) to “invest today for the future”.

Chancellor Hammond also went on to say, “We do not invest enough in research, development and innovation. As the pace of technology advances and competition from the rest of the world increases we must build on our strengths in science, technology and innovation to ensure that the next generation of discoveries is not only made in Britain but also developed and researched here”. R&D projects, as a result, will receive £2bn.

Also receiving extra boosts were infrastructure and housing.

The Chancellor announced that this was to be his first and last Autumn Statement. He said that no other major economy in the world makes hundreds of changes to policy twice a year and following recommendations from the IMF, IFS and the Institute for Government that the UK will now no longer do so.

Next March will see the last spring Budget and in 2018 the spring Budget will be replaced by a Spring Statement, a mandatory report on the government’s progress to parliament.

To close his first and last Autumn Statement Philip Hammond said, “The OBR Report today confirms the underlying strength and resilience of the British economy. This Autumn Statement responds to the challenge of building on that strength whilst also heeding the warnings of the OBR’s figures as we begin writing this new chapter in our Country’s history.

It reinstates our commitment to living within our means and sets out our choice to invest in our future.

It sends out a clear message to the world that Britain is open for business and it provides help for those who need it now.

We have made our choices, we have set our course. We are a great nation, bold in our vision, confident in our strengths, and determined in our ambition to build a country that works for everyone”.

The main highlights and reports from the OBR (Office for Budget Responsibility) can be viewed below).

ECONOMIC GROWTH

Growth forecast

In light of the higher uncertainty following the impact of 'Brexit' the OBR has revised growth as slowing before recovering. In their report the OBR raised issues of market stability following 'Brexit' and the impact this would have on the reliability of forecasts. These were however reported today as follows:

2016	2.1%	2017	1.4%
2018	1.7%	2019 & 2020	2.1%
2021	2.0%		

Borrowing forecast

The OBR have revised borrowing figures to:

2016/17	£68.2bn	2017/18	£59bn
2018/19	£46.5bn	2019/20	£21bn
2020/21	£20.7bn	2021/22	£17.2bn

Whilst the previous Chancellor had given a commitment to a surplus by 2020 Philip Hammond has announced plans to spend £100bn between now and the next decade to make investments in much needed infrastructure, technology and productivity (see below). He announced that there would, therefore, be a deficit of £21bn going into the next General Election.

Key highlights:

PRODUCTIVITY

- A new £23bn National Productivity Investment Fund is to be launched which will be available over the course of 5 years.

INFRASTRUCTURE

More funding will be given to keep Britain moving. This includes:

- £1.1bn to be invested in local English transport networks.
- £220m spend to help traffic pinch points on strategic roads
- £390m will also be invested in projects to help us build competitive advantages such as developments on low emission vehicles.
- In a bid to make the UK one of the leading 5G mobile providers a £1bn investment in the UK's digital infrastructure will be made.
- £450m funding will also be given for a trial of digital signaling for Britain's railway network.
- Infrastructure investment is set to rise to between 1-1.2% of GDP from 2020.

GOVERNMENT SPENDING

All government department debts plans would remain in place with the exception of the Ministry of Justice which is to receive extra funding to recruit an additional 2,500 prison officers to alleviate conditions within UK prisons.

HOUSING

A Housing White Paper will be launched to focus the government on the key issues facing the housing industry. In the meantime, however, The Chancellor committed to the following spends:

- A new £2.3bn Housing Infrastructure Fund to help provide the necessary infrastructure to build 100,000 new homes in areas of high demand.
- £1.4bn to be spent building 40,000 new affordable homes.
- Rules to be relaxed on providers as to what they can build, although no details yet given.
- A large scale regional 'Right to Buy' pilot will be staged for housing association tenants.
- In a bid to regulate the private letting market there will be a ban as soon as possible on fees to tenants.

LIBOR BANK FINES

- £102m of the Libor fines will be given to Armed Forces and Emergency Services charities including £20m for the Defence & National Rehabilitation Centre in Rotherham.

BUSINESSES

- A planned £6.7bn package is proposed to reduce business rates.
- For Britain to remain the number one destination for businesses, creating jobs and prosperity, the Chancellor confirmed plans that the previously announced cut to the Corporation Tax to 17% will continue on schedule.
- The Rural Rate Relief will be increased to 100% for small businesses located in rural communities. This will result in a tax break of up to £2900 per small business per annum.
- The Chancellor announced that from April 2017 he would align the employee/employer NI thresholds to £157 per week. There is no cost for employees but employers will see an additional £7.18 per employee per year.
- Salary sacrifice, where certain employers/employees can sacrifice some of their salary to pay less on benefits in kind, is to be addressed to make the system fairer for all. Exclusions will be made, however, for childcare, low emission cars, Cycle to Work scheme and pension contributions.
- The self employed and employers will be a focus on tax avoidance initiatives to raise an additional £630m of additional revenue. This will include:
    - Shutting down inappropriate use of the Flat Rate VAT Scheme.
    - Abolishing the tax advantages of Employee Shareholder Status in response to the growing evidence that this is mainly being used in the tax planning of high net worth individuals.
    - A new penalty will be introduced whereby HMRC can fine any individual/business which it challenges and defeats for dubious tax avoidance schemes.

INSURANCE PREMIUM TAX

- To also help pay for tax reliefs the Insurance Premium Tax, one of the lowest rates of any country will be increased from 10% to 12% from June 2017. Compensation for whiplash injuries is to end which should, however, save the average driver £40 per annum on their policy.

TAXES AND ALLOWANCES

- The tax free personal allowance is currently £11,000 and will rise to £11,500 in April 2017. Philip Hammond confirmed today that Theresa May's government would continue increasing this in line with the Conservative's previously announced plans to £12,500 by the end of this parliament. The higher threshold rate would also be increased by the end of this parliament to £50,000.
- The National Living Wage (NLW) set currently at £7.20 per hour for adults will be increased to £7.50 from April 2017, effectively a pay rise of over £500 for the full-time worker.

FUEL

- For the seventh year running the fuel duty rise has been scrapped saving the average car driver £130 per year and the average van driver £350 per year. This, incidentally, is the longest freeze of fuel duty for 40 years.

SAVERS

- To help people who rely on their savings to 'get by' the government will launch a new market leading saving bond run through NS&I. Whilst the full details are yet to be finalised it is expected that the interest rate will be 2.2% gross over 3 years and it is expected that 2 million people will benefit.

Comment by Liam McHugh, Partner, Sittingbourne

"*Hardly surprisingly this Autumn Statement did not have any major surprises in store. Like Old Mother Hubbard the cupboard these days is rather bare in terms of revenues for further tax incentives and initiatives.*

In his speech the Chancellor did commit support for technology, infrastructure, R&D to make the UK a competitive force in the world and to attract new business investment.

Tax avoidance measures are still in place and whilst the UK tax gap is at its lowest recorded level and one of the smallest tax gaps of any major economy there is still a need to address areas where businesses and individuals are not paying their fair share. New measures have been announced today and, it would seem, we are working towards even tougher measures in terms of penalties for those individuals whose 'tax planning measures' are found to be 'unethical' by HMRC.

There is some help for savers with a new proposed bond but will the inevitable inflation rates as a result of a weaker pound and market insecurity mean that during the next 3 years that all interest rates for savers will increase to a similar or more favourable amount?

Housing has also received a boost but help may yet depend on where you live with more support, it seems to me, suggested for high demand areas such as London and other big cities.

Changes to infrastructure on strategic routes may have a Kent impact but there was little else in the Autumn Statement which targeted this area of the South East with once again talk of Northern powerhouses and help for other areas of Britain. It often feels that Kent does not qualify as the South East anymore but yet still has to compete in a demanding climate.

Drivers will see the benefit of a frozen fuel duty and will no longer need to pay a premium for individuals who seek whiplash claims. However, adding 2% on insurance premiums, vehicular or otherwise, is sure to have an impact on any real value of this.

'Brexit' is once again being used as a universal excuse for all ills, but then it is difficult to know what fiscal impact this will yet have, especially as we have yet to invoke Article 50. Even after we do it will take some time to fully understand the full ramifications.

It is a time of uncertainty but the Chancellor is also right in his closing statement to remain optimistic. This may yet be a key time for the UK to forge history once more, develop new markets and ways of trading and finally break free of EU bureaucracy". **So I will leave you with a new motto – "Fortune favours the Brave".**

If you need any further information about how you will be affected by changes announced in the Autumn Statement then please contact your local MFW office who will be pleased to help you.