



AUTUMN STATEMENT 2016

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OVERVIEW & ANALYSIS

With the fallout from the EU Referendum and Conservative divisions playing out daily in the media and Parliament, the new Chancellor of the Exchequer, Phillip Hammond is under pressure to use his first Autumn Statement to unite his Party and demonstrate that the Government has a solid plan for the UK's future outside the EU.

The last occupant of Number 11, George Osborne proved himself to be a master of the political set pieces, although even he occasionally got it wrong, like the year he announced a *"pasty tax"*. Phillip Hammond is less of a showman than his predecessor, but he will still want to impress, perhaps by pulling a few rabbits out of his hat, to consolidate his position in the Treasury, and distract the media and MPs from the absence of a Government plan for Brexit.

With Labour still preoccupied with internal division, the Opposition that the Chancellor will be most concerned about is the rebellion brewing on the Government's own backbenches. He should expect to feel the heat from behind him as the new *"awkward squad"* of pro-Remain Conservatives look for leverage in their pursuit of a *"soft"* Brexit.

There's also the pressure from Number 10 to contend with. The new Prime Minister is demanding that her Government's first big economic initiative includes measures to help *"Jams"*. Do you remember the *"squeezed middle"*? Well *"jams"* are the new political target audience. It stands for people who are *"just about managing"*. These are the often 'swing' voters whose living standards could be further eroded next year by rising inflation and the fall in sterling. To target *"jams"*, look out for a continued freeze in fuel duty, cuts to air passenger duty and further childcare subsidies.

Phillip Hammond has inherited a divided nation, with a plummeting pound and an uncertain future outside the European Union. Connect will be watching his first Government set piece as closely as ever – rarely has the Government's plan been of more importance to the UK's long-term future.

BREXIT & THE ECONOMY

It's clear that Brexit will define this Autumn Statement. Businesses, investors and foreign Governments will be looking to the Chancellor for assurances that there is steady hand on the tiller as the UK enters uncharted waters, as well as hints as to what a UK outside the EU might look like. Phillip Hammond has already suggested a break with his predecessor's fiscal policy by scrapping the Government's obligation to achieve a budget surplus by 2020. He's also hinted at an increase in public spending, promising that Theresa May's Government will *"borrow and invest wisely"* to counter any *"shock"* to the economy caused by the Brexit vote. The Autumn Statement will allow him to outline his plans for a *"fiscal reset"* in more detail.

Instead of announcing a raft of major spending commitments, it is likely that he will instead stick to a fiscally conservative path, in order to give himself the fiscal headroom to tackle any sharp Brexit-related slowdown in the economy. However, rumours have also emerged today that the Chancellor has found enough Government savings to honour Conservative manifesto commitments to raise the income tax threshold to £12,500 and to raise the threshold for the 40p higher rate of tax to £50,000.

INDUSTRIAL STRATEGY

As the Government seeks to develop an Industrial Strategy amid uncertainty around whether the Government will seek to retain the UK's membership of the single market, the prospect of a sector-by-sector approach to Brexit negotiations has become increasingly likely. Recent assurances by the Secretary of State for Business, Greg Clark that Nissan will not face tariffs or extra bureaucratic burdens following Brexit have made it clear that other manufacturing and industrial sectors will seek out their own "sweetheart deals" ahead of the UK's departure from the EU.

A recent survey has found that 25% of manufacturers are holding off investment plans amid continued political uncertainty. As such, it is likely that the Chancellor will use this Autumn Statement to signal that the UK remains open for business. In doing so, his strategy will likely deliver a direct fiscal stimulus package supported by high-profile boosts to innovation, research and development and investment in key technologies. This may take the form of extended R&D tax credit allowances for process innovation, a review of the current capital allowance regime for investment and measures to reduce energy costs for manufacturers.

HOUSING & PLANNING

Housing remains an issue high on the political agenda and the Autumn Statement will provide the property industry with a first chance to gauge the new Government's approach and commitment to increasing house building. In particular, the industry will be waiting to see whether the Chancellor announces exemptions on the 3% increase in Stamp Duty Land Tax (SDLT) on second homes introduced by George Osborne last year. The increase in SDLT has especially impacted the buy-to-let and build-to-rent sectors, which are increasingly favoured by Housing Minister, Gavin Barwell, as he looks to a range of tenure types to help solve the housing crisis. It is likely that announcements on modular housing, discount market rent and build-to-rent will feature in the Housing White Paper, expected to be published close to the Autumn Statement.

LOCAL GOVERNMENT

The Chief Executive of Birmingham City Council, Mark Rogers once compared council requests to the Treasury as "*local government letter[s] to Santa.*" In a bid to break with this tradition, local government has been lobbying hard for extra funding for social care ahead of the Statement. Reports into care standards have been published by PwC, the Local Government Association (LGA), UNISON, the Association of Directors of Adult Social Services, the Kings Fund, the Nuffield Trust and the House of Commons Health Select Committee. Chairman of the LGA's Community Wellbeing Board, Cllr Izzi Seccombe summed up the sector's feeling when she said: "*It is vital for our elderly and disabled population that the Government uses the Autumn Statement to provide the funding for adult social care that councils need to ensure we have a care system fit for the 21st century.*"

In addition, councils will be looking to the Autumn Statement for the Government's position on devolution, changes to forecasts and clarification on industrial strategy as a result of Brexit. Secretary of State for Communities and Local Government, Sajid Javid has already offered some clarification, stating that the Government will match all EU funding agreements signed off until the point at which the UK leaves the union, but councils will be keen to see a full demonstration of the Government's commitment to devolution.

DEVOLUTION

The new Prime Minister has made clear her intention to break with George Osborne's pet project, the Northern Powerhouse, so the Chancellor is unlikely to announce details of any new Combined Authority devolution deals, or new Metro Mayoral elections.

However, the Mayor of London, Sadiq Khan has been vocal in his belief that London needs extra powers to better manage the potential economic impact of Brexit. He has let slip that City Hall is currently negotiating a devolution deal for the capital with the Treasury, and has said he is confident that an initial deal will be secured by the Autumn Statement. The Mayor is reported to be asking for extra powers for London in five key areas: housing, transport, skills, fiscal devolution and public services.

PENSIONS

Pensions could well be one of the key talking points in this year's Autumn Statement. Since the introduction of George Osborne's pension freedoms, new saving products such as the Lifetime ISA and the BHS scandal, pensions have been a constant source of headlines.

In the three months since Philip Hammond took over at the Treasury, there have already been a number of changes in direction on pensions reform. Only recently the Government announced that it will not proceed with the implementation of a secondary annuity market due to fears that some pensioners would be vulnerable to mis-selling scams. In addition, plans have been announced to create a single pensions guidance body, and a Green Paper on defined benefit (final salary) pensions is expected before the March Budget.

As the Autumn Statement approaches, there appears to be a growing expectation of reforms to pensions tax relief for higher earners. Two newspapers have been campaigning for this in the run-up to the Statement: The Telegraph, which is calling for the Lifetime Allowance to be scrapped; and The Times, which has suggested abolishing the taper which reduces the Annual Allowance as someone's relevant income rises. Indeed, Philip Hammond's predecessor, George Osborne planned to introduce a flat rate of contribution tax relief in the March Budget earlier this year but dropped the reforms after facing backlash from the industry and the then Pensions Minister, Baroness Altmann.

A flat rate of tax relief would certainly be appealing to the new Government: it could not only generate revenue for the Treasury by generating additional funds to spend on housing and infrastructure, but also fit with the Prime Minister, Theresa May's pledge to *"build a country that works for all...not just the privileged few"*.

EDUCATION & SKILLS

If the Prime Minister's vision of a fairer economy with better opportunities for everyone is to become reality, then extra funding for education and skills may have a role to play in this year's statement. This follows the scrapping of the Education for All Bill in October which signalled a step-change in Government policy.

The Local Government Association has said that Government should reverse the £600m proposed reduction to the Education Services Grant (ESG), warning that the cut would make it hard to maintain improvement within the school system. Shadow Early Years Minister, Tulip Siddiq has also called on the Chancellor to allocate enough money to ensure the 30-

AUTUMN STATEMENT 2016

hours free childcare promise is kept, as well as to provide long-term funding to protect nurseries from closure. The Chancellor is also under pressure to increase funding for 16-18 year olds after the Sixth Form Colleges' Association impact survey revealed that two thirds of sixth form colleges are dropping courses due to cost pressures.

WELFARE & EMPLOYMENT

The Secretary of State for Work and Pensions, Damian Green has said the Government will not reverse any of the welfare decisions that were taken before Theresa May became Prime Minister. This is despite wide-ranging calls for the Chancellor to reverse the planned cuts to Universal Credit. However, when asked if the Autumn Statement would bring a U-turn, Damian Green said *"We have said we are not looking for new welfare cuts – but I'm not looking to reverse what happened in the past."*

The recent Green Paper on Work, Health and Disability means it is unlikely that any major new funding will be announced for employment and welfare. However, it has been suggested that if the Chancellor does have funds to spend, he could look beyond corporation tax to a reduction in the employment tax burden, such as reducing the rate of employer National Insurance contributions to offset the increase in the apprenticeship levy.

HEALTH

Those hoping for an *"end of austerity"* Autumn Statement for the health sector are likely to be disappointed. In addition to local government lobbying on social care, the main concern of the health sector this year is the new Sustainability and Transformation Plans (STPs), slowly being published one by one in the run up to Christmas.

The Nuffield Trust, the King's Fund and the Health Foundation have released a joint briefing on their fears that it will be difficult to implement the STPs with the sector's current financial pressures, despite the Chancellor insisting that existing funding arrangements for the NHS are adequate. He has said that Government will *"consider"* additional requests for capital spending on the STPs when they are submitted, meaning we are unlikely to see an increase of spending on the NHS in the Autumn Statement.

TRANSPORT & INFRASTRUCTURE

Despite the Government's continued support for large-scale infrastructure projects such as Crossrail, HS2 and a third runway at Heathrow, recent analysis by the TUC suggests that the UK nonetheless maintains some of the lowest levels of infrastructure investment of any country in the Organisation for Economic Co-operation and Development (OECD). It has been suggested that the UK's continued lack of significant infrastructure investment – particularly in regards to its reluctance to invest in new technology and processes – is a factor in explaining why the UK's productivity rate has failed to recover since the 2008 financial crash. This puts pressure on the Government to boost investment across the public and private sectors in the Autumn Statement.

However, the Chancellor has recently played down the likelihood of a significant public spending boost for new infrastructure projects, preferring to focus on tax allowances and other incentives in order to encourage increased investment from business. Recent decisions by the Department for Transport to scale back on planned electrification projects suggest a

AUTUMN STATEMENT 2016

cautiousness to commit to significant public works projects, attributable to ongoing political and economic uncertainty.

ENERGY

After the abolition of the Department of Energy and Climate Change in July this year, the future of the framework and support for green energy beyond 2020-21 is not yet clear, but energy experts have said that they hope for clarity in the Autumn Statement. It is widely believed that the recent consultation on replacing coal stations, points to an announcement by the Chancellor of the future trajectory beyond 2021 of the UK's own "*carbon tax*", the carbon price support rate of the climate change levy.

There could also be an announcement on the Government's £250m competition to develop "*small modular reactors*" (SMRs). SMRs are mini-nuclear power plants which the Government believes could be vital to securing Britain's future energy supply, as well meeting climate change targets.

It is also possible that there will be an announcement confirming the first tidal lagoon in Swansea, which was put on hold last year by George Osborne when the price of oil and gas came down.

The Liberal Democrat former Secretary of State for Energy and Climate Change, Ed Davey has called on the Chancellor to announce an energy policy in the Autumn statement in order to combat the uncertainty the sector is experiencing due to Brexit. He argued that this is "*the only thing that will give clarity to investors in the industry*".

The industry body Oil & Gas UK has also written to the Chancellor to call for a commitment to help boost investor confidence in North Sea exploration and production. It wants to see the promotion of the increasing competitiveness of the basin as well as the capability of the UK's oil and gas supply chain, both nationally and internationally, as part of the UK's new industrial strategy.

CHARITIES & THE VOLUNTARY SECTOR

One of the headlines of the 2015 Autumn Statement was the Tampon Tax Fund for women's charities. The Office for Civil Society is looking for an experienced grant maker to distribute £3million of the Tampon Tax Fund, with the successful organisation expected to be announced by the Chancellor in next week's Statement.

The Chancellor may also make some changes around VAT to help ease the financial pressure on charities. 10 different charity sector representative bodies have written to the Chancellor ahead of the Autumn Statement asking him to include changes to the VAT system and the Gift Aid Small Donations Scheme. The letter makes the recommendation that a targeted refund scheme would help ease the VAT burden on charities.

AUTUMN STATEMENT 2016

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