BUDGET 2017 briefing

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March 2017

OVERVIEW AND ANALYSIS

This year's Budget takes place just days before the Prime Minister is expected to trigger Article 50, starting the process of Britain leaving the European Union. This will be the Brexit Budget, crafted to steady nerves in the City, promote consumer confidence, and send a message to Brussels that the British economy will be motoring forward, even as we reverse out of the EU.

The Chancellor, Philip Hammond, has created for himself a degree of flexibility in his approach to managing the government's finances. In November's Autumn Statement, he axed George Osborne's three golden rules: reducing debt each year, creating a surplus by 2019 and limiting welfare spending. He was given a boost after a surge in tax receipts sent Government borrowing to its lowest January level in 17 years. However, according to the *Financial Times*, he has told MPs that *"there is no pot of money under my desk."* He has already vowed not to touch a £27bn *"room for manoeuvre"* war chest because of potential uncertainty when Brexit negotiations get under way.

As well as providing the initial context for Brexit negotiations, the Chancellor will have to deal with issues of consumer spending, business rates and social care, amongst others. He has also been warned not to ignore the "*mounting pressure in public services*" after the Treasury announced on Monday night that it will be asking ministerial departments to spell out their contributions to an ongoing £3.5bn cuts drive.

As announced last November, this will be the last Spring Budget. To allow for a longer period of adjustment between Budget Day and the end of the financial year in April, the Budget will now be held in the Autumn; that means 2017 has two Budget Statements.

The Autumn Budget 2017 will in turn be complemented by a Spring Statement of the fiscal position of Government in order to comply with requirements that the Office for Budget Responsibility be able to analyse public finances twice a year.

SOCIAL CARE

The UK's struggling social care system, and the question of how to pay for our ageing population is likely to be a key feature of the Budget. In the aftermath of the controversy around the Government's supposed sweetheart deal with Surrey County Council, local authorities and charities have been lobbying Government for an injection of additional funding.

Age UK has warned that, without urgent action, social care in England is at risk of *"imminent collapse"* in the worst affected areas. The charity argues that the Government's three ways of propping up the system – financial transfers from the NHS, the social care precept, and calling on families and friends to do more – are inadequate and cannot make up for a "*chronic shortfall*" of public funds.

Local Authorities will also be looking to the Budget as a last hope to secure new funding. The Local Government settlement, finalised last week, disappointed councils when the Secretary of State for Communities and Local Government, Sajid Javid MP, confirmed that there would be no new money available for social care. Responding to the announcement, Chairman of the Local Government Association, Lord Porter said that the Government must use the Spring Budget to take *"urgent steps to improve the immediate funding outlook for local government and secure its financial sustainability in the long-term."*

The Government is understood to be looking at other ways to tackle the issue in the longer term, with a "*death tax*" being considered by a committee of Whitehall's leading social care experts.

PENSIONS

The Chancellor is likely to steer clear of a major upheaval of the pensions system and remains committed to the Triple Lock until 2020.

However, there has been some speculation that the Chancellor could use the Budget to announce reforms of retirement saving tax breaks. Under the current system, pension contributions are topped up by the Government depending on the tax rate of a saver. However, critics have argued the rules are unfair, with the burden on state finances growing following the roll-out of auto-enrolment into workplace pensions. The Head of Retirement Policy at Hargreaves Lansdown, Tom McPhail has said that "*the system is still ripe for reform"* warning that investors should "*work on the assumption that it is simply a matter of time before the government revisits the issue."*

CONSUMER AFFAIRS

Following a consultation on a package of measures aimed at tackling different areas of pensions scams, the Government indicated in response to a Parliamentary Question that "*next steps will be announced at Budget 2017*". Such an announcement may include further funding for the Financial Conduct Authority to enforce a ban on cold calling.

ECONOMY

Strong economic growth and tax receipts since the Brexit vote have put Philip Hammond on course to announce a drop in Government borrowing – making it the first time since March 2014 that a Chancellor could stand at the dispatch box and announce borrowing will be lower, not higher, than previously thought.

The Resolution Foundation has said public borrowing is likely to fall to around £56bn in the current financial year, down from £71.7bn in the previous fiscal year and £12bn lower than the Office for Budget Responsibility's forecast of £68.2bn in November.

However, most analysts believe UK economic growth will start to slow this year as the fall in the value of the pound after the Brexit vote puts a brake on consumer spending. This makes it unlikely that the Chancellor will stray far from the cautious fiscal commitments he made in November: not predicting a surplus in 2019/20, slightly relieving the cap on welfare spending and no longer committing to reducing national debt.

BUSINESS RATES

Pressure has been mounting for the Government to rethink its plans on business rates, which will see new rates based on updated property valuations introduced in April.

Initially, the Government maintained that three-quarters of businesses will not see any changes to their rates, but the fact that rates for pubs, shops, GP surgeries, hospitals and nurseries could be set for increases as high as 400% has angered MPs in all parties and influential lobby groups such as the CBI.

The scale of the anger has been such that some concessions from the Treasury are unexpected. The Secretary of State for Communities and Local Government, Sajid Javid, told Parliament that a solution would be in place by Budget Day, which, he said would form part of a wider and longer-term re-examination of the business rates system.

COST OF LIVING

Until recently, consumer spending has been the main support frame upon which the UK economy has relied. This is now changing thanks to relatively high commodity prices and the fall of Sterling, which is beginning to filter into the high street.

The Resolution Foundation has already warned that with last year's growth driven entirely by consumption, the prospect of a significant slowdown in household income growth in the coming years raises serious questions over sustainability. A weaker pound has made imports to the UK such as fuel, metals and food ingredients more expensive and firms are starting to pass on those higher costs to shoppers. This, coupled with rising inflation means there is increasing pressure for the Chancellor to look for ways to reduce the UK's reliance on debt-fuelled household spending.

TAX REFORM

There have recently been strong signals from the Government that it is aiming to reform the tax system for self-employed people, in order to tackle a growing 'tax gap' between well-off self-employed people and full-time employees. The Treasury believes there is a strong case to tackle the disparity between workers who pay tax by PAYE, the self-employed and those who operate personal service companies.

One possible approach would be to raise the National Insurance Contributions rate for the self-employed from 9% to 12%, a move which could raise £1bn for the Treasury. However, the Government would in this case have to find compensation for the low-income self-employed, and this could instead encourage individuals to form their own companies in order to avoid the self-employed tax structure altogether.

It is unlikely, however, that the Chancellor will unveil overly dramatic changes in this upcoming Budget, with Whitehall sources indicating that the issue is more likely to be settled in the Autumn Budget 2017. Theresa May has commissioned a former adviser to Tony Blair, Matthew Taylor to look at changing nature of the labour market, and his report it expected to be published over the Summer.

WELFARE

In Treasury Oral Questions on 28th March 2017, the Chancellor stated that there are "*no plans for further welfare reforms in this Parliament"* aside from those already agreed.

YOUTH SERVICES

In November, the Minister for Civil Society, Rob Wilson announced that Government is developing a new youth policy statement which will "*bring together a clear narrative and vision for how we best help our young people."* Recently, Cat Smith MP pressed the Government on this matter, asking whether it would entail increased funding for youth services and whether it will be announced before the Spring Budget. An announcement of this kind would not be unexpected, particularly considering recent focus on intergenerational fairness.

DEVOLUTION

The Chancellor will likely make further announcements around devolution, with city deals remaining central to the Government's agenda. Following 12 months of discussion, the West Yorkshire Combined Authority has called for clarity on whether the Government plans to move forward with a deal. Separately, it is likely that the Government will announce further support for its flagship 'Midlands Engine' policy, seeking to devolve powers to authorities across the East and West Midlands.

In Scotland, SNP MPs have recently sought to secure support from the UK Government for an Ayrshire Growth Deal centred around the life sciences, advanced manufacturing and aerospace and space engineering. An announcement of further support for regional city deals in Scotland would not be unexpected, particularly as the UK Government seeks to appear engaged with political economics in Scotland in order to counter growing calls for a second referendum on Scotland leaving the Union.

INFRASTRUCTURE AND RESEARCH & DEVELOPMENT

It is expected that the Chancellor will reveal more details of the National Productivity Investment Fund (NPIF), which seeks to bring the UK's relatively low levels of economic productivity in line with other similarly developed nations. Announced in the Autumn Statement, the Fund will provide £23bn in high-value in investment from 2017-18 to 2021-22 on top of existing spending commitments made previously. The Government is expected to announce further details of how the fund will be allocated.

The Government is currently conducting a review of the tax system with the aim of making the UK a more competitive environment for research and development in the run-up to the UK's exit from the EU. The review is expected to have concluded prior to the Spring Budget, so an announcement of changes to the tax system to support this would not be unexpected.

ENERGY AND CLIMATE CHANGE

In the Autumn Statement, the Government pledged to set out a long term future for the Levy Control Framework, the mechanism designed to control the costs of low carbon electricity levied on consumer bills.

Further to this pledge, Government later clarified in response to a Written Question that Government was considering the future of the Levy and would be setting this out at the Spring Budget.

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