Autumn Statement

November 2015 overview

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Introduction

Just over four months ago, George Osborne delivered his second Budget of 2015, following the Conservative Party's outright victory in the May general election. At that moment, the view from 11, Downing Street must have looked remarkably pleasant. Osborne's handling of the economy was widely credited with playing a large – if not pivotal – part in the election victory. Boris Johnson and Theresa May, the Chancellor's two main rivals in the race to succeed David Cameron, were both listing badly – albeit they hadn't quite run aground.

Fast forward four months and the world – and the Chancellor's view of it – look very different. As he prepared to deliver his combined Autumn Statement and Spending Review, George Osborne found his room for manoeuvre had been sharply limited – and that his own star was no longer in the ascendancy.

'If there was a stock market in politicians, George Osborne would be a sell right now,' said one Conservative blog. It's hard to disagree: the Chancellor's defeat over tax credits has been well documented, and there's some evidence that the general public appear to be tiring of the austerity agenda. With the Paris attacks pushing security at home to the top of the to-do list, the widely-trailed cuts to police numbers were not going to be well received. 'George Osborne is cutting the wrong services, say voters,' was the Evening Standard's headline.

According to the IPSOS Mori poll for the Standard, 60% of voters want the £12bn overseas aid budget to take the strain: only 3% favoured cuts to the police.

The Pre-Statement Rumours and Demands

Naturally, before Mr Osborne had even stood up in the Commons, the media was awash with rumours of what else would be in the Spending Review and the Autumn Statement. The Chancellor had already announced that nine new prisons would form part of the Spending Review – 'Making the prison service fit for the 21st Century' – but this was hardly the stuff of headlines. Despite the demands for increased security at home, Wednesday morning's papers were as one in expecting cuts to police budgets, as well as social care.

The consensus was also that there would be £20bn of cuts to Whitehall budgets, and cuts of £12bn in the welfare budget. There would, though, be 'a serious rowing back' on the Chancellor's earlier plans for cuts to tax credits which had been so heavily defeated in the House of Lords.

The one area where the Chancellor was likely to increase spending appeared to be in housing, with a rumoured pledge of £7bn to make housebuilding a priority and to allow 400,000 affordable homes to be built in England.

There would also be yet another 'crackdown on tax avoidance' as the Chancellor remained committed to his goal of a £10bn budget surplus by 2019/2020.

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The Combined Spending Review and Autumn Statement

The Chancellor got to his feet at 12:30, after the usual exchange of pleasantries at Prime Minister's Questions. It was quickly apparent his speech would be more Spending Review than traditional Autumn Statement, as he launched into a stream of figures, general measures and soundbites.

'Security,' was his initial theme: 'national security and economic security.' He was quick to make comparisons with the Spending Review he had delivered five years ago; then his job had been to rescue Britain. 'Now,' declared George the Builder, 'our job is to rebuild Britain.' Osborne was quick to repeat one of his favourite catchphrases: Britain would be a 'lower welfare, higher wage economy,' but those fed up with the old soundbites were not to be disappointed. Any number of times in his speech, the Chancellor – a man seemingly obsessed with building industry metaphors – announced that, 'We are the builders' and with this theme in mind, he went on to deliver the rest of his Autumn Statement and Spending Review.

The economy and the numbers

As ever, the speech was delivered against a background of mixed economic news. The global slowdown – and particularly the problems in China – was all too painfully evident in the recent job losses suffered by the UK steel industry. Against that, the number of people in work continues to rise, with the latest figures showing a rise to 31.21m – an increase of 419,000 on the same period a year earlier, with the UK unemployment rate falling to a seven year low of 5.3% in the three months to September.

Beginning his segment on growth and the economy, the Chancellor promised a ‘Big spending review from a Government that does big things,’ and then launched into the facts and figures. ‘Since 2010,’ he said, ‘no country in the G7 has grown faster than Britain.’

Moreover, the growth was being seen throughout the whole of the UK. The Office of Budget Responsibility (OBR) forecast GDP growth of 2.4% for this year and 2016, a slight rise to 2.5% in 2017, followed by a decline to 2.4% in 2018 and 2.3% in 2019 and 2020. These growth figures would lead to 1 million extra jobs over the next five years, and to the Chancellor’s overall aim – a budget surplus in 2019/2020.

Debt as a percentage of national income was forecast to steadily reduce, down from 82.5% this year to 71.3% by 2020/21. This would come about through stronger tax receipts and lower interest payments on the Government’s debt, as the Chancellor continued to benefit from low interest rates.

The Government would then be able to borrow £8bn less than had originally been forecast, allowing it to spend £12bn more on capital infrastructure. And of course, George the Builder couldn’t resist it. Yet again, he declared that he was, ‘Fixing the roof while the sun was shining.’

What The National Living Wage

When April 2016

Comment As part of its commitment to move to a higher wage, lower tax, lower welfare society, the Government announced its intentions to introduce the National Living Wage (NLW) in the Summer Budget. The Spending Review and Autumn Statement was the opportunity to reiterate previous announcements to this effect.

The compulsory Living Wage - basically, a new minimum wage - will be paid to workers aged 25 and over, starting in April 2016 at £7.20 an hour and reaching over £9 an hour by 2020. Those on the current national minimum wage who will qualify for the NLW are expected to see their wages rise by around 40% over the next 5 years. This not only applies to huge numbers of people (and impacts associated businesses) but it is also the biggest ever increase over a 5 year period for the main national minimum wage.

Personal taxation and allowances

Tax Credits

The Chancellor's troubles on reform of the tax credit system have been well documented. As mentioned in our introduction, the consensus pre-Statement was that he would need to 'row back' on his planned reforms. In actual fact, he did much more than that. The Chancellor said that he had, 'listened and understood.' There would be no changes to the tax credits system. 'Huge U-turn on tax credits,' the BBC flashed up on-screen: even that was something of an understatement. Not so much a 'rowing back' as a complete sinking.

The Chancellor, as with any politician, clearly realised he needed to justify this volte-face, and rattled off the estimates from the Office for Budget Responsibility for Government borrowing. It would be £73.5bn this year, falling to £49.9bn next year, £24.8bn in 2017/18 and ultimately move to a surplus of £10.1bn in 2019/2020. 'Out of the red and into the black,' he announced to loud cheers from his backbenchers. 'The UK is paying its way in the world' – and continuing to pay tax credits as well.

HMRC and Tax Avoidance

No major set-piece speech of the Chancellor's is complete without the obligatory announcement on tax avoidance and evasion.

There was no mention of the specific companies the Chancellor has singled out in previous addresses, but he did mention the widely-touted extra £5bn for anti-avoidance and evasion measures. The Autumn Statement document itself listed no fewer than 16 measures, under the headings of 'Tax evasion and compliance' and 'Tax avoidance'. Businesses, individuals and, more than likely, their accountants, may need to look closely at several of the measures announced, which are collectively a mixture of civil penalties, a new criminal offence and various pieces of policy designed to combat specific loopholes. A new change to the General Anti-Abuse Rule (GAAR) received specific mention from several commentators, mainly because it introduces a new penalty of 60% of tax due, in all cases successfully tackled by the GAAR.

Also discussed by the Chancellor was his commitment to streamline the work of HMRC, taking advantage of the digital revolution to produce, 'One of the most modern and streamlined tax collection services in the world.' The promise was that every small business would be able to manage its tax online by 2019, leading to much quicker collection of corporation tax.

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Personal taxation and allowances continued

What Capital Gains Tax (CGT) – changes to the payment window

When From April 2019

Comment From April 2019, a payment on account of CGT due on the sale of any residential property will need to be made within 30 days of completion. This is simply HMRC tightening its own belt and saying, ‘You’ve got the money: pay the tax.’ Currently, individuals have up to 21 months after the sale of a property to pay CGT. The change will not affect gains on properties which are not liable for CGT due to Private Residence Relief.

What Changes to buy to let and second home stamp duty

When From April 1st 2016

Comment Higher rates of Stamp Duty Land Tax, set at 3% above the current rates, will be charged on buy-to-let properties and second homes. As above, the Government’s aim is to free up more property for local buyers, and it will use some of the money raised – around £60m – for communities in England where the impact of second homes is especially acute. The higher charge applies to residential homes above £40,000.

This will be seen as a second blow to property investors and those with a second home, following the announcements in the Summer Budget.

It should be noted that the higher rates will not apply to purchases of caravans, mobile homes or houseboats, or to corporates or funds making significant investments in residential property.

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Personal taxation and allowances continued

What	Potential Council Tax increases
When	By 2020
Comment	The Chancellor acknowledged the pressure on the social care system and therefore resolved to give local councils the power to increase social care funding through a new 2% Council Tax rule. This backs a radical, local-led plan to create an integrated health and social care system by 2020, funded by an extra £1.5 billion in the Better Care Fund through local authorities. It remains to be seen how this will affect taxpayers in pounds and pence when they receive their council tax bill.

What	30 hours of free childcare for 3 and 4 year olds for parents working more than 16 hours a week
When	From September 2017
Comment	The Chancellor covered this previous announcement again, adding a little further detail. The detail may not necessarily be welcomed by parents working less than 16 hours a week. There is also now an upper income limit per parent of £100,000.

Pensions and savings

The Chancellor had more good news for pensioners as he announced, 'The biggest increase to the state pension for 15 years,' increasing payments to £119.30 a week from next year. The single tier pension will also come in next year, and will be £155.65 per week. The price of this is that the state pension age will continue to rise in line with increased life expectancy.

Beyond the state pension updates there was little news on the pension system, which looks as though it is remaining in its current state until at least March's Budget announcement.

What	Increases in the State Pension
When	From April 2016
Comment	As we've detailed above, the full basic state pension will rise to £119.30 per week from April 2016. For those retiring from April 2016, the new single-tier pension will apply with a starting rate of £155.65, subject to meeting the qualifying criteria. Those who reach state pension age before April 2016 will receive their state pension in line with the current rules.

What	Auto-enrolment contribution rate increases
When	Over the next two years
Comment	The Chancellor stated that over 5.4m people have now been enrolled in workplace pensions, but with the focus now moving to smaller employers, he will be aligning increases in minimum contribution rates with the tax year. Consequently, the next two October increases have been pushed back by six months to the following April.

What	The ISA, Junior ISA and Child Trust Fund annual subscription limits remain at their current level
When	For 2016-17
Comment	The ISA limit will be kept at £15,240. The Junior ISA and Child Trust Fund limits will be kept at £4,080. This is in line with the Government's commitment to raise these limits in line with inflation, which recently stood at -0.1%. Although there was no increase this time round, this system at least ensures an avoidance of extended periods of no increase, which has happened in the past.

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Business and business taxation

What Help for Small Businesses

When Ongoing – and from April 2016

Comment SMEs in the UK now employ 15.6m people, up from 13.7m in 2010, and the Government looks committed to ongoing support for the sector. From April 2016, it is therefore introducing further measures:

- The Employment Allowance will rise to £3,000
- The Apprentice Levy will now only be paid by companies with a wage bill in excess of £3m – so only 2% of UK employers will pay it
- Small Business Rate Relief will be extended to April 2017, with over 400,000 of the smallest businesses continuing to receive 100% relief. However, the Government will undertake a review of business rates in time for the 2016 Budget.

What Company Car Tax

When Up to 2021

Comment The Government will retain the diesel supplement on company car tax until 2021. This is the date when EU-wide testing is supposed to ensure that diesel cars meet air quality standards in ‘real world’ tests: this was always going to happen after the VW scandal.

What Restriction on subsidence expenses for contractors working through intermediaries

When 6th April 2016

Comment IR35 remains unchanged as a result of the Autumn Statement 2015. However, umbrella company contractors and limited company contractors using personal service companies and who are caught by IR35, will have travel and subsistence tax relief restricted.

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Business and business taxation continued

What	Most businesses, self employed people and landlords will be required to use a digital tax account with HMRC
When	By 2020
Comment	Another scheme which has been announced previously, this is part of the Government's vision to modernise the tax system. Making the system simpler could be a positive move for small businesses, but individuals could also face changes, such as that covered above for Capital Gains Tax. The requirement to use the digital accounts, however, will not apply to individuals in employment, or pensioners, unless they have secondary incomes of more than £10,000 per year.

What	An expansion of the Enterprise Zone Programme in England
When	Immediately and ongoing
Comment	The Chancellor announced that the Government is creating 26 new Enterprise Zones, including the expansion of 8 existing zones.

Business and Local Government

The Chancellor has long wanted to give local councils the chance to set their own business rates and he announced that they will now retain 100% of the revenue from these rates. Councils will also be able to retain all the revenue from asset sales in order to improve local services. Or in simple terms, 'You're sitting on plenty of property assets, sell some of them.'

Other measures

The NHS

Again, the commitment to extra money for the NHS had been well advertised in advance: the figure the Chancellor came up with was £6bn of extra funds next year, taking the current NHS spending of £101bn up to £120bn by 2020/21. There would also be up to 10,000 additional trainee nursing places to reduce the (hugely expensive) reliance on agency staff, as we moved to, 'a brilliant NHS available seven days a week.' On top of all this there would be an additional £600m for mental health services.

Inevitably though, there was a quid pro quo. The Government was looking for £22bn of efficiency savings from the NHS. 'Ouch,' commented outgoing BBC Economics Editor, Robert Peston.

Transport and Infrastructure

'We are the builders,' the Chancellor announced yet again, as he stated that capital spending for transport would rise by 50%, 'The largest rise in a generation,' to £61bn.

Spending on energy research would also be doubled, and Britain would be the first country to have a 'permanent pothole fund.' And they say we've nothing to be proud of as a nation…

What	Ending the motor insurance compensation culture
When	Consultations in the New Year
Comment	'Whiplash' injuries apparently cost the country £2bn a year, an average of £90 per motor insurance policy. It has been suggested that many of these claims are fraudulent, and the Government is intending to end cash payments for minor whiplash injuries. This should result in savings of £40 to £50 per year on an average insurance policy.

Education

As expected, the school's budget was maintained and the Chancellor confirmed his commitment to free schools and academies. Any school will now be able to become an academy, including sixth form colleges.

There was better news for part-time students, who will now be entitled to receive maintenance grants, and loans will be extended to all postgraduate students.

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Other measures continued

Charities

The Chancellor announced that receipts from the so-called 'tampon tax' – around £15m a year – will now be specifically earmarked for women's charities. There will also be continuing help for veterans' and military charities.

Prisons

The Chancellor duly delivered on his promise to build nine new prisons in the lifetime of this parliament, meaning that several Victorian prisons in prime locations will be sold off for housing and development. The first of these will be Holloway Prison in London. There will also be an extra £700m for new technology to 'streamline the justice system.'

Housebuilding

Finally, it was the turn of housebuilding and the Chancellor didn't disappoint. The housing budget is being doubled from 2018-2019 to £2bn per year, in an attempt to deliver 400,000 new homes. This is the largest housebuilding programme since the 1970s and will include:

- 200,000 starter homes which will be sold at a 20% discount to young first time buyers
- 135,000 Help to Buy: Shared Ownership homes, with the scheme open to all households earning less than £80,000 outside London and £90,000 in London
- 10,000 homes that will allow tenants to save for a deposit while they rent
- And 8,000 specialist homes for older people and those with disabilities

There will also be a London 'Help to Buy' scheme: Londoners with a 5% deposit will be able to get an interest free loan worth up to 40% of the value of a newly built home.

As mentioned previously, however, the sting was in the tail, with the Chancellor announcing a sharp increase of 3% on stamp duty for buy to let property and second homes. It is hoped that this will discourage foreign buyers and property investors and free up more property for local people.

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Other measures continued

Security

The Chancellor finished his speech with Security, announcing that both the defence budget and the overseas aid budget would rise. ‘We will protect our interests and we will protect our influence,’ he said. Clearly, part of that protection is the police force and here – surely – would come some cuts.

Osborne swiftly announced expected savings through mergers of administrative functions, but – he paused, clearly remembering the Evening Standard headline, ‘There will be no cuts in police budgets. No cuts at all.’

His backbenchers were ecstatic: it was the turn of those on the Opposition benches to look thoroughly miserable.

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Conclusions

'We took difficult decisions five years ago,' the Chancellor said, 'and now we can build our country's future.' He sat down, having made a major U-turn on tax credits, but not on changes to the tax on dividend payments which many had hoped for. The Chancellor had, however, also managed to avoid making difficult and unpopular further cuts to the police force, which many political commentators felt were certain only a few short days ago. The general pitch of the speech was one which provided both his detractors and fans few concrete policies upon which to make judgements.

George Osborne declared that he'd delivered a Spending Review from a one nation Government that was 'building a better future.'

What he'd also delivered was a Spending Review and Autumn Statement that was long on narrative and short on details of specific measures. Could it perhaps be that the Chancellor was setting the Government up for major announcements during the next Budget? Or was it more down to the fact that this was the third time already this year that Mr. Osborne had delivered a major address to Parliament? We'll soon find out when the Chancellor stands to deliver his next planned Budget statement in March 2016.

Source: HM Treasury Spending Review and Autumn Statement 2015

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