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BRIEFING PAPER

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Autumn Budget 2017: A summary

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Autumn Budget 2017 at a glance

Autumn Budget 2017 was presented by the Chancellor of the Exchequer to Parliament on 22 November. At the same time the Office for Budget Responsibility (OBR) published updated forecasts in its economic and fiscal outlook.

OBR forecasts

- The OBR reduced its forecasts for economic growth. For more on its forecasts, including those for the public finances, see sections 1 and 2.

Government announcements

Tax

- **The price at which first-time-buyers become liable for stamp duty land tax (SDLT) will rise to £300,000**. The relief will not apply for purchases over £500,000. This change costs around £600 million per year.
- **Fuel duty will be frozen** for the eight successive year, costing around £800 million per year.
- **Duty rates on beer, cider, wine and spirits have been frozen**, costing around £200 million per year.
- Annual increases in **business rates** will be determined by the **CPI measure of inflation** from 1 April 2018. Business rates are currently increased by RPI, a measure of inflation that is generally higher. This change has been brought forward from 2020.
- An expansion of the **100% business rates retention pilot** in London, which is now planned to cover all the London boroughs as well as the Greater London Authority.
- The frequency with which **business rates revaluations** happen will increase. Revaluations will happen every three years following the 2022 revaluation.
- Various measures to **tackle tax avoidance and evasion** have been introduced.
- **Corporate indexation allowance frozen** from January 2018. This removes the relief for inflation when calculating chargeable gains of companies, and raises increasing amounts each year, with around £500 million in 2022/23.
- **Income tax personal allowance** and **higher rate tax threshold** to **rise by inflation** to £11,850 and £46,250 respectively in April 2018.

Spending

- **Departments will no longer have to reduce their spending by £1.1 billion** in 2019/20, as was previously planned.
- A **saving of £1 billion** in 2017/18 from departmental budgets.
- **£1.5 billion** of additional spending is planned in both 2018/19 and 2019/20 to allow the **Government to prepare for Brexit.**
- **NHS to receive additional day-to-day spending** of £400 million this year, £1.9 billion in 2018/19 and £1.1 billion in 2019/20. **The NHS will also receive additional capital spending**, peaking at around £1 billion in 2020/21.
- **Changes to Universal Credit**, costing around £300 million per year:
  - removing the 7 day wait so that entitlement starts on the day of application

  - increasing the amount that can be advanced before payment begins
  - those already on Housing Benefit will continue to receive their award for the first two weeks of their Universal Credit claim
  - to support these changes the Government will roll out Universal Credit more gradually between February 2018 and April 2018, and roll-out to all jobcentres will be complete in December 2018
- A package of measures were announced on housing:
  - A new **Land Assembly Fund** will receive £220 million in 2019/20 and £355 million in 2020/21. The new fund will enable Homes England to work alongside private developers to develop strategic sites.
  - An average of £210 million per year will be spent between 2018/19 and 2020/21 to accelerate the building of homes on small, stalled sites, by funding on-site infrastructure and bringing brownfield sites back to use.
  - **Housing Infrastructure Fund** will be increased by £215 million in 2019/20 and £710 million in 2020/21.
  - **Housing Revenue Account** borrowing caps lifted for councils in areas with affordability pressures, allowing them to build more homes.
- **The first departmental spending totals for 2022/23 suggest a fiscal tightening**. Day-to-day (resource) spending is set to fall as a share of GDP and by 0.5% in real terms per person. Capital spending will rise by slightly less than GDP.

The Government's spending and tax measures are costed in the Budget scorecard. The Budget also includes departments' spending allocations for resource and capital. The departments' allocations include some changes not included in the scorecard. The OBR point out, for instance, that £1 billion has been added to the resource reserve[1] from 2019/20, but this isn't included in the Budget scorecard.

[1] An amount not allocated to departmental programmes, which provides a margin to cover emergencies and genuinely unforeseen contingencies.

1. OBR forecasts for the economy

The Office for Budget Responsibility (OBR) published a new set of forecasts alongside the Budget. Their previous set of forecasts were from March 2017.

Key change: productivity growth lowered

The main feature of the new forecasts was the significant downgrade the OBR made to its assessment of the economy's potential to be more productive – as measured by output produced per hour worked – over the longer term.

Previous OBR estimates had productivity growth rising back toward its historical average of around 2% per year. However, productivity growth has over the better part of the past decade has been lower than this. This led the OBR to conclude that "the recent weakness will indeed prove more enduring" and to lower its productivity growth forecasts by 0.6 percentage points to 1.1% on average starting from 2018. 2017 saw an even more severe downgrade to 0.0%, reflecting weak data in the year to date.

GDP growth downgraded

A knock-on effect of this was for GDP growth forecasts to also be lowered in every year, and more noticeably from 2019 onwards. Annual growth is now forecast to average 1.4% per year for the period 2018-2021 compared with the 1.8% average in the OBR's previous March 2017 forecast.

The overall size of the economy, based on the level of GDP, is now forecast to be 2.1% lower in 2021 than anticipated in March.

Unemployment rate forecasts cut

The OBR lowered its forecasts for the unemployment rate by at least 0.5 percentage points in every year of the forecast period (2017-2022). This is largely due the OBR reducing the rate of unemployment at which it believes wage growth would start to accelerate. In other words, it considers unemployment to be sustainable at a lower rate than before.

Other changes to forecasts

The OBR's economic forecasts also stated that:

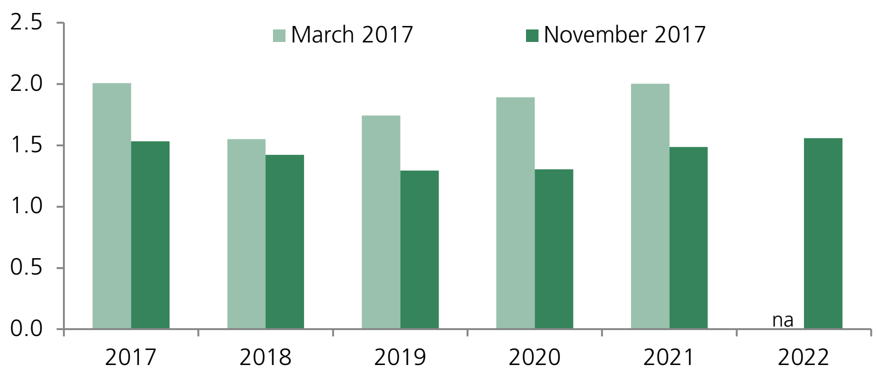
- Annual average earnings growth forecasts were lowered in every year, mostly due to lower productivity growth expectations. Increases in average earnings are not anticipated to be above the inflation rate until 2019.
- CPI inflation forecasts are broadly unchanged from 2018.
- Business investment growth forecasts were raised substantially for 2017 (after revisions to past data) but lowered by more than 1 percentage point in each subsequent year. Annual rises now

forecast to be within the range 2.3-2.5% over the forecast period, 2017-2022.

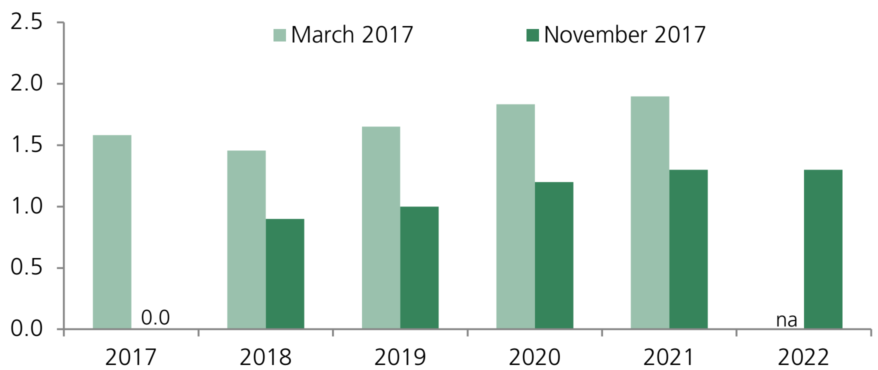
OBR forecasts: economy

	2016	2017	2018	2019	2020	2021	2022
GDP growth (%)							
March 2017	1.8	2.0	1.6	1.7	1.9	2.0	..
November 2017	**1.8**	**1.5**	**1.4**	**1.3**	**1.3**	**1.5**	**1.6**
Productivity growth (%)							
March 2017	0.5	1.6	1.5	1.7	1.8	1.9	..
November 2017	**0.2**	**0.0**	**0.9**	**1.0**	**1.2**	**1.3**	**1.3**
CPI inflation (%)							
March 2017	0.7	2.4	2.3	2.0	2.0	2.0	..
November 2017	**0.7**	**2.7**	**2.4**	**1.9**	**2.0**	**2.0**	**2.0**
ILO unemployment rate, %							
March 2017	4.9	4.9	5.1	5.2	5.2	5.1	..
November 2017	**4.9**	**4.4**	**4.3**	**4.4**	**4.6**	**4.6**	**4.6**
Average earnings, % change on previous year							
March 2017	2.2	2.6	2.7	3.0	3.4	3.6	..
November 2017	**2.8**	**2.3**	**2.3**	**2.3**	**2.6**	**3.0**	**3.1**

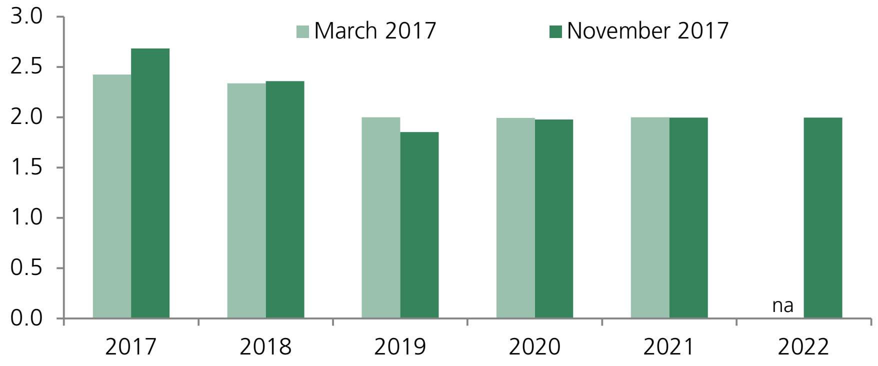
GDP growth (%)



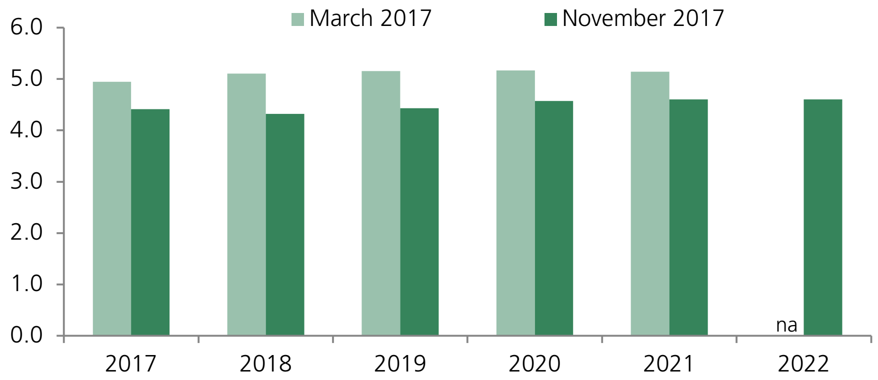
Productivity growth (%)



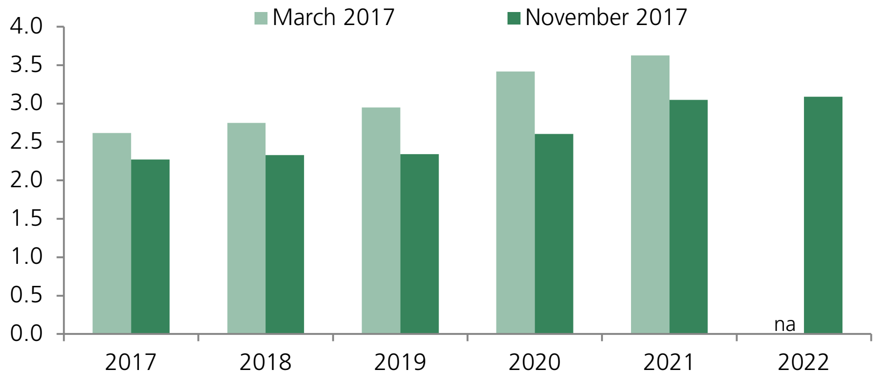
CPI inflation (%)



Unemployment rate (%)



Average earnings, annual % change (not adjusted for inflation)



2. OBR forecasts for the public finances

The OBR also published new public finance forecasts alongside the Budget.

Less borrowing forecast in 2017/18; more from 2019

Better-than-expected tax revenues have led to the OBR to lower its forecasts for public sector borrowing in 2017/18, while forecasts for 2018/19 are broadly similar.

However, the OBR increased its forecast for public sector borrowing in the later years of the forecast. Revisions relating to changes in the economic forecast – most notably the lower productivity growth – play a significant role in the increase.

As noted above, the OBR's revision to productivity and, in turn, GDP growth, lowers the forecast for taxes and raises borrowing. By 2021/22, the OBR's productivity revision adds around £26 billion to borrowing.

Positive improvements to the OBR's assumptions about elements of the labour market offset some of the additional productivity-related borrowing. Classification changes, such as English housing associations moving from the public to private sector, also reduce public sector borrowing.

Taken all together, these changes mean that the OBR forecasts that borrowing in 2021/22 will be around £13 billion higher in 2021/22 than the OBR thought in March 2017.

Debt forecasts lower due to accounting changes

The classification changes mentioned above have reduced public sector debt by a little over 3% of GDP. This more than offset increases in forecasted annual borrowing from 2019/20 and an increase in the size of the Bank of England's scheme providing cheap loans to banks.[2]

Fiscal targets forecast to be met

The OBR believes the Government is on course to meet its targets covering public sector borrowing, debt and welfare spending.[3]

[2] The Term Funding Scheme

[3] For more on the Government's targets see the Library briefing *The Office for Budget Responsibility and Charter for Budget Responsibility*

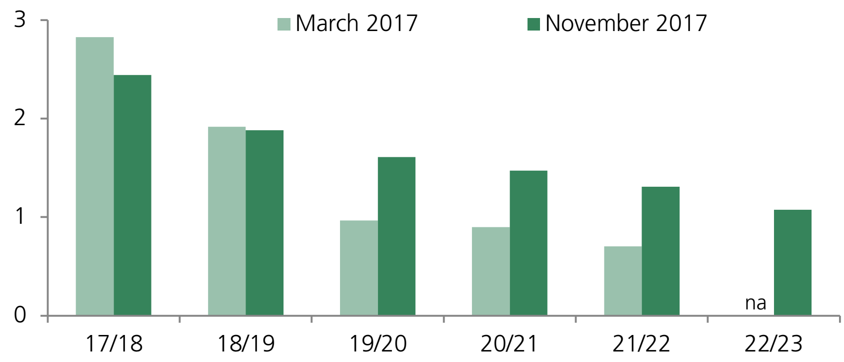
OBR forecasts: public finances*

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Net borrowing, £ billion							
March 2017	51.7	58.3	40.8	21.4	20.6	16.8	..
November 2017	**45.7**	**49.9**	**39.5**	**34.7**	**32.8**	**30.1**	**25.6**
Net borrowing, % of GDP							
March 2017	2.6	2.9	1.9	1.0	0.9	0.7	..
November 2017	**2.3**	**2.4**	**1.9**	**1.6**	**1.5**	**1.3**	**1.1**
Cyclically adjusted net borrowing, % of GDP							
March 2017	2.6	2.9	1.9	0.9	0.9	0.7	..
November 2017	**2.2**	**2.3**	**1.8**	**1.5**	**1.3**	**1.2**	**1.1**
Net debt, £ trillion							
March 2017	1.73	1.83	1.89	1.92	1.90	1.90	..
November 2017	**1.73**	**1.79**	**1.84**	**1.88**	**1.88**	**1.85**	**1.91**
Net debt, % of GDP							
March 2017	86.6	88.8	88.5	86.9	83.0	79.8	..
November 2017	**85.8**	**86.5**	**86.4**	**86.1**	**83.1**	**79.3**	**79.1**

* Not on a like-for-like basis. Does not adjust Mar'17 figures for accounting changes since then

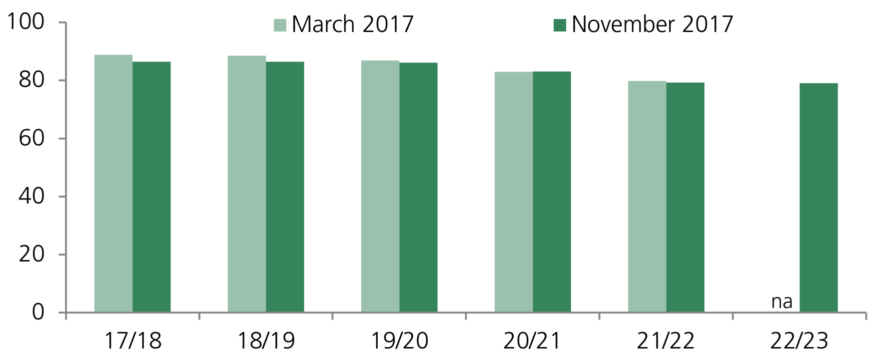
Public sector net borrowing, % of GDP

Mar'17 forecasts not adjusted for accounting changes made since then



Public sector net debt, % of GDP

Mar'17 forecasts not adjusted for accounting changes made since then



3. Moving to an Autumn Budget and scrutiny of spending

3.1 The first Autumn Budget under a new system

At Autumn Statement 2016 the Chancellor Philip Hammond announced that from autumn 2017 the Government would present a single autumn Budget, to allow for greater Parliamentary scrutiny of Budget measures ahead of their implementation. This is intended to put an end to tax announcements being made twice a year in the Budget or Autumn Statement. Autumn Budget 2017 is the first Budget under this new system.

3.2 Motions, resolutions and the Finance Bill

As soon as the Chancellor has finished the Budget statement, proposals for tax changes and tax continuations – rather than new taxes – may come into effect immediately. These proposals must be validated by a single motion – a Provisional Collection of Taxes motion, as it is known – approved after the Budget speech.

In addition, within ten sitting days Parliament must approve a series of individual Ways and Means Resolutions. These resolutions are needed for each provision imposing a new tax, renewing an annual tax, increasing or widening the burden of an existing tax, or for other provisions that need to be in operation before the Finance Bill is enacted. Generally the House will divide on a selection of these resolutions, reflecting the major or most controversial aspects of the Budget.

The statutory provisions to give effect to the tax measures announced in the Budget are set out in the annual Finance Bill, which follows the Budget. The Government published draft clauses for this Bill on 13 September, in line with previous practice in recent years for publishing much of the Bill in draft for consultation.

For further information on this process, see the Library briefing The Budget and the annual Finance Bill.

3.3 After the Finance Act

The Finance Act enables the Government to raise the revenues it seeks for the forthcoming financial year. But before the Government is able to actually spend this money, further approval from Parliament is required each year: on both the amounts and the nature of the spending.[4]

- In February, before the new financial year starts, the Government presents to Parliament a "Vote on Account"– a

4 With some notable exceptions, such as debt interest, election costs and payments to the EU, where annual authority is not required as special legislation allows for this

proposed advance of spending for the first five months of the forthcoming new financial year;

- In April, shortly after the start of the new financial year, the Government presents to Parliament "Main Estimates"– proposed budgets for the new financial year; and
- In the following February, as the financial year draws to a close, the Government presents to Parliament any proposed modifications to the budgets previously approved, through what are known as "Supplementary Estimates".

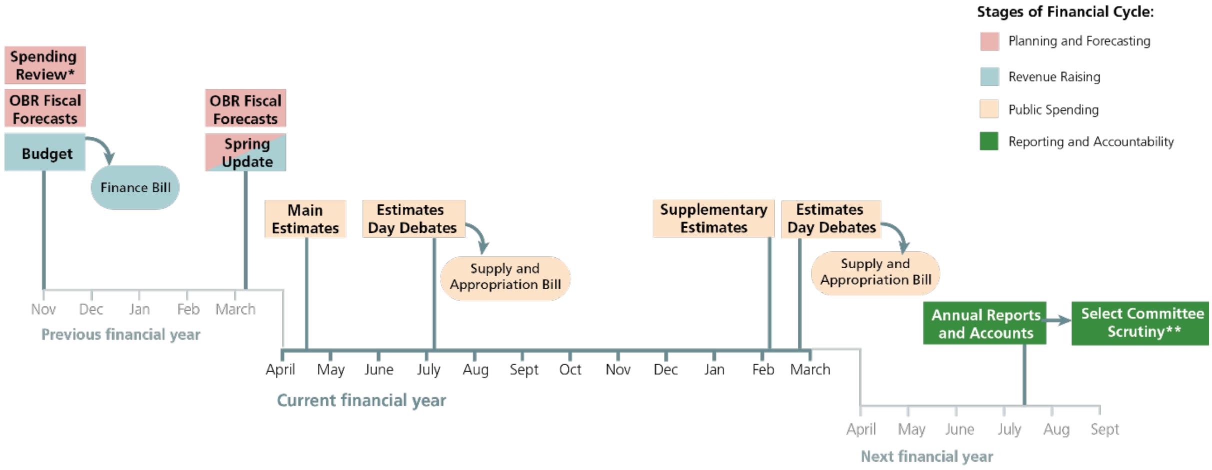
"Estimates day" debates are held[5] before Parliament's authority is sought to each of these proposals. Following these debates, Parliament is able to propose downward amendments to, or outright rejection of, spending included in the Estimates debated.[6] In practice, it is extremely rare for Government's Estimates or Votes on Account not to be approved by the House of Commons. As with Finance Bills and taxation, the House of Lords has no role in the consideration of these spending plans.

In each case, Parliament's approval to the amounts (spending limits) and the "ambit" (a description of the nature of the proposed spending) is achieved first through Supply Resolutions, then formalised through a twice yearly Supply and Appropriations Act. These Acts receive Royal Assent in March, for Votes on Account, and Supplementary Estimates; and in July, for the Main Estimates.

After the year ends, usually by July, the Government is require to produce audited accounts of the money spent against each of the limits and ambits agreed by Parliament. If spending has exceeded the limits set or fallen outside those ambits, the Government must produce a document known as a "Statement of Excesses" and then seek retrospective authority from Parliament. In such circumstances, the National Audit Office will report and the Public Accounts Committee may decide to call those accountable to explain what happened and to explain what is being done to prevent recurrence.

[5] Selected by the House of Commons Liaison committee. After a recent General Election, such as July 2017, there is often no Liaison committee established, so no debates are held.

[6] Upward amendments are not permitted under standing Orders, due to what is known as the Crown Prerogative- the Crown's (ie the Government's) unique right to propose spending



Notes:
* Spending Review happens once every 3-4 years
** Select Committee Scrutiny of Departmental Annual Reports and Accounts may continue well into the financial year

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