HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

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Autumn Budget 2018: a summary

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1. Autumn Budget 2018 at a glance

Autumn Budget 2018 was presented by the Chancellor of the Exchequer to Parliament on 29 October. At the same time the Office for Budget Responsibility (OBR) published updated forecasts in its Economic and Fiscal Outlook – these are discussed in the following sections.

Spending announcements

- The Chancellor has provisionally set out **departments' day-to-day spending on public services, grants and administration spending to 2023/24**. From 2019/20 to 2023/24 such spending will grow by an average of 1.2% per year in real terms – this includes the additional money already announced for the NHS (see next point). The spending will be allocated to individual departments at the 2019 Spending Review. The figures are provisional and may be adjusted ahead of, or at, the Spending Review
- As previously announced, there will be **additional spending on the NHS** – rising from £7 billion in 2019/20 to £28 billion in 2023/24. This is by far the biggest individual spending policy in the Budget
- There will be **additional spending on Universal Credit** – paying for a £1,000 increase to the work allowance and additional support for transition. Savings will however be made through a revised implementation schedule. Overall these changes will cost around £700 million in 2019/20 and 2020/21, £500 million in 2021/22, £900 million in 2022/23 and £1.7 billion in 2023/24
- There will be **spending in the short term for certain areas**, ahead of next year's Spending Review, including:
  - £285 million in 2018/19 and £775 million in 2019/20 for **social care**
  - £500 million in 2018/19 for **road maintenance** (including potholes)
  - £475 million in 2018/19 for capital spending in **schools**
  - £60 million in 2018/19 for **prisons, courts and the justice system**
  - £200 million in 2018/19 and £800 million in 2019/20 for **defence**
  - £500 million in 2018/19 in spending on **Brexit** preparations (from the reserve)
- There will be £84 million over five years for **improvements to children's social care**
- A £200 million **youth endowment fund** to help young people avoid violence

- There will be a £675 million **Future High Streets Fund** and other measures intended to support 'a sustainable transformation' of high streets
- As previously announced, the **borrowing cap on local authority housebuilding will be removed** – this is expected to cost £1.2 billion a year by 2022/23
- The **National Productivity Investment Fund** – which provides investment in housing, transport, digital infrastructure and R&D – will be extended by a year to 2023/24, at a cost of £7 billion
- There will be a new **Industrial Energy Transformation Fund**, to help businesses that use large amounts of energy to transition to using less – it will receive funding peaking at £90 million in 2021/22
- Funding for **Tay Cities Deal, Belfast City Region Deal, North Wales Growth Deal** and **Stirling and Clackmannanshire City Region Deal**
- As a consequence of changes announced at the Budget, the **devolved governments will receive additional funding** as a result of the Barnett formula:
  - "over £950 million through to 2020/21" for the Scottish Government, before adjustments for tax devolution
  - "over £550 million through to 2020/21" for the Welsh Government, before adjustments for tax devolution
  - "over £320 million through to 2020/21" for the Northern Ireland Executive.

Tax announcements

- The **income tax personal allowance will increase to £12,500 and higher-rate threshold increased to £50,000 from April 2019**, a year earlier than originally intended – then remain at the same level in 2020/21 – at a cost of £2.8 billion in 2019/20, £1.9 billion in 2020/21 and £1.4 billion in 2021/22
- There will be **one-third off business rates for retail premises** up to a rateable value of £51,000 in 2019/20 and 2020/21, at a cost of nearly £500 million a year in those years
- **Fuel duty will be frozen** for the ninth successive year, costing around £900 million per year
- **Duty on beer, spirits and most cider will be frozen** in 2019/20 – at a cost approaching £200 million a year, while duty on wine will rise with inflation
- A new **digital services tax** – a 2% tax on the UK-generated revenues of certain large digital businesses – will be introduced from April 2020, and may raise around £400 million a year in the last years of the forecast period
- Reforms to the **off-payroll working rules (IR35)** for the public sector in April 2017 will be extended to larger businesses in the private sector from April 2020, raising £700 million a year by 2023/24

- There will be a range of changes to corporate taxation:
  - The **Annual Investment Allowance** – a capital tax allowance for certain investment in plant and machinery – will be increased from £200,000 to £1 million for 2019 and 2020, reducing tax revenues initially
  - A new 2% **Structures and Buildings Allowance** will be introduced for non-residential structures and buildings – at a cost rising to nearly £600 million in 2023/24
  - The **capital allowances special rate** will be reduced from 8% to 6% at a cost of around £300 million a year
  - Use of **carried forward capital losses** in corporation tax will be restricted from 2020/21, raising up to £140 million a year
  - **Enhanced capital allowances for energy and water-efficient equipment will be discontinued**, eventually saving up around £80 million a year – savings will be invested in an Industrial Energy Transformation Fund
- There will be a **ban on the dilution of certain alcohol products** after excise duty has been calculated, eventually raising around £90 million a year
- The Government will consult on two reforms to the **tax relief on gains from the sale of someone's private residence** from April 2020: owners would only be able to claim lettings relief where they were in shared occupancy with the tenant, and the final period exemption for private residence relief would be reduced to 9 months. This would raise up to £150 million by 2023/24.
- The **minimum qualifying period for Entrepreneurs' Relief on capital gains tax** will be extended from one to two years, raising £75-90 million a year towards the end of the period
- The **VAT registration threshold will be held at £85,000** for two more years, raising up to £150 million by 2023/24
- **Employment allowance** will no longer be available to larger businesses from 2020/21 – raising up to £300 million by 2023/24
- There will be a **package of changes to apprenticeships**, including halving the contribution that smaller firms pay towards apprenticeship training from 10% to 5%, at a cost of up to £695 million a year
- Other tax measures included a **freeze to the aggregates levy** in 2019/20, a **freeze to Heavy Goods Vehicle Excise Duty** in 2019/20 and a **freeze of the carbon price support rate** at £18 in 2019/20 and 2020/21.
- As announced a few days ago, **NS&I Index-linked Savings Certificates** will receive interest based on the CPI rather than the RPI measure from 1 May 2019
- The government plans to sell all of its remaining **shares in RBS** by 2023/24 and has extended its 'Plan 1' **student loans asset sales programme** to 2022/23.

- There will be **various measures to deal with tax avoidance, evasion and 'unfair outcomes'** – the government estimates that these will raise around £500 million by the end of the period
- The Government confirmed several **policy decisions that had been previously announced**: the retention of Class 2 National Insurance contributions, closing Childcare Vouchers to new entrants from October 2018, and an increase in the rate of Remote Gaming Duty with a cut in maximum stake on certain machine games (FOBTs) to £2 from October 2019

Other announcements

- **PFI will no longer be used** for new capital projects
- The **National Living Wage will increase by 4.9%,** from £7.83 to £8.21, from April 2019. The government have also accepted the Low Pay Commission's recommendations for the National Minimum Wage rates
- In the context of **Brexit**, the Chancellor said that he reserves the right to take whatever action is appropriate if there is a material change to the outlook, including **if necessary upgrading the Spring Statement to a full Fiscal Event, such as a Budget**

The Government's spending and tax measures are costed in the Budget scorecard. Annex A of the OBR's Economic and Fiscal Outlook has costings for 18 policy decisions not included in the main scorecard.

2. OBR forecasts for the economy

The Office for Budget Responsibility (OBR) published a new set of forecasts alongside the Chancellor's Budget.[1] Their previous set of forecasts were from March 2018, at the time of the Spring Statement.

GDP growth forecasts were upgraded a little…

The OBR revised up its forecast for GDP growth in 2019 from 1.3% to 1.6%, a result of the "Budget giveaway" in the OBR's words.[2] Their 2020 forecast were also raised slightly from 1.3% to 1.4%. GDP growth forecasts for 2021 (1.4%) and 2022 (1.5%) were left unchanged from March.

…but remain modest by historical standards

While growth forecasts over the short-term are a little higher at this Budget, the underlying economic growth forecast over the next five years of 1.5% per year on average is modest by historical standards. Prior to the 2007-2009 financial crisis most observers thought the UK economy could sustainably grow by at least 2.5% per year.

The main reason for this downgrade is that productivity growth – the key ingredient to sustainable economic growth – has been extremely weak since the crisis. As a consequence, most forecasters including the OBR, have lowered their assumptions of how fast they think productivity can grow in the future. These conclusions remain unchanged in the new set of forecasts, underpinning the relatively modest GDP growth outlook.

Unemployment forecasts lowered

Against the backdrop of rising employment and falling unemployment, the OBR lowered its forecasts for the unemployment rate. For 2019 its forecast was cut from 4.5% in March to 3.7%, before rising slightly each year until it reaches 4.0% in 2023. A key reason for this change is the OBR's decision to lower what it thinks is the sustainable rate of unemployment over the long-term (also called the equilibrium unemployment rate). This was reduced from 4½% to 4%.[3]

But all these forecasts are based on a Brexit deal

All OBR forecasts are based on the assumption that there is a Brexit deal. Should the UK leave the EU in March 2019 without a Withdrawal Agreement and therefore a transition period – where the UK remains in the EU Single Market and Customs Union – the OBR warns that:

> "A disorderly [Brexit] could have severe short-term implications for the economy, the exchange rate, asset prices and the public finances."[4]

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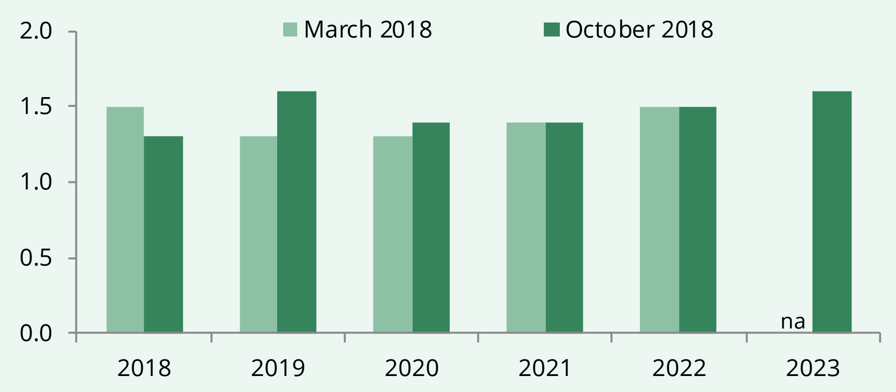
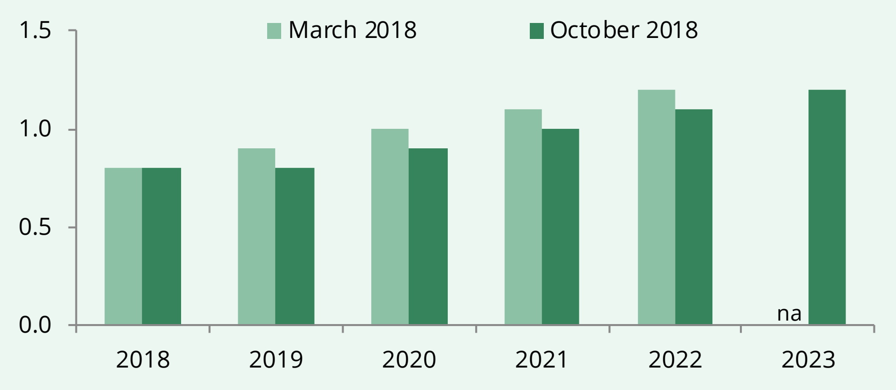
1 OBR, *Economic and fiscal outlook – October 2018*, p87, table 3.10
2 OBR, *Economic and fiscal outlook – October 2018*, p10, para 1.21
3 OBR, *Economic and fiscal outlook – October 2018*, p61, para 3.70
4 OBR, *Economic and fiscal outlook – October 2018*, p7, para 1.12

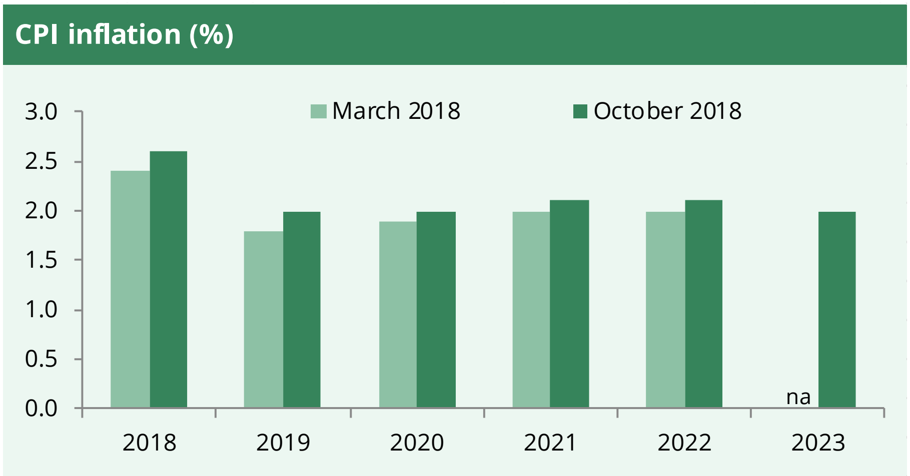
OBR forecasts: economy	2018	2019	2020	2021	2022	2023
GDP growth (%)						
March 2018	1.5	1.3	1.3	1.4	1.5	..
October 2018	1.3	1.6	1.4	1.4	1.5	1.6
Productivity growth (%)						
March 2018	0.8	0.9	1.0	1.1	1.2	..
October 2018	0.8	0.8	0.9	1.0	1.1	1.2
CPI inflation (%)						
March 2018	2.4	1.8	1.9	2.0	2.0	..
October 2018	2.6	2.0	2.0	2.1	2.1	2.0
ILO unemployment rate, %						
March 2018	4.4	4.5	4.6	4.6	4.6	..
October 2018	4.0	3.7	3.8	3.9	3.9	4.0
Average earnings, % change on previous year						
March 2018	2.7	2.4	2.5	2.8	3.0	..
October 2018	2.6	2.5	2.8	3.0	3.1	3.2

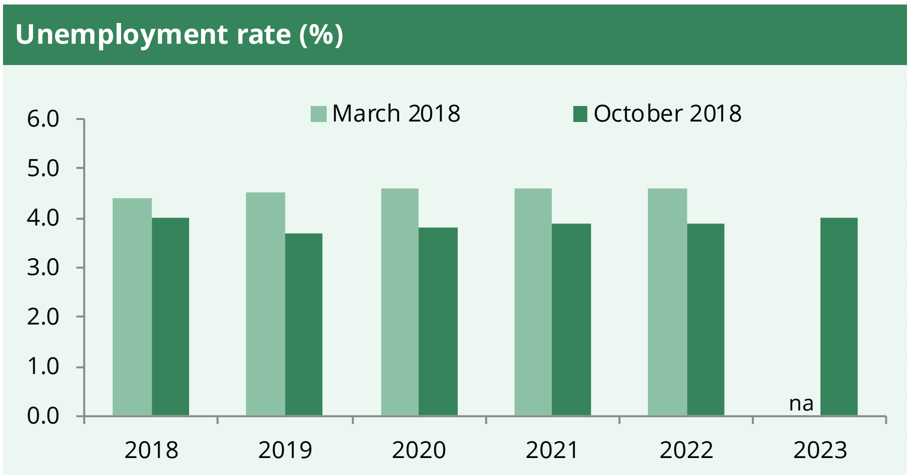
GDP growth (%)

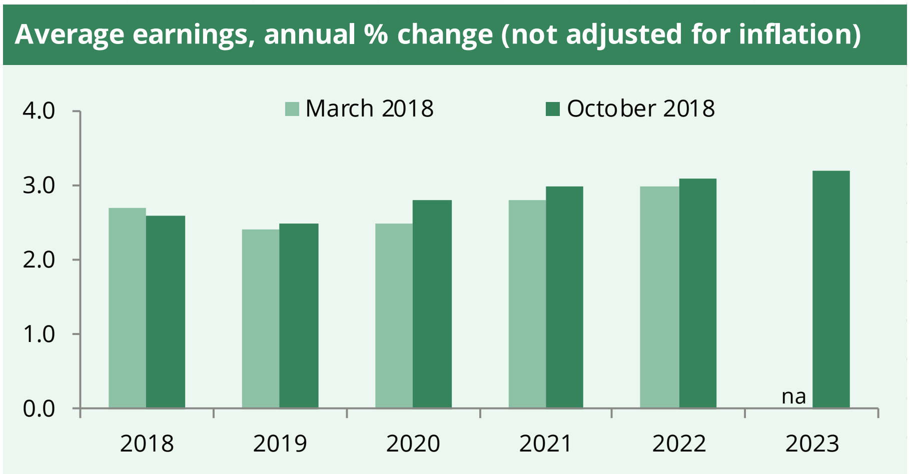


Productivity growth (%)




CPI inflation (%)
March 2018
October 2018
3.0
2.5
2.0
1.5
1.0
0.5
0.0
na
2018
2019
2020
2021
2022
2023


Unemployment rate (%)
March 2018
October 2018
6.0
5.0
4.0
3.0
2.0
1.0
0.0
na
2018
2019
2020
2021
2022
2023


Average earnings, annual % change (not adjusted for inflation)
March 2018
October 2018
4.0
3.0
2.0
1.0
0.0
na
2018
2019
2020
2021
2022
2023

3. OBR forecasts for the public finances

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

A little less borrowing forecast in most years

The OBR revised its underlying borrowing forecast using the latest data for the economy and public finances. The OBR's revisions would have seen borrowing decrease quite significantly – by around £14 billion a year on average – but the measures announced by the Chancellor in the Budget served to eat up much of the improvement. In the end, the OBR forecast that borrowing would be around £12 billion lower in 2018/19 than it forecast in March 2018, around £2 billion lower in the following three years and less than £1 billion lower in 2022/23.[5]

The OBR's revisions to the underlying forecast were largely a result of better-than-expected tax revenues, and a change to the level of unemployment it assumes the economy can sustain. The change to the OBR's unemployment assumption increases the tax revenues that can potentially be raised from employees, while also lowering the amount government spends on out-of-work welfare and tax credits. This is discussed further in an Insight published on the Library's website.

Lower forecasts for government debt

The OBR's forecast for the debt-to-GDP ratio is lower in all years than they forecast in March 2018. The improvement is a result of the OBR forecasting nominal GDP to be larger than previously forecast and that the cash level of government debt will be lower.

The OBR says that the debt-to-GDP ratio peaked in 2016/17 and fell slightly in 2017/18. They expect the ratio to fall across the forecast period.[6]

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.[7]

The OBR says that meeting the Government's overall objective for the public finances – reaching a budget surplus by the middle of the 2020s – appears challenging.[8]

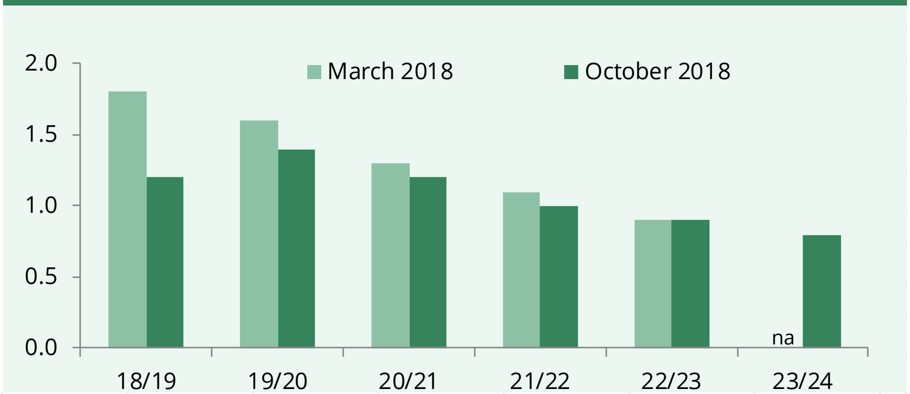
As with the forecasts for the economy, the OBR's forecasts are forecasts are based on the assumption that there is a Brexit deal.

5 OBR, *Economic and fiscal outlook – October 2018*, Table 1.3
6 OBR, *Economic and fiscal outlook – October 2018*, paras 4.226 – 4.239
7 For more on the Government's targets see the Library briefing *The Office for Budget Responsibility and Charter for Budget Responsibility*
8 OBR, *Economic and fiscal outlook – October 2018*, p216

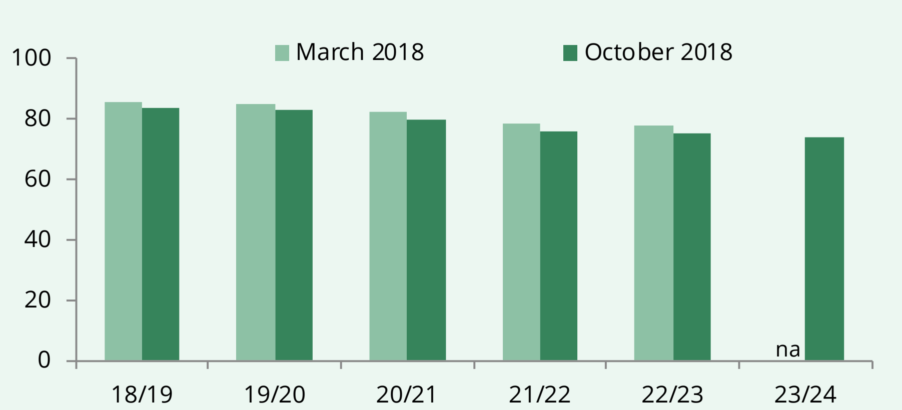
OBR forecasts: public finances

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Net borrowing, £ billion						
March 2018	37.1	33.9	28.7	26.0	21.4	..
October 2018	25.5	31.8	26.7	23.8	20.8	19.8
Net borrowing, % of GDP						
March 2018	1.8	1.6	1.3	1.1	0.9	..
October 2018	1.2	1.4	1.2	1.0	0.9	0.8
Cyclically adjusted net borrowing, % of GDP						
March 2018	1.9	1.6	1.3	1.1	0.9	..
October 2018	1.3	1.6	1.3	1.1	0.9	0.8
Net debt, £ billion						
March 2018	1,835	1,880	1,868	1,841	1,893	..
October 2018	1,810	1,851	1,841	1,809	1,856	1,896
Net debt, % of GDP						
March 2018	85.5	85.1	82.1	78.3	77.9	..
October 2018	83.7	82.8	79.7	75.7	75.0	74.1

Public sector net borrowing, % of GDP



Public sector net debt, % of GDP



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