HOUSE OF LORDS

Library Briefing

Budget 2018
Debate on 13 November 2018

Summary

This House of Lords Library Briefing has been prepared in advance of the debate due to take place on 13 November 2018 in the House of Lords on the motion moved by Lord Bates (Conservative) that, "this House takes note of the economy in the light of the Budget Statement".

The Chancellor of the Exchequer, Philip Hammond, presented the 2018 budget to the House of Commons on 29 October 2018, stating that "the era of austerity [is] finally coming to an end". The Office for Budget Responsibility (OBR) described it as "the largest discretionary fiscal loosening" since the OBR's creation in 2010.

The larger fiscal impact was on the spending side of the budget, and by far the largest component of this was increased funding for the National Health Service, first announced in June. On the taxation side, the largest effect was from increases to the income tax personal allowance and higher rate threshold.

The background economic information from the OBR slightly upgraded shorter-term forecasts of economic growth and reduced estimates of unemployment. It also noted a substantial increase in tax receipts. This combination allowed the Chancellor to carry out the "fiscal loosening" without raising taxes overall—although one consequence, according to the Institute for Fiscal Studies (IFS), is that the target to produce a budget surplus by 2025 would not be obtainable. The OBR predicted that the deficit would continue to fall, but by less than it would have done without the budget measures.

There were also interactions between the budget and the form of the Brexit deal (or no deal). The Chancellor kept some funds which could be used to inject further money into the economy in the event of a shock to the economy arising from a disorderly exit. He also claimed that there would be a "deal dividend" if the exit was smooth, although the IFS has challenged this.

There was a variety of reactions to the budget, with the IFS describing it as a "gamble", the Institute of Economic Affairs labelling it "fiddly" and the Resolution Foundation stating that it would "significantly ease, but not end, austerity". Several commentators also regretted the absence of any longer-term plans to resolve the mismatch between expectations of public services and the current tax take, particularly given the future costs of the ageing population.

Table of Contents

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7 November 2018

Table of Contents

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1. Main Points

1.1 Overview

Introducing the budget, the Chancellor of the Exchequer, Philip Hammond, said "I can report to the British people that their hard work is paying off, and the era of austerity finally coming to an end".[1] In support of this, he announced a series of spending and taxation decisions which are summarised in the following two sections of this briefing.

A table in the main budget document, the 'red book', reproduced below, shows that the major effects of budget decisions were on the spending side. The table illustrates the fiscal impact of the decisions, so a negative number implies greater government spending or lower tax income, while a positive number implies lower spending or higher tax income.

Table 1: Budget 2018 Policy Decisions (£ million)[2]

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Spending policy decisions	-2,035	-10,905	-13,370	-17,880	-23,650	-30,520
Tax policy decisions	-270	-4,180	-1,025	280	125	-40
Total policy decisions	-2,305	-15,085	-14,395	-17,600	-23,520	-30,560

Components may not sum to totals due to rounding

The spending figures were large by the standards of recent budgets. Overall, the Office for Budget Responsibility (OBR) described the combined effects of the budget decisions as "the largest discretionary fiscal loosening at any fiscal event since the creation of the OBR [in 2010]".[3]

1.2 Spending

Health Spending

The largest component of increased spending was on the National Health Service (NHS). This was first announced in June 2018, when the Prime Minister, Theresa May, stated that it would amount to a real-terms increase of £20.5 billion per year for NHS England by 2023/24.[4] After taking into account increased contributions to the Scottish and Welsh governments and

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[1] HC *Hansard*, 29 October 2018, col 653. Full Fact described 'austerity' as "the term broadly used to describe the policy of reducing spending on public services, as committed to by the coalition and Conservative governments since 2010" (Full Fact, 'Budget 2018: Three Things We Learned', 30 October 2018).
[2] HM Treasury, *Budget 2018*, October 2018, HC 1629 of session 2017–19, p 4.
[3] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 6.
[4] Department of Health and Social Care and HM Treasury, 'Prime Minister Sets Out Five-year NHS Funding Plan', 19 June 2018.

the Northern Ireland Executive via the 'Barnett formula',[5] and also an expected increase in NHS employer pension contributions, the budget documentation suggested an overall cash injection in nominal terms of £7.4 billion in 2019/20, rising to £27.6 billion in 2023/24—a total of £83.6 billion over the five years.[6]

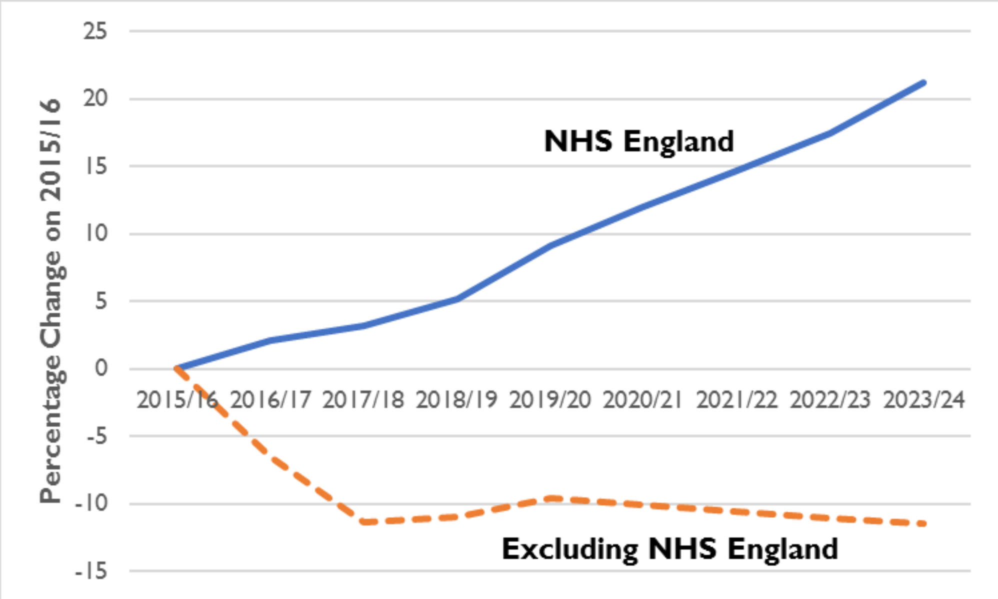
The budget also committed to a greater share of health spending being directed to mental health services, including "comprehensive mental health support in every major accident and emergency [department] by 2023/24", and "children's and young people's crisis teams in every part of the country".[7]

Non-health Spending

Excluding the boost to health spending, the OBR stated that the budget would have increased borrowing by £5.3 billion in 2019/20, but would actually have reduced it very slightly (by £0.2 billion) in 2023/24.[8] This point is also illustrated by Figure 1 below, which the OBR highlighted in its oral evidence to the House of Commons Treasury Committee following the budget.[9] The graph shows how departmental 'RDEL' (day-to-day) spending is predicted to change, relative to 2015/16, over the budget forecast period. While NHS England spending rises steadily, spending on all other departments combined is broadly flat from 2017/18 onwards. The OBR noted that this includes some departments where spending is rising (for example, defence and overseas aid) and therefore others "must be facing further constraints but who they are, presumably, we will not find out until the [2019] spending review".[10]

[5] The Barnett formula determines changes to funding allocations to the devolved administrations in relation to departmental spending. Under the formula, the devolved administrations "receive a population-based proportion of changes in planned UK government spending on comparable services in England" (HM Treasury, *Statement of Funding Policy: Funding the Scottish Parliament, National Assembly for Wales and the Northern Ireland Assembly*, November 2015, p 9.
[6] Department of Health and Social Care, *NHS Funding Settlement*, pp 1–2; and HM Treasury, *Budget 2018*, October 2018, HC 1629 of session 2017–19, pp 36 and 74.
[7] ibid, pp 74–5.
[8] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 5.
[9] House of Commons Treasury Committee, *Oral Evidence: Budget 2018, HC 1606*, 31 October 2018, Q39.
[10] ibid.

Figure 1: Change in Real RDEL Limits per Capita from 2015/16: NHS and Other[11]



The next largest spending announcement, based on the budget's full five-year forecast period, was a series of measures relating to the welfare benefit universal credit (UC). These included an increase in the amount that certain claimants can earn before UC begins to be withdrawn (the 'work allowance') of £1,000 per annum. The Government stated that this would benefit "2.4 million working families with children and people with disabilities by £630 per year", based on the completed rollout of UC.[12] The measures also included what the Government described as "greater protection for people moving from legacy benefits",[13] and extending the implementation period to December 2023.[14]

In the shorter term (either 2018/19 or 2018/19 and 2019/20 combined), the other public services spending commitments which amounted to more than £100 million were:[15]

- Defence: £1 billion over two years;
- Social care: £1.06 billion over two years;
- Transport: £500 million in 2018/19 for "road maintenance"; and
- Schools: £475 million in 2018/19, of which £400 million is for "equipment and facilities".[16]

[11] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 142.
[12] HM Treasury, *Budget 2018*, October 2018, HC 1629 of session 2017–19, p 77.
[13] ibid, p 3.
[14] ibid, p 78.
[15] ibid, p 36.
[16] ibid, p 76.

On 3 October 2018, the Government announced that it would remove the cap which limits the amount that local authorities can borrow against their housing assets to fund new developments, suggesting that this could deliver "up to an estimated 10,000 additional homes per year".[17] The budget documents estimated that this will increase public borrowing by £1.2 billion per annum in 2022/23 and 2023/24, with smaller effects in each of the previous years.[18]

Other areas which received additional funding included apprenticeships, high street regeneration, a range of regional initiatives and prisons, courts and the justice system. There were also a large number of smaller commitments.[19]

There will be a full review of the spending of government departments in 2019.[20]

1.3 Taxation

Turning to taxation, in terms of financial impact the most significant changes announced in the budget were increases to the personal allowance (the amount of money which can be earned before paying income tax) and the higher rate threshold (the level of income at which a taxpayer begins to pay higher rate income tax of 40 percent).[21] These changes will now be brought in in April 2019, a year earlier than planned.[22] Together, they will reduce government income by £2.8 billion in 2018/19 and by an average of £1.7 billion per annum over the following four years.[23]

Elsewhere, the Chancellor announced a continuation of the freeze on fuel duty, costing an average of £880 million per year between 2019/20 and 2023/24. Spirits, beer and cider duty were also frozen, at an average cost of £176 million per annum over the same period.[24]

The budget introduced or extended a wide range of tax measures under the headings of "a fair and sustainable tax system" and "avoidance, evasion and unfair outcomes".[25] In terms of tax take, the largest of these was to bring the private sector in line with the public sector in off-payroll working rules. These require individuals who work like employees, but through companies, to pay similar taxes to other employees.[26] This measure is estimated to

[17] Ministry of Housing, Communities and Local Government, 'Government Announces New Generation of Council Housing', 3 October 2018.
[18] HM Treasury, *Budget 2018*, October 2018, HC 1629 of session 2017–19, p 37.
[19] For example: ibid, pp 53–81.
[20] ibid, p 1.
[21] ibid, pp 36–9.
[22] ibid, p 3.
[23] ibid, p 36.
[24] ibid.
[25] ibid, p 38.
[26] HM Treasury, *Budget 2018: Increasing Compliance With the Off-payroll Working Rules in the Private Sector ("IR35")*, 29 October 2018.

increase the total tax take between 2018/19 and 2023/24 by a total of £3.0 billion.

Amongst other changes to existing taxes, those with larger effects included limiting access to the employment allowance to smaller companies and charities. This allowance provides a reduction in employer national insurance contributions of up to £3,000 as an incentive to hire staff.[27] The restriction will come into force in April 2020 and will increase the tax take by £225 million in 2020/21, rising to £320 million in 2023/24. Conditions were also tightened for the carry-forward of capital losses in corporation tax (average exchequer benefit £129 million per year between 2020/21 and 2023/24)[28] and in private residence relief for those letting out their main residence (average £114 million per year 2020/21 to 2023/24).[29]

The most significant new tax proposed was the digital services tax. This will require certain digital businesses (search engines, social media platforms and online marketplaces with global revenues of over £500 million per annum) to pay 2 percent of their UK revenues.[30] It will come into force in April 2020, and was described as an "interim action" pending developments in the international corporate tax framework for digital businesses. The tax is estimated to raise £275 million in 2020/21, rising to £440 million in 2023/24.[31]

Considering productivity and investment, the budget announced an increase in the annual investment allowance (AIA, which provides "significantly faster tax relief for plant and machinery investments") from January 2019 for two years.[32] This was predicted to cost £1.2 billion in total in the 2018/19 to 2020/21 tax years, although also to provide around £500 million of additional income in the following three tax years. However, there will be some negative effects for business investment from a reduction in the "writing down allowance". This affects investments not qualifying under the AIA and means that, while tax relief will still be available, it can only be claimed over a longer period. The average benefit to the exchequer was estimated to be £311 million per annum between 2019/20 and 2023/24.[33]

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[27] HM Treasury, *Budget 2018: Employment Allowance Reform*, 29 October 2018.
[28] HM Treasury, *Budget 2018*, October 2018, HC 1629 of session 2017–19, p 38.
[29] HM Treasury, *Budget 2018: Private Residence Relief: Changes to Ancillary Reliefs*, 29 October 2018; and HM Treasury, *Budget 2018*, October 2018, HC 1629 of session 2017–19, p 38.
[30] HM Treasury, *Budget 2018: Digital Services Tax*, 29 October 2018. This is one of the items in the budget where the OBR described the costing as containing a "high degree of uncertainty" (Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 237).
[31] HM Treasury, *Budget 2018: Digital Services Tax*, 29 October 2018.
[32] HM Revenue and Customs, 'Temporary Increases in the Annual Investment Allowance', 29 October 2018.
[33] HM Revenue and Customs, 'Capital Allowances: Reduction of Rate of Special Writing Down Allowance', 29 October 2018.

While these developments covered incentives to invest in plant and machinery, the Government described investments in structures and buildings intended for commercial use as a "gap in the current capital allowances system".[34] To address this, the budget introduced a new, permanent "structures and buildings allowance", which it estimated will cost £55 million in the current tax year, rising to £585 million in 2023/24.[35]

The budget also announced a temporary cut in business rates of one-third for retail properties with a rateable value of up to £51,000 for 2019/20 and 2020/21, costing a total of £940 million in those two years.[36]

Finally, there were measures to reduce "avoidance, evasion and unfair outcomes" in the tax system. These included changes to stamp duty, value added tax (VAT), including in relation to offshoring, and tax treatment in insolvency.[37] Together, all the measures in this category were forecast to raise an additional £535 million per annum by 2023/24.

1.4 Pre-Announced Measures

The budget confirmed several previously announced measures. One of these was a further increase in the national living wage and national minimum wage. In April 2019, the main hourly rate, the national living wage, will rise from £7.83 to £8.21.[38] Others included the decision not to abolish class 2 national insurance contributions for the self-employed in this parliament,[39] an increase in remote gaming duty paid by online gaming operators,[40] and restricting fixed odds betting terminals (FOBTs) to a £2 maximum stake.[41] The latter two measures were linked, such that the intention was to introduce them at the same date (1 October 2019), with the increased income from remote gambling duty partially replacing lost income from the tax on FOBTs.[42] However, this has been interpreted by some as a delay in introducing the restrictions to FOBTs, and led to the resignation of the Minister for Sport and Civil Society, Tracey Crouch.[43]

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[34] HM Revenue and Customs, *Capital Allowances for Structures and Buildings*, 29 October 2018, p 2.
[35] HM Treasury, *Budget 2018*, October 2018, HC 1629 of session 2017–19, p 36.
[36] ibid, p 37.
[37] ibid, pp 51–2.
[38] Department for Business, Energy and Industrial Strategy and HM Treasury, 'National Living Wage and National Minimum Wage: Government Response to the Low Pay Commission's Autumn 2018 Recommendations', 29 October 2018.
[39] House of Commons, 'Written Statement: National Insurance Contributions', 6 September 2018, HCWS944.
[40] ibid.
[41] Department for Digital, Culture, Media and Sport, 'Government to Cut Fixed Odds Betting Terminals Maximum Stake from £100 to £2', 17 May 2018.
[42] HM Revenue and Customs, 'Gambling Taxes—Remote Gaming Duty Increase', 29 October 2018.
[43] Rob Davies, 'Sports Minister Resigns Over Delay to Gambling Curb', *Guardian*, 1 November 2018.

2. Brexit

As the OBR noted, its own forecasts (which underlay the budget) were based on current government policy.[44] It went on to say that "with negotiations over the UK's exit from the EU still taking place, this is not straightforward". The OBR then stated that the basis of its forecasts was in fact a "relatively smooth exit from the EU next year",[45] saying:

> Given the current uncertainty as to how the Government will respond to the choices and trade-offs facing it during the negotiations—which may well extend beyond the near-term withdrawal agreement and any accompanying political declaration—we still have no meaningful basis for predicting the post-Brexit relationship between the UK and EU upon which we could then condition our forecast. We continue to assume that the negotiations between the UK and the EU lead to an orderly transition to a new long-term relationship, whatever that relationship might be.[46]

The OBR defined this "orderly transition" to mean leaving in March 2019 with a two-year "transition period". Its assumptions about the consequences included reduced trade over a ten-year period, lower investment, and a tighter migration regime.[47] The OBR made clear that as the UK's future relationship with the EU became clearer, it would update its assumptions, judgements and forecasts.[48] In particular, it stated that "a disorderly [exit] could have severe short-term implications for the economy, the exchange rate, asset prices and the public finances. The scale would be very hard to predict".[49]

In an interview before the budget, the Chancellor was reported as saying that in the event of no deal, "we would need to have a new budget that set out a different strategy for the future".[50] In the budget speech, he said:

> If the economic or fiscal outlook changes materially in-year, I will take whatever action is appropriate, if necessary upgrading the spring statement to a full fiscal event.[51]

The Chancellor indicated that a deal with the EU might result in an improved fiscal outlook, both via the removal of uncertainty and the release of the

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[44] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 33.
[45] ibid, p 7.
[46] ibid, pp 33–4.
[47] ibid, pp 34–5.
[48] ibid, p 36.
[49] ibid, p 7.
[50] BBC News, 'Philip Hammond: No-deal Brexit Would Require New Budget', 28 October 2018.
[51] HC *Hansard*, 29 October 2018, col 654.

reserve which the Government has retained to counteract the negative effects of a disorderly exit. He stated: "when our EU negotiations deliver a deal, as I am confident they will, I expect that the 'deal dividend' will allow us to provide further funding for the spending review".[52] However, the OBR has cast doubt on this. Its chair, Robert Chote, commenting on a scenario where a disorderly exit was avoided, said "it is not clear to me that that plausibly delivers you a huge fiscal upside", although he agreed that it may allow the Government to spend some money which it has kept in reserve.[53]

The budget also announced an additional £500 million of funding for government departments' EU exit preparations.[54]

3. Economic Situation

As usual, the budget was accompanied by a series of updated economic forecasts from the OBR. The most important of these are summarised below.

3.1 Economic Growth

The OBR raised its forecast for economic growth (measured by gross domestic product, GDP) in 2019 from 1.3% to 1.6%, as a result of the increased public spending announced in the budget (what it called the "budget giveaway").[55] Thereafter, it predicted a "relatively stable but unspectacular trajectory for growth—close to 1.5% in every year". This would be below long-term historical averages, which the OBR has attributed to weaker productivity growth. It said that "a revival in productivity growth is essential if even the subdued output growth rates of the past few years are to be maintained".[56]

3.2 Unemployment

As unemployment has continued to fall, the OBR has revised down its estimate of "equilibrium unemployment", which is the rate at which pressure on wages does not change as a result of shortages or surpluses in the supply of labour.[57] It therefore expects unemployment to continue to fall to 3.7% at the start of 2019, before rising gradually to 4.0% in 2023.[58]

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[52] HC *Hansard*, 29 October 2018, col 656.
[53] House of Commons Treasury Committee, *Oral Evidence: Budget 2018, HC 1606*, 31 October 2018, Q29–32.
[54] HM Treasury, *Budget 2018*, October 2018, HC 1629 of session 2017–19, p 2.
[55] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 6.
[56] ibid, p 44.
[57] Office for Budget Responsibility, 'The Equilibrium Unemployment Rate', March 2018.
[58] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 11.

3.3 Public Sector Finances

The OBR described two main forces which have improved the outlook for the public finances. First, looking backwards, borrowing in 2018/19 to date has been lower than expected, resulting in an anticipated £11.9 billion improvement in the fiscal position for the whole of the financial year.[59] This in turn was the result of "stronger tax revenues and lower spending on welfare and debt interest than expected". The second factor was forward looking: the raised expectations for growth noted above have improved the anticipated position in future years.

Public Sector Deficit

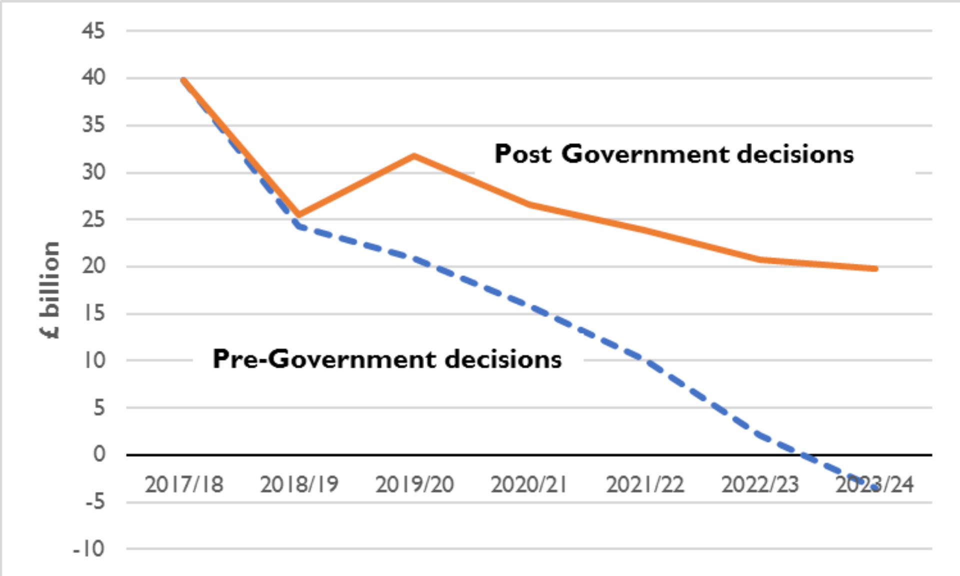
These forces combined improve the outlook for the public sector deficit (the difference between public sector spending and income in each year) by £18.1 billion per year by 2022/23.[60] The OBR then noted that "this would have been sufficient to achieve a budget surplus of £3.5 billion in 2023/24, meeting the fiscal objective of balancing the budget by 2025". However, the OBR then stated that "the budget spends the fiscal windfall rather than saving it", particularly in the form of the increased NHS funding.[61] The budget itself added £1.1 billion to the deficit in 2018/19, rising to £23.2 billion in 2023/24.

When combined with the underlying improvements in growth and unemployment, the final state of the deficit is now expected to be £25.5 billion in 2018/19, £11.6 billion less than previously forecast. However, in 2019/20 and subsequent years, the improvement is much less: because of the increased spending the actual deficit is only expected to reduce by an average of £2 billion per year. The OBR stated that this "leaves a deficit of £19.8 billion […] in 2023/24, with just two years left to meet the balanced budget objective".[62]

Figure 2 shows the predicted path of government borrowing before and after the decisions announced in the budget.

[59] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 5.
[60] ibid.
[61] ibid.
[62] ibid, pp 6–7.

Figure 2: Public Sector Net Borrowing[63]



The OBR also noted that there remains £15.4 billion of "headroom" against another of the Government's targets, the "fiscal mandate" of a structural deficit less than 2 percent of GDP in 2020/21.[64] The Chancellor stated that this meant he was "retaining firepower to intervene if the economy needs more support in the coming months".[65] The OBR has suggested that such circumstances might include a "bad Brexit".[66]

Public Sector Debt

Alongside the deficit, the OBR also provided forecasts of public sector debt—that is, the total stock of borrowing resulting from past deficits, to the extent that it has not yet been repaid. The pattern of small annual deficits described above, when combined with repayments of existing debt, allowed forecasts of overall debt to fall over the period in the OBR's forecast. The OBR expected debt to fall from its 2016/17 peak of 85.2% of GDP to 83.8% in the current financial year and then to 74.1% in 2023/24.[67] Figure 3 shows the path of the Government's debt, relative to GDP, since 1999/00 and including the OBR's forecasts to 2023/24.

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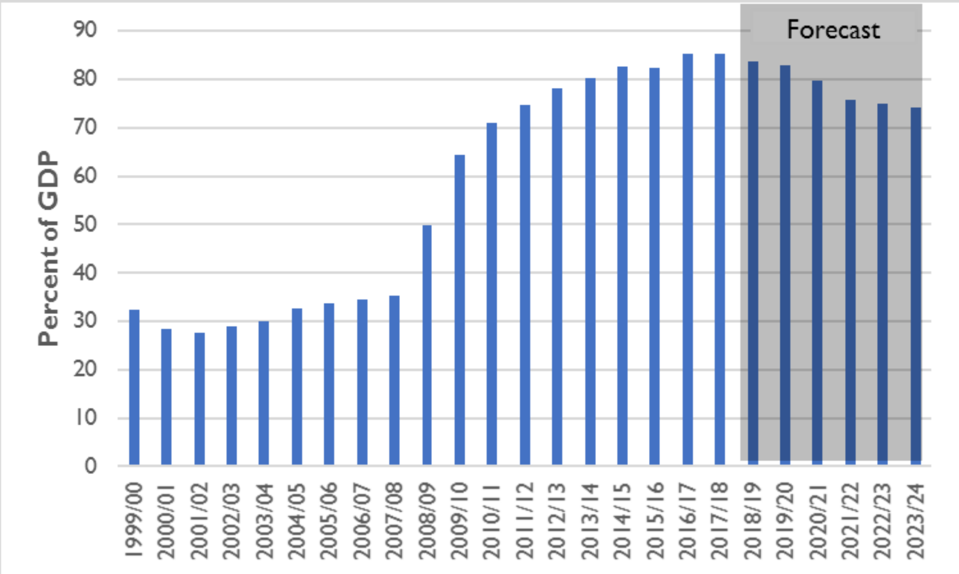
[63] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 175.
[64] ibid, p 7.
[65] HC *Hansard*, 29 October 2018, col 654.
[66] House of Commons Treasury Committee, *Oral Evidence: Budget 2018, HC 1606*, 31 October 2018, Q32.
[67] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, pp 195 and 204.

***Figure 3: Public Sector Net Debt, 1999/00 to 2023/24*[68]**



4. Opposition Party Responses

In his response to the budget statement, the Leader of the Opposition, Jeremy Corbyn, contested the claim that the budget marked the ending of austerity.[69] He stated that the Labour Party's policy would be to "raise taxes on the highest earners" to generate a larger increase in funding for the NHS.[70] Commenting on the additional funds for universal credit, he believed that the benefit had "structural" problems, and said that the roll-out should be halted immediately.[71] He called for a minimum wage of at least £10 per hour by 2020, and stronger measures to tackle the "institutionalised tax avoidance of big online retailers". Considering investment, he proposed a 'national investment bank' and regional development banks.[72]

The Shadow Chancellor of the Exchequer, John McDonnell, was reported as stating that the Labour Party would not oppose the increase in the higher rate income tax threshold, instead proposing tax increases for the highest paid 5 percent of the population.[73] Accordingly, the Leader of the Opposition tabled an amendment to the budget resolution calling for a distributional analysis of its policy to reduce the additional (45p) rate threshold from £150,000 to £80,000 and introduce a new 50p rate above £125,000. The amendment was defeated by 313 votes to 246.[74]

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68 Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 198.
69 HC *Hansard*, 29 October 2018, col 670.
70 ibid, col 671.
71 ibid, col 673.
72 ibid, col 674.
73 Jim Pickard, 'Labour MPs Attack John McDonnell Over Budget Tax Cut Support', *Financial Times* (£), 30 October 2018.
74 UK Parliament website, 'Autumn Budget 2018', 1 November 2018.

The Leader of the Scottish National Party at Westminster, Ian Blackford, argued that Scotland's budget had been cut by £1.9 billion in real terms since 2010/11.[75] Considering Brexit, he called for the UK to remain in the single market and customs union as part of the deal with the EU. He also requested a "small and medium-sized enterprise support service" to help firms plan and prepare for leaving and said that residency fees should be removed for EU citizens applying to remain in the UK.[76]

The Leader of the Liberal Democrats, Vince Cable, stated that while "for many people the budget was actually a pleasant surprise", he believed that the Chancellor was "taking a big risk with an economy that is not particularly strong".[77] He called for a "mature debate" about how to end austerity, which would, he said, involve "people paying more tax". He believed that the issue was "how we do it in the fairest and most efficient way".[78]

5. Analysis and Commentary

Summaries of a selection of responses to the budget are provided below.

5.1 Institute for Fiscal Studies

The Director of the Institute for Fiscal Studies (IFS), Paul Johnson, described the budget as a "gamble".[79] Referring to the OBR's improved growth forecast, and the resultant ability for the Government to spend more without borrowing more, he stated that "what the OBR gives, the OBR can take away", suggesting that growth forecasts could deteriorate next year. In that case, Mr Johnson concluded, the Chancellor has "painted himself into a bit of a corner" and borrowing would rise.[80] On the boost to NHS spending, Mr Johnson stated that this was "substantial", but also noted that the pace of funding increases was still lower than the average over the NHS's 70-year history.[81] He cast serious doubt on the likelihood of the deficit being eliminated by the mid-2020s, but noted that it was below the pre-crisis level and also below the pre-crisis average.[82] On the debt, he stated that it was "not on a decisively downward path".[83]

On taxation, the IFS said that the budget announcements were "sticking plasters" with no sign of a long-term strategy, or recognition of the "all but inevitable tax increases to pay for the ageing population".[84]

[75] HC *Hansard*, 29 October 2018, col 682.
[76] ibid, col 683.
[77] HC *Hansard*, 1 November 2018, col 1115.
[78] ibid, col 1116.
[79] Paul Johnson, 'IFS Budget Briefing: Introductory Remarks', 30 October 2018 (video), 00:20.
[80] ibid, 6:55 to 7:20.
[81] ibid, 3:00 to 3:15.
[82] ibid, 5:50 to 6:05.
[83] ibid, 7:21 to 7:48.
[84] ibid, 16:30 to 16:42.

The IFS also explored the distributional impacts of tax and benefit changes in the budget.[85] It reported that the measures announced benefited households throughout the income distribution. Those with incomes in the highest tenth (decile) of the population benefited the most, and those in the lowest decile benefited the least.

5.2 Resolution Foundation

The Resolution Foundation (RF) suggested that the budget contained "bigger political and economic shifts than many had anticipated".[86] It assessed the budget as one which would "significantly ease, but not end, austerity". Commenting on the debt, it suggested that the fall relative to GDP this year was "significant". However, the changes to the income tax allowance and higher rate threshold were described as "regressive", with "almost half" of the benefit going to the top decile of households in future years.[87]

On the deficit, the RF came to a similar conclusion as the IFS, believing that the statement represented an "abandoning" of the objective of a budget surplus in the 2020s. The RF also agreed with the IFS that some departments would still be facing budget cuts despite the overall increases in spending. It calculated that, under certain assumptions, the total real terms cuts to the budgets of the departments of justice, business and transport between 2009/10 and 2023/24 would be 48%, 52% and 77% respectively.[88]

The RF noted that despite the additional funding for universal credit, "the cash freeze in working-age benefits is set to continue next year". This meant, the RF stated, that a couple with children in the bottom half of the income distribution would be £200 a year worse off on average. It also said that half of the benefit cuts announced in 2015 that directly affected family budgets were still to be rolled out.[89]

5.3 Institute for Government

The Institute for Government suggested that the budget "did deliver on a narrow interpretation" of the ending of austerity.[90] However, like the IFS, it emphasised the absence of any plans to address what it called the "longer-term mismatch between the UK public's expectations of public services and welfare and the amount of revenue that can be raised by current taxes", particularly given the ageing population and other economic trends.

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[85] Agnes Norris Keiller and Tom Waters, 'Distributional Analysis', Institute for Fiscal Studies, 30 October 2018, slide 3.
[86] Resolution Foundation, *How to Spend It: Autumn Budget 2018 Response*, October 2018, p 2.
[87] ibid.
[88] ibid.
[89] ibid, p 3.
[90] Gemma Tetlow, 'The Budget Shows Austerity Isn't Over—Yet', Institute for Government, 29 October 2018.

5.4 Institute of Economic Affairs

The Institute of Economic Affairs (IEA) described the budget as "fiddly" and commented that "it appears this Government has given up on deficit elimination".[91] It stated that "fiscal responsibility is being sidelined, giving way to short-term giveaways and unaffordable pledges". It called for lower taxation, reduced regulation and a redesign of the NHS.

5.5 Women's Budget Group and Gender Impact of the Budget

Giving evidence to the House of Commons Treasury Committee, Diane Elson from the Women's Budget Group called for an analysis of the gender impact of spending and taxation, and an assessment of the impact of the budget on gender inequality.[92] Discussing the main changes announced, she stated that women would tend to benefit more than men from the increased health spending, but that men would benefit more from the increases to the income tax personal allowance and higher rate threshold. In fact, she believed, 63 percent of the benefit of the increase in the higher rate threshold would go to men.[93] On the question of the gender impact of budgets, at the same hearing the IFS reported that "possibly the biggest gender equality impact of budgets over the last two or three years has been the very big increases in the national living wage", which have gone "overwhelmingly" to women.[94] The Confederation of British Industry (CBI) called for more high-quality apprenticeships that appeal to women.[95]

5.6 Confederation of British Industry

Also giving evidence to the House of Commons Treasury Committee, Rain Newton-Smith, chief economist at the CBI, welcomed the support in the budget for smaller businesses and high streets.[96] However, she called for more fundamental reform of the business rates system, which she described as a "real barrier to investment". She also regretted that the budget "did not do anything for large employers".[97]

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[91] Institute of Economic Affairs, 'Institute of Economic Affairs Reacts to the Autumn Budget Announcements 2018', 29 October 2018.
[92] House of Commons Treasury Committee, *Oral Evidence: Budget 2018, HC 1606*, 1 November 2018, Q88–9.
[93] ibid.
[94] ibid, Q92.
[95] ibid, Q94.
[96] ibid, Q84.
[97] ibid.

5.7 Trades Union Congress

The Trades Union Congress (TUC) stated that the budget had failed the "five tests" which it had set prior to the statement.[98] These were: to tackle the wage growth crisis; to end social security cuts; to provide a "proper pay rise" for public servants; to provide more money for public services; and to provide "proper investment in the UK economy". Hence, the TUC concluded that the budget "fell far short of what UK workers needed".

5.8 Google

Giving evidence to the House of Lords Communications Committee following the budget, Google supported an international solution to the issue of tax rates for digital businesses. This, it believed, would avoid the issue being "solved" in one country but having "knock-on consequences in other countries".[99]

5.9 Financial Press

The *Economist* considered the discussions in the budget of the consequences of orderly and disorderly Brexits, concluding that they had a political component. It suggested that the Chancellor's underlying intention was to:

> […] make clear that this week's giveaways were predicated on a deal and that, if no deal were to happen, all this would be at risk. The glimpse of sunny uplands is intended to remind MPs what is at stake if they decide to roll the dice and vote down the Brexit deal.[100]

The *Financial Times* discussed the digital services tax.[101] It suggested that the Chancellor was right to underline the weaknesses of the current system of international tax treaties, which was based on companies having physical production centres and, it stated, has "proved open to abuse". It highlighted similar efforts to tax digital businesses elsewhere. It suggested that the chancellor's plan "is a legitimate starting point" but supported the view that "in an ideal world, there would be a more comprehensive international fix to this conundrum". Finally, it believed that there is a risk of retaliation by the US, perhaps by levying an equivalent sales tax on the US revenues of UK companies.

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[98] Geoff Tily, 'Five Reasons Why Austerity is Going Nowhere', Trades Union Congress, 29 October 2018.
[99] House of Lords Communications Committee, *Uncorrected Oral Evidence: The Internet: To Regulate or Not To Regulate?*, 30 October 2018, Q175.
[100] *Economist* (£), 'Britain's Feel-good Budget is a Little Too Good to be True', 1 November 2018.
[101] *Financial Times* (£), 'The Quest for a Fairer Way to Tax the Tech Giants', 30 October 2018.