



## Autumn Statement 2016

### Context

There was significant anticipation ahead of this Autumn Statement - the first major fiscal event of both Theresa May's Government and a Brexiting Britain. New Chancellor Phillip Hammond occupies a very different role in Government from his predecessor who also doubled as the Government's Chief Strategist and many predicted the content of the statement would reflect his businessman like style. Government pre-briefing last week suggested a similarly downcast tone, pointing out that far from the usual give away of goodies, this week's statement would instead be forced to fill a £100bn Brexit blackhole. It is unsurprising then that many commentators suggested that it would be the Office for Budget Responsibility (OBR) forecasts rather than the Chancellor's announcements that would make the biggest headlines.

By the start of this week however, the Autumn Statement spin game was back in full swing and we were treated to the usual parade of unveilings. Most significant of these, was a raft of measures designed to help the Government's new target group – those who are just about managing or the 'JAMs'. JAMs are defined as the group of people who are treading water in terms of their personal finances - often in work but struggling with the costs of caring for elderly relatives, buying or renting a home, or taking their family on holiday. Whereas the Cameron Government made its primary focus the life chances of those living in poverty, the May Government believes the Brexit vote was a revolt of the JAMs, that must be addressed. As such measures to reduce the taper in Universal Credit reductions, a freeze in fuel duty and a ban on letting agencies fees were the focus of the pre-statement warm up.

### The top lines

The Chancellor opened with a surprisingly optimistic tone, pointing out that Britain continued to grow faster than many of its international competitors. He soon however turned to the impact of Brexit. The OBR forecasts now show borrowing forecast to be £122bn higher in the period until 2021 than it was in the March budget, with debt peaking at 90.2 per cent of GDP in 2017-2018. GDP growth next year was downgraded from a forecast of 2 per cent to just 1.4 per cent because of economic uncertainty. In announcing the figures the Chancellor gave the long-expected confirmation that the fiscal rule which would have seen the deficit eliminated by 2020 was to be scrapped and instead replaced by a vague commitment to balance the books in the next Parliament, giving the Chancellor scope for extra borrowing and the head room to tackle impact of Brexit.

The Chancellor was clear that while the warm up may have been all about JAMs, his focus today was on productivity and tackling the long-standing productivity gap between Britain and other developed nations. At the heart of the Autumn Statement was the announcement of a new National Productivity Investment Fund of £23bn which will be split between research and development funding, transport, housing and digital infrastructure.

But that aside there weren't the rabbits out of the hat that we have come to expect from major fiscal events. Aside from the NPIF, every other measure was fiscally neutral, with changes to areas such as



universal credit and fuel duty paid for by tax rises on insurance premiums, employee salary sacrifice schemes and further measures to clamp down on tax avoidance.

The Chancellor concluded by announcing that the Autumn Statement will in future become Autumn Budget. In turn, the Spring Budget will be replaced by a Spring Statement devoid of major announcements, but instead providing an opportunity for the Government to respond to the latest OBR forecasts.

### Health and care

The NHS was not expected to feature significantly in the Autumn Statement, with many commentators predicting it would be a highlight of the spring budget instead. On this count the Chancellor met expectations, and aside from reiterating the Government's commitment to £10bn of additional funding for the NHS (or £4.5bn depending on who you ask), there was no other mention of health spending.

More surprising was the lack of any measures for social care, so surprising in fact that the shadow chancellor referred to the inadequacy of new social care funding in his (clearly prepared) response speech.

In fact, the most significant mention of health and social care came not during the statement, but during the Prime Minister's Questions warm up act. Jeremy Corbyn chose to make under investment in social care his line of attack for this week. As is usual at PMQs the exchange was more heat than light. The Prime Minister rebutted Corbyn's attacks, pointing to the Government's NHS investment and the introduction of the social care levy. Corbyn for his part pointed to reductions in per person spending, and questioned whether the Government was really seeking to require production of ID to access healthcare.

But while there may not have been new funding for health and social care, there were new expenses. The proposed rise in the living wage to £7.50 by April 2017 will have a disproportionate impact on the care sector, almost certainly leading to rising costs that will have to be found from within existing spending.

All eyes now turn to the final Spring Budget, but if today is anything to go by we should not expect to see radical changes to health and care funding in the immediate future.

### Life sciences

Health may have barely featured in today's statement, but science was at its heart, and the Government's commitment of an extra £2 billion in funding for research and development will be seen as a recognition of the particular struggles the scientific community has faced in the wake of the Brexit vote.

A part of this new funding will be used to establish an Industrial Challenge Fund to foster greater collaboration between business and academia by setting identifiable challenges for UK researchers to



fund. The remainder will be allocated to increase research capacity, awarded on the basis of national excellence.

As expected, the Government also committed to reviewing the R&D tax environment to ensure that Britain maintains an environment that is staunchly pro-innovation. Further measures of interest to the scientific community included a commitment to an Oxford-Cambridge expressway and an acceleration of plans to construct the East-West Rail line.

Today's statement was the clearest signal yet that the Government intends for science and innovation to form a key part of the forthcoming industrial strategy. These announcements and others will have been deliberately designed to reassure the scientific community that far from downgrading UK science the Government wants to see it lie at heart of the post-Brexit economy.

## Conclusion

The Chancellor acknowledged that he had been lobbied on the one hand by those calling for greater fiscal expansion in the wake of the referendum and on the other by those who believe the only way to tackle uncertainty is to double down on deficit control. In the end, the Chancellor split the difference and ended up not announcing very much at all. In fact, he went out of his way to make a virtue of prudence, relaxing deficit targets out of economic necessity, but reiterating that a balanced budget remained the goal.

So while stylistically the Chancellor could not be more different to his predecessor there was, despite the worsened economic outlook, surprisingly little change in planned spending plans. Departmental budgets set last year will remain and austerity will continue, albeit with some extra capital spending.

It seems likely the most memorable moment of the 2016 Autumn Statement will be the Chancellor's announcement that it will be the last.