Centre for Policy Studies

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Economic Bulletin

A MARGINAL AUTUMN STATEMENT

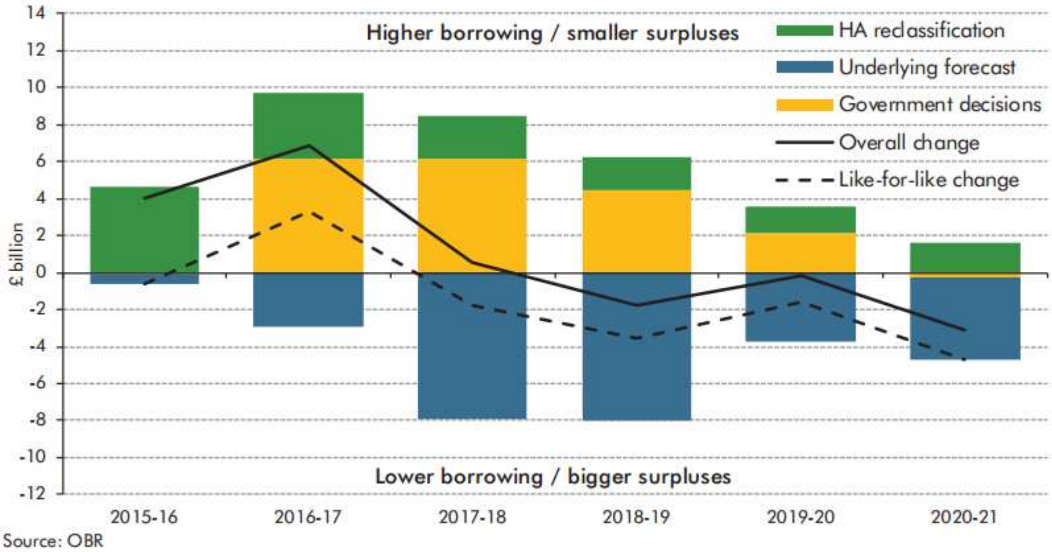
- Government uses majority of £27bn in improved forecasts to soften spending cuts.
- U-turn on tax credits removes threat of higher marginal tax rates on low-paid.
- Infrastructure boost to £120bn over five years in attempt to deal with UK productivity.
- Action on green levies remains modest – Carbon Floor Price still three times higher than EU price.
- Government's pledge for 400,000 new homes and planning reforms is step in the right direction.

1. MACROECONOMIC PICTURE

The Office for Budget Responsibility (OBR) has projected that, over the five year period from 2016-17 to 2020-21, there has been an improvement of £27 billion in the underlying forecast since the July Summer Budget. This largely reflects higher expected receipts from income taxes, corporation tax and VAT, along with a slight upward revision to future UK GDP growth.

Since the Summer Budget, the impact of the Government's overall decisions on tax and spending will add £18.7 billion to public sector borrowing over the five year period – significantly less than the £27 billion improvement reported by the OBR. Measures set out in the Autumn Statement ensure that public sector net debt continues to decline as a share of GDP in every year of the forecast, and the budget is still expected to reach a surplus of £10.1 billion in 2019-20.

Figure 1: Contributions to public sector net borrowing changes since July



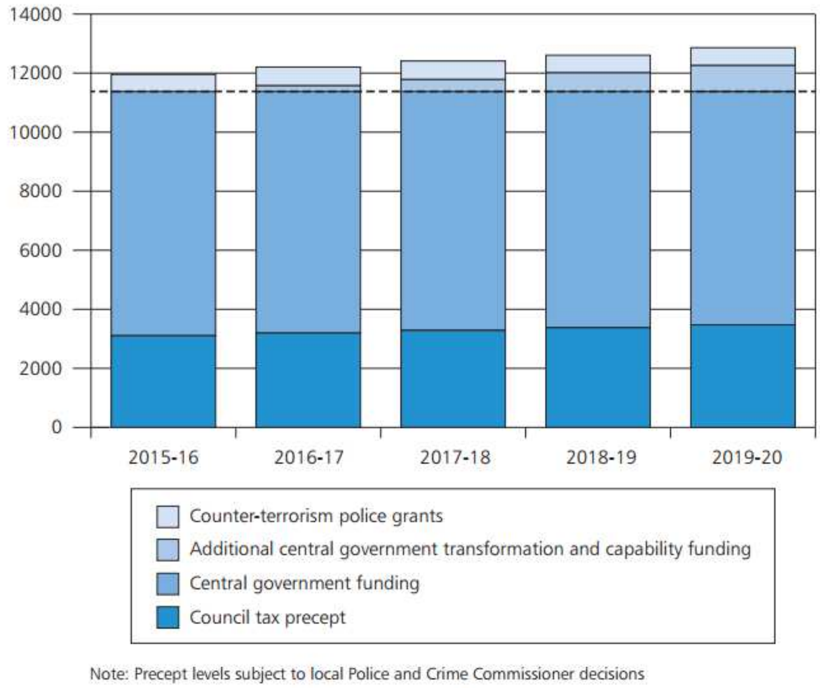
Source: Office for Budget Responsibility

2. ALTERATIONS TO DEPARTMENTAL SPENDING

The Spending Review has announced average cuts of around 18% in departmental spending for unprotected areas. However, the average cuts in the resource spending of unprotected departments will now be one-third less than implied in July, according to the Institute of Fiscal Studies.

When compared to the July Budget, there will be an estimated £22.9 billion of extra spending on Departmental expenditure limits, £11.9 billion additional spend on capital expenditure and £5 billion more on welfare over the five year period. This includes a cash increase in police resource funding in every year of the spending review period, which is projected to increase by £900m a year by 2019-20.

Figure 2: Police Resource Funding in England and Wales (£m)



Source: Autumn Statement 2015

3. NEW TAX INCREASES

Gross tax increases in the Autumn Statement partially offset the increase in welfare, departmental and capital expenditure, accounting for £28.5 billion over the five year period. This includes the new apprenticeship levy (£11.6 billion), higher council tax for social care (£6.2 billion) and higher stamp duty on second homes and buy-to-let landlords (£3.8 billion). The stamp duty change will be used to invest in affordable housing.

The Apprenticeship Levy will be charged at a rate of 0.5% of an employer's pay bill above £3 million, affecting around 2% of UK employers. Despite the comparatively small number of employers affected by the Levy, industry has expressed concern about the impact on competitiveness. The CBI believes the Levy may act as a tax on jobs, describing it as an "additional payroll tax". The EEF, the manufacturers' organisation, also expressed concern by referring to it as a "blunt instrument."

It should be noted, however, that reductions in corporation tax have already reduced the tax bill for UK businesses and will continue to do so over the coming spending review period. Since 2010, corporation tax will have fallen by 10 percentage points to 18 per cent by 2020, saving businesses £10 billion a year from 2016, according to figures set out in the Summer Budget 2015.

4. TAX CREDITS

Table 1: Impact on Exchequer of Changes Announced to Tax Credits

	Head	£ million					
		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Welfare							
23 Tax credits: maintain taper and income threshold	Spend	0	-3,385	-2,875	-1,735	-910	-465

Source: Autumn Statement 2015

Viewed in isolation, the reversal of proposed cuts in tax credits will burden the exchequer with £9.4 billion of additional costs over the spending review period, according to figures set out in the Autumn Statement 2015. The cost is partially mitigated by changes to housing benefit and universal credit.

The burden to the Exchequer will only be temporary. The policy change will ensure that no family takes an immediate fall in income, but the long-term generosity of the welfare system will be cut. New claimants for universal credit will receive significantly lower benefits than were planned after the July Budget.

5. INFRASTRUCTURE

Table 2: Selected Investment in economic and social infrastructure

	£ billion						
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Existing long term capital plans							
i Roads Investment Strategy	1.8	1.8	2.2	2.5	3.0	3.9	15.2
ii Highways maintenance	1.0	1.0	1.0	1.0	1.0	1.0	6.9
iii Network Rail[1]	6.8	7.4	5.6	4.3	*5.0*	*5.3*	34.5
iv High Speed 2	0.8	0.8	1.7	2.9	4.8	4.8	15.8
v Flood and coastal defence programme	0.4	0.4	0.4	0.4	0.4	0.4	2.3
vi Science: capital	1.1	1.1	1.1	1.2	1.2	1.2	6.9
vii Existing housing and regeneration plans[2]	1.0	1.0	1.0	1.0	1.0	1.0	5.9
viii Existing school building plans	4.6	4.8	3.8	3.2	3.0	2.8	22.2
Additional investment announced at Spending Review 2015							
ix Housing and regeneration	–	0.0	0.3	1.2	1.1	1.4	4.1
x Local Sustainable Transport Fund	–	0.1	0.1	0.1	0.1	0.1	0.5
xi Large Local Major Roads	–	0.0	0.0	0.0	0.1	0.3	0.5
xii New school building plans	–	0.3	0.8	1.3	1.5	1.8	5.7
Infrastructure investment	**17.5**	**18.7**	**18.0**	**19.1**	**22.1**	**23.9**	**120.4**

Source: Autumn Statement 2015

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The Chancellor's commitment to an additional £12 billion in infrastructure will lead to £120 billion being spent over the parliament. The Chancellor announced an additional £4.1 billion for housing and regeneration, £5.7 billion for new school buildings and £1 billion additional funding for roads. The additional money will be taken directly from Government coffers, rather than from new sources of finance, such as the idea of infrastructure bonds.

6. ENERGY

The Government has announced that energy intensive industries, including the steel industry, will be exempted from policy costs of the Renewables Obligation and Feed-in Tariffs. However, there was no announcement on changes to the Carbon Price Floor of £18 per Tonne, meaning UK fossil fuel plants and industry will continue to face a unilateral price of carbon. This is currently around three times higher than the rate paid by industry in the rest of the EU.

The Government has recommitted itself to the creation of a Shale Wealth Fund, which could deliver up to £1bn of investment to local communities with shale developments. There were no further announcements on the issue of delays in planning applications. The planning process for many shale exploration applications has been sluggish – the most recent example being Lancashire County Council, who took over a year to deliberate on a fracking application.

7. HOUSING

The Centre for Policy Studies' previous economic bulletin highlighted the chronic lack of housebuilding in the UK. According to the Department for Communities and Local Government, 125,000 homes were completed in England for 2014-15, comparing to the 320,000 needed to alleviate strains in the housing system.

The Autumn Statement has allocated £4.1 billion of additional investment in housing, which will be used to help deliver 400,000 affordable homes by 2020-21. The introduction of a Housing and Planning Bill to boost house building and accelerate planning decisions was also announced. In particular, the Government will amend planning policy to ensure the release of unused and previously undeveloped commercial, retail and industrial land for Starter Homes.

8. CONCLUSIONS

8.1 Overall Conclusion

The Chancellor is right to avoid increasing marginal tax rates on the low paid. In this respect, it is welcome that the initial plan on tax credits has been withdrawn. There will be further cuts to welfare in the future, which will go some way to putting benefits on a more sustainable footing. However, these will also be more feasible to implement as they will mostly fall on new claimants. The commitment on police spending will also come as a relief to many in the current climate.

However, it is disappointing that the majority of the £27 billion of projected improvement in the public finances has been allocated to extra spending. If the Government were not committed to ring-fencing international aid and the pensions 'triple-lock', faster progress could be made on deficit reduction. For example, a report by the Government Actuary's Department – published in error – projected that the government is spending an extra £6bn a year protecting pensioners' income.

8.2 Infrastructure

The UK's productivity is a major constraint on the UK economy, with the Office for National Statistics estimating that output per hour in the UK is 20 percentage points below the average for the rest of the G7. Infrastructure investment is intended to play a big part in closing this gap, meaning that the boost in infrastructure investment to £120 billion is welcome. It is, however, disappointing that no new innovative financing arrangements were announced, such as the proposal of Infrastructure Bonds. Infrastructure bonds could have the potential to offer attractive returns to investors while providing cheap sources of finance.

8.3 Energy

While the announcement of exempting energy-intensive industries from the costs of some green levies is welcome, this does not go far enough. No reform to the Carbon Price Floor was announced, which will continue to hit British industry with higher costs than their counterparts in Europe. There was also no new initiative to speed up planning applications for shale gas – although the re-commitment to a shale gas wealth fund is welcome.

8.4 Housing

On a more positive note, the Chancellor's emphasis on house-building is welcome. 400,000 additional homes, new planning reforms to boost construction and releasing public land for building could help tackle Britain's chronic housing problem. The creation of a business led body to improve the quality of apprenticeships may also help plug skill gaps in construction and other skilled industries. The Government's initiative in attempting to tackle Britain's housing shortage is to be welcomed – although there are concerns about demand-side pressures arising from the announcement of London Help to Buy.

9. MUST BE READ

- Spending Review and Autumn Statement 2015 – Institute for Fiscal Studies
- The fantasy of Britain as 'most prosperous economy' – Financial Times

10. MUST BE READ ON CAPX

- An Idea Whose has come: project bonds – George Trefgarne
- Autumn Statement was a powerhouse performance by George Osborne – Bruce Anderson

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