



WA INVESTOR SERVICES BRIEFING

2017 Autumn Budget: headline summary and initial analysis for investors

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OVERVIEW

Philip Hammond today placed a package of measures intended to address the UK's housing crisis at the heart of a significant giveaway-Budget delivered against a backdrop of significant downgrades in the broader economic outlook.

Abolition of stamp duty for most first-time buyers is the flagship policy expected to generate headlines, supported by a wider £44bn package of housing measures. It comes accompanied by more money for the NHS (£2.8bn), Brexit preparations (£3bn) and an assortment of measures aimed at tackling the productivity crisis, many of which are plundered from the forthcoming Industrial Strategy.

Taken together, these measures represent a significant fiscal giveaway worth around £25bn, at least in the near term, with more fiscal tightening scheduled for the tail end of the Parliament. One significant story that is emerging is that the UK's much discussed productivity crisis is now manifesting itself in a significant downgrade to projected growth. This, alongside downward revisions for average earnings (predicted to be below inflation for some time) paints a very bleak macro-economic picture.

In political terms, the real test of this Budget will rest on the reception received by its housing package. Eagle eyed policy wonks have already spotted an OBR assumption that the stamp duty cut will simply inflate house prices, primarily benefitting those already on the housing ladder. The Chancellor and his allies will no doubt point out that this measure is part of a wider package that seeks to address the challenge from several angles. However, the credibility of the whole Budget would be significantly dented if the flagship policy is deemed a dud.

In other areas, the Chancellor has generally found at least some money to respond where political pressure was being exerted. The NHS will get an immediate boost this winter, £1.6bn to follow for 2018-19 and the rest in 2020. This will no doubt be broadly welcomed but there will inevitably be some comparisons drawn between these figures and the £3bn made available for Brexit preparations (quite apart from the £40bn that is reportedly on the table in the Brexit negotiations).

The Budget speech also served up an interesting preview of the themes due to be included in the forthcoming Industrial Strategy. Placing the UK at the forefront of a technological revolution and becoming a leader in areas such as electric and driverless vehicles, artificial intelligence and 5G is central to the Government's post-Brexit economic vision. It will also be intended to address concerns over productivity.

Previous criticisms of Hammond have often centred on a supposed lack of political antennae. Today he has tried to dispel that impression by finding money for almost all the areas on which he was under pressure. The question may be whether he has sacrificed his reputation for fiscal responsibility in the process.

So what are the implications for investors?

Growth in innovative firms

The Government has outlined its committed to unlocking over £20 billion of patient capital over the next 10 years so that innovative high-growth firms ‘can achieve their full potential’. This includes:

- Establishing a new £2.5 billion Investment Fund incubated in the British Business Bank. By co-investing with the private sector, a total of £7.5 billion of investment will be unlocked.
- Doubling the annual allowance for people investing in knowledge-intensive companies through the Enterprise Investment Scheme (EIS) and the annual investment those companies can receive through EIS and the Venture Capital Trust scheme, and introducing a new test to reduce the scope for and redirect low-risk investment, together unlocking over £7 billion of growth investment.
- Investing in a series of private sector fund of funds of scale. The British Business Bank will seed the first wave of investment with up to £500 million, unlocking double its investment in private capital. Up to three waves will be launched, supporting a total of up to £4 billion of investment.
- Backing new and emerging fund managers through the British Business Bank’s established Enterprise Capital Fund programme, unlocking at least £1.5 billion of new investment.
- Backing overseas investment in UK venture capital through the Department for International Trade, expected to unlock £1 billion of investment.

The Government has also announced its plans to launch a National Security Strategic Investment Fund to invest in advanced technologies to contribute to the national security mission. The British Business Bank will also support developing clusters of ‘business angels’ outside London through a new commercial investment programme.

Additional detail on these measures is provided in a [Policy Paper](#) published alongside the Budget.

Research and Development

The Chancellor made a series of announcements to help boost innovation across the UK economy, namely a £20bn ‘unicorn fund’ over the next 10 years to boost the UK technology sector.

This includes plans to double the annual allowance for people investing in knowledge-investment companies through the Enterprise Investment Scheme. This investment is due to come from Government investment in a series of private sector fund of funds, which is designed to unlock £4bn of investment.

The Chancellor also announced a boost in R&D tax credits from 11 to 12 percent from January 2018, which is regarded as good news for technology firms and an active step to driving up R&D investment across the UK economy.

Plans were also announced to make it easier for world-leading scientists, researchers and high-skilled students to settle in the UK, with plans to cut red tape and relax labour market tests for select researchers. This is likely to be good news for certain investors, particularly given the Government is

still committed to cutting net migration to below 100,000 by 2020 and there have been concerns that this ambition, along with the revised post-Brexit visa regime, would lead to a ‘brain drain’ in the UK

Productivity

Productivity was also major focus in the Chancellor’s speech, responding to the legions of commentators and economic forecasters who have been at pains to highlight the UK’s poor productivity levels compared with the rest of the G7 over recent months. The Chancellor outlined the Government’s renewed focus on building an economy “fit for the future” by investing in leading new technologies to help boost productivity levels.

Part of this renewed focus ties into the Government’s flagship [Industrial Strategy](#), but also to the [Northern Powerhouse Investment Fund](#), which the Chancellor said will now be extended into 2022-23, meaning investors could see a number of lucrative infrastructure opportunities open up over the next five years across the North of England.

The Budget also contained plans to upskill the UK workforce, delivering a new National Retraining Partnership to help people ‘adapt to the changing world of work’ and address concerns around skills shortages in certain sectors. Alongside recommitting to the Government’s 3 million apprenticeship starts by 2020, this could unlock several more skills and training opportunities for investors that have proven to be popular in recent years, and potentially go some way to easing concerns among some investors of a post-Brexit skills shortage across several sectors.

National Living Wage

As part of the Budget statement, the Chancellor recommitted the Government’s plans to increase the National Living Wage, with it set to rise by 4.4 per cent to £7.83 an hour from April 2018. This policy was originally set out by Mr Hammond’s predecessor George Osborne as a gateway to boosting productivity, though the latest figures show the Government has yet to see the returns they wanted in this area. Despite this, the Chancellor has recommitted to the rise (though falling short of the £10 per hour wage being championed by the Opposition), meaning investors will need to continue to factor this into future business plans.

Where does this leave the UK economy?

For the UK investment market, there were a series of announcements that are likely to unlock growth in different sectors, notably in the technology and innovation space and also active plans to boost skills across the UK workforce. However, there’s no avoiding the more macro-economic questions that have come out of this latest Budget, highlighting the scale of the Government’s job in the coming years.

The full Autumn Budget is available [here](#). The Chancellor’s Speech is available in full [here](#).

THE ECONOMIC AND FISCAL OUTLOOK

- The Chancellor noted that the UK's productivity performance continued to disappoint.
- The OBR has forecast that there will be an additional 600,000 people in employment by 2022.
- Following a downward revision the OBR now expects to see GDP grow 1.5% in 2017, 1.4% in 2018, and 1.3% in both 2019 and 2020, before picking back up to 1.5% in 2021, finally reaching 1.6% in 2022.
- The Chancellor reiterated that public debt needs to continue to be reduced. The OBR now forecasts debt to peak in 2017 then fall as a share of GDP. Borrowing will fall in every year of the forecast to reach its lowest level in twenty years.
- The OBR forecast the structural deficit to be 1.3% of GDP in 2020-21, giving a £14.8 billion headroom against the government's 2% target. Debt will peak at 86.5% of GDP this year; it will then fall to 86.4% in 2018-19; then 86.1% in 2019-20; 83.1% in 2020-21; 79.3% in 2021-22, and finally 79.1% in 2022-23.
- Inflation is forecast to hit 3% this quarter before falling back towards its target.

HEADLINE ANNOUNCEMENTS

Housing

- The Chancellor noted that house prices are increasingly out of reach for too many. He noted that successive governments have failed to build enough homes and stated that this is a complex challenge with no single magic bullet
- On the supply side, the government will provide £44bn of capital funding, loans and guarantees to deliver 300,000 net additional homes a year on average by the mid-2020s.
- This will include new money for the Home Builders Fund intended to support SME housebuilders; a £630m small sites fund intended to unlock the delivery of 40,000 homes; a further £2.7bn to more than double the Housing Infrastructure Fund; £400 million for estate regeneration; a £1.1 billion fund to unlock strategic sites, including new settlements and urban regeneration schemes; a lifting of HRA caps for councils in high demand areas; and £8bn of new financial guarantees to support private housebuilding and the purpose-built private rented sector.
- The Chancellor noted the significant gap between the number of planning permissions granted and the number of homes built. The government is responding by establishing an urgent review chaired by Oliver Letwin MP to look at this issue, with an interim report by the Spring Statement. The government will intervene if it is found that land is not being built on for commercial rather than technical reasons.
- The government will pursue planning reform with a focus on the urban areas where people want to live and work. Significantly there will be continued protection of the Green Belt.
- The Homes and Communities Agency will expand to become Homes England.
- Five new garden towns will be built in areas of high demand pressures. The government has committed to building up to a million homes by 2050 in the Cambridge - Milton Keynes - Oxford corridor.
- An additional £34m will be made available to develop construction skills across the country.
- The government will act to support young people saving to own a home by putting an additional £10bn more into Help to Buy equity loans.
- Most significantly, and with immediate effect, the Chancellor will abolish stamp duty for all first time buyers on homes up to £300,000. This will also be available on the first £300,000 for properties up to £500,000 to support those buying in high cost areas, such as London.
- The government will legislate to give local authorities the power to charge a 100% council tax premium on empty homes.

- The government will publish a consultation on barriers to longer tenancies for the private rented sector.
- The government will provide Kensington and Chelsea Council with a further £28m following the Grenfell Tower tragedy to be spent on counselling and mental health support, regeneration of the surrounding area, and to provide a community space.
- The Chancellor noted that rough sleeping is unacceptable in the twenty first century and that the government will provide £28m in three new Housing First pilots as well as establish a homelessness taskforce.

Innovation and infrastructure

- The Chancellor reiterated the scale of public investment in UK infrastructure. The National Productivity Fund will be extended for a further year and extended to £31bn.
- The government is allocating a further £2.3bn for investment in R&D and will increase the main R&D Tax credit to 12%.
- £500m will be invested in a range of new innovations from Artificial Intelligence, to 5G and full fibre broadband.
- The government will support regulatory innovation with a new Regulators' Pioneer Fund, and establish a new Geospatial Data Commission to develop a strategy for using the Government's location data to support economic growth.
- An Action Plan will be published for knowledge intensive scale up to unlock over £20bn of new investment in UK scale-up businesses.
- EIS investment limits for knowledge intensive companies will be doubled, while ensuring that EIS is not used as a shelter for low-risk capital preservation schemes.

Transport, devolution and regional growth

- From April 2018 the first year VED rate for diesel cars that do not meet the latest standards will go up by one band and the existing diesel supplement in Company Car Tax will increase by 1%. This charge will be avoidable once the next-generation cleaner diesels are introduced. These charges will only apply to cars rather than vans. This levy will fund a new £220 million Clean Air Fund to support the implementation of local air quality plans.
- As trailed in the media, a new railcard will be introduced for those aged 26-30s.
- From April 2019, the government will again freeze short-haul Air Passenger Duty rates and will also freeze long-haul economy rates.
- A new £1.7bn Transforming Cities fund will be established with half allocated to areas with elected Metro Mayors to deliver on local transport priorities. The remainder will be open to competition by other cities in England.
- £30m will be allocated to trial new solutions to improve mobile and digital connectivity on trains, on the TransPennine route.
- £1bn of discounted lending will be available to local authorities to support high value infrastructure projects.
- The Budget will provide £2bn more for the Scottish Government, £1.2bn more for the Welsh Government, and over £650mn more for a Northern Ireland Executive.
- The government will legislate to allow VAT refunds for Scottish emergency services from 2018.

Business taxes

- Introduction of a 'Transferable Tax History' for transfers of oil and gas fields in the North Sea, providing greater flexibility.

- The Chancellor has noted the Office for Tax Simplification's (OTS) recommendations on VAT threshold but is not minded to reduce it. The government will consult on whether its design could better incentivise growth.
- HM Treasury will bring forward the planned switch from RPI to CPI for business rates by two years to 2018.
- The government will change the law to ensure that where a business has been impacted by the Supreme Court ruling on the so called 'staircase tax' it can have its original bill reinstated if it chooses, and backdated.
- The £1,000 business rates discount for pubs with a rateable value of less than £100,000 will be extended for one more year to March 2019.
- The government will publish a position paper on the tax challenge posed by the global digital economy. In the meantime, income tax will apply to royalties relating to UK sales, when those royalties are paid to a low tax jurisdiction. The government will continue to work internationally to find a sustainable and long term solution.
- The government is taking action to address online VAT fraud by making online marketplaces jointly liable with their sellers.

Personal taxes and National Minimum Wage/National Living Wage

- The Chancellor recognised that people are feeling pressure on household budgets. From April 2018 NLW will rise by 4.4%. The government has also accepted the Low Pay Commission's recommendations on NMW rates. This will include increasing the rate for 21 to 24 year olds by 4.7% from £7.05 to £7.38 per hour.
- The Personal Allowance will increase to £11,850 from April 2018, and the higher rate threshold to £46,350.

Welfare

- The Chancellor has attempted to address concerns about the operational delivery of Universal Credit. The government will make a number of changes including removing the 7 day wait at the start of the claim period, changing the advances period to allow access to a full month's payment within 5 days of applying, allowing claimants to apply for an advance online, and continuing to pay housing benefit for five days.
- The Targeted Affordability funding will increase by £125 million over the next two years to help low income households in those areas where rents have grown the fastest.

Duties and levies

- The tobacco duty escalator will continue at inflation plus 2% with an additional 1% duty on hand rolling tobacco this year and minimum excise duty on cigarettes also rising.
- Duty on cheap, high strength, low quality alcohol, such as white ciders, will increase from 2019. Duty on other ciders, wine, spirits and beer will be frozen.
- The fuel duty rise for both petrol and diesel that is scheduled for April 2018 will not happen.

Education and skills

- A further £20m will be provided to support FE colleges to prepare for T levels.
- The government will keep under review the flexibility that apprenticeship levy payers have to spend this money.

- There will be a particular focus on maths with an extension of the Mastery of Maths programme to a further 3000 schools; inviting proposals for new maths schools; providing £40 million to train maths teachers across the country; and introducing a £600 Maths Premium for schools, for every additional pupil who takes A level or Core maths.
- The government will triple the number of computer science teachers to 12,000 and develop a National Centre for Computing.
- The Department for Education and HM Treasury will partner with the CBI and the TUC to set strategic directions for a New National Retraining Scheme.
- A £30m investment will be made in the development of digital skills distance learning courses.

Health

- Outside of the Spending Review process, there is an additional commitment of £2.8bn to fund the NHS in England. This includes £350m that will be immediately allocated to NHS trusts to plan for this winter, with £1.6bn for 2018-19, and £0.9bn for 2019-20. The government will provide an extra £10 billion per year in real terms by 2020.
- Additional funding for increased pay settlement will be provided depending on talks between the Health Secretary and health unions on pay structure modernisation for Agenda for Change staff to improve recruitment and retention. The Health Secretary will submit evidence to the independent Pay Review Body.

Other

- The Chancellor committed to setting aside another £3 billion over the next two years for Brexit preparations.

HEADLINE REACTION

POLITICAL

Labour Party Leader, Jeremy Corbyn: “This is the Budget of an out-of-touch Government with no idea of the reality of people’s lives and no plan to improve them”.

Liberal Democrat Leader, Vince Cable: “Hammond’s Budget confirms poor post-Brexit economic performance. Downgraded growth means each person set to be £687 per year worse off”.

SNP Leader and Scottish First Minister, Nicola Sturgeon: “The headline £2 billion ‘extra spending’ figure for Scotland has much less to it than meets the eye. Firstly, it is spread over this and next three years. Secondly – and more important – more than half of the headline £2bn (£1.1bn) is... money that can be used for limited purposes only and has to be repaid by the Scottish Government”.

BUSINESS

Dr Adam Marshall, Director General, British Chambers of Commerce: “Rates, roads and ringtones - some action on all three fronts from Phillip Hammond in the Budget, which also has a marked focus on place. Each a small but important wins for the BCC team and the hard work of Chamber business communities across the UK”.

Mike Cherry, Chairman, Federation of Small Businesses: “Overall, this is a business-friendly Budget. The Chancellor’s vision for an inclusive economy includes a set of measures that will boost confidence across the small business community as they face extremely challenging trading conditions”.

Brian Berry, Chief Executive, Federation of Master Builders: “Today the Chancellor has put small and medium-sized builders at the heart of ambitious plans to tackle the growing housing crisis. The Chancellor appears to be putting his money where his mouth is with the announcement of £44 billion of capital funding, loans and guarantees.”

MEDIA AND COMMENTATORS

Institute for Fiscal Studies, Paul Johnson: “OBR rather pointedly illustrating that this Budget, like many recent ones, provides giveaways in the short run and takeaways in the longer term. March 2016 Budget forecast surplus of £10bn in 2019-20. Today forecast is deficit of £35bn. Quite a turnaround in less than 2 years”.

Robert Peston, ITV News: “To put the Budget in perspective, £2.32bn for NHS in 2018/19, £1.5bn to prepare for Brexit, £840m fuel duty freeze, £560m for stamp duty relief for first time buyers, £300m for softening impact of universal credit, £225m alcohol duties freeze. Are these your priorities?”

Faisal Islam, Sky News: “Single biggest Budget line item changed today in 2019/20 – domestic spending on EU exit preps of £1.5 billion”

Laura Kuenssberg, BBC News: “OBR revises down estimates – GDP to grow 1.5pc in 2017, 1.4pc 2018, 1.3 in 2019-20 – so economy slowing for next three years. On NHS, the money announced by Hammond only provides 1.6bn extra next year, so that is well short of the 4bn the service believes it needs”.



ABOUT WA INVESTOR SERVICES

WA is the agency of choice for investors seeking to understand how political and regulatory dynamics impact the value of their portfolio assets and future investments. Our team of expert analysts provide political due diligence, strategic advice and reputation analysis at a local, national and international level on buy-side, sell-side, or re-financing transactions.

WA Investor Services also blends creative, strategic thinking with experience to support portfolio businesses with public affairs and strategic communications challenges. We develop and protect clients' reputations, inform the policy debate and help clients swiftly assess the external issues and stakeholders that matter.

If your investments are affected by political risks, we can help.

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