Technical Bulletin

24 November 2017

Autumn Budget 2017

On 22 November, the Chancellor of the Exchequer, Philip Hammond, presented his Autumn Budget 2017 setting out the government's plans for the economy and public finances. This bulletin provides a summary of certain measures announced, including government reviews relating to the public finances and financing innovation.

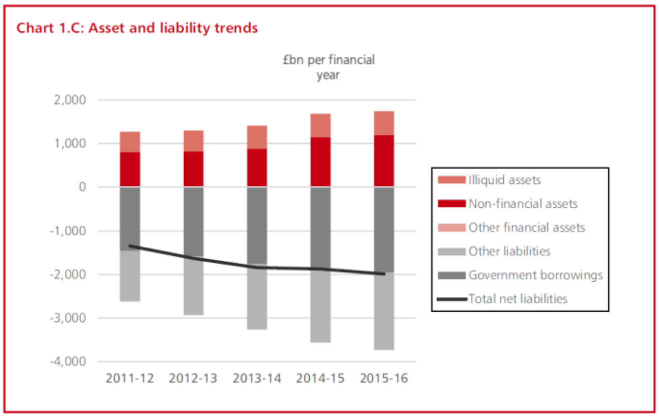
Balance Sheet Review

Autumn Budget announced the launch of a Balance Sheet Review to make more effective use of the government's holdings. The latest Whole of Government Accounts state that, as at 31 March 2016, the government held £1.7 trillion of assets and £3.7 trillion of liabilities on its balance sheet, with additional contingent liabilities amounting to nearly £200 billion. In recent years there has been an increasing drive within government to understand and manage the balance sheet. In this section we outline relevant announcements made at Autumn Budget and provide some further background and information about GAD's role.

The government's Balance Sheet Review is intended to help release resources for further investment in public services and improve the sustainability of the public finances. Areas the review will consider include:

- reducing the cost of liabilities
- improving the return on investments
- estates optimisation

Source: Whole of Government Accounts 2015-16



GAD has recently supported HM Treasury (HMT) on an internal scoping exercise, which confirmed the potential to strengthen the balance sheet position and support fiscal sustainability. GAD will continue to work with HMT on this review - bringing our experience of balance sheet management, with a particular focus on the government's contingent liabilities. The government will provide an update on the progress of the Balance Sheet Review at Budget 2018.

Autumn Budget confirms that the government is committed to enhancing the UK's fiscal resilience and will take further action to mitigate the risks identified in the Office for Budget Responsibility's (OBR) Fiscal Risks Report (FRR), published in July 2017. The FRR provided an assessment of risks to the public finances over the medium to long term[1]. The government will publish its formal response by next summer. The Government Actuary explored the information available on the government finances (including the FRR) in a recent blog post.

Further background is provided in the National Audit Office's series of reports 'Evaluating the government balance sheet', which explore major risks to the public finances. Their most recent report, published earlier this month, considered borrowing. GAD's July 2016 eNews includes two articles on earlier reports in NAO's series[2].

Financing growth in innovative firms

The government's consultation response to the Patient Capital Review was published alongside the Autumn Budget, with possible implications for the investment of pension funds. This review, led by HMT, was first announced in November 2016 and seeks to identify barriers to access to long-term finance for growing firms. Patient capital is defined as 'long-term investment in innovative firms led by ambitious entrepreneurs who want to build large-scale businesses'.

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[1] In February 2017, GAD responded to an OBR discussion paper seeking views on the coverage of the FRR.
[2] NAO's reports considered pensions; financial assets and investments; provisions, contingent liabilities and guarantees.

HMT's consultation response sets out a wide-ranging action plan intended to unlock over £20 billion of patient capital investment over 10 years. Measures to support long-term investment are also identified, including some pensions elements:

- The Pensions Regulator will clarify guidance on how trustees can include investment in assets with long-term investment horizons (such as venture capital, infrastructure and other illiquid assets) in a diverse portfolio.
- HMT will establish a working group of institutional investors and fund managers to increase the supply of patient capital, including tackling continuing barriers holding back Defined Contribution pension savers from investing in illiquid assets.

Self-driving cars

In a budget framed around improving productivity and innovation, the Chancellor confirmed plans to establish the UK as a world leader in new technologies, such as artificial intelligence (AI) and driverless (or self-driving) cars. The Centre for Connected and Autonomous Vehicles' recent market forecast predicts that by 2035 the UK driverless car industry will be worth £28 billion to the UK economy and employ over 27,000 people. The government wants to see fully self-driving cars, without a human operator, on UK roads by 2021.

Autumn Budget confirmed that the government will make world-leading changes to the regulatory framework, such as setting out how driverless cars can be tested without a human safety operator. The National Infrastructure Commission will also launch a new innovation prize to consider how future roadbuilding should adapt to support self-driving cars. The National Infrastructure Commission will also be carrying out a study on the future of freight infrastructure, including how to harness the potential of new technologies such as platooning - where trucks travel in convoy using smart technology to communicate.

GAD published a paper summarising some of the main issues and opportunities from the shift towards self-driving cars in September, including implications for the insurance industry. The Automated and Electric Vehicles Bill was introduced to Parliament in October and is currently subject to Parliamentary scrutiny.

Other selected announcements

Pensions and welfare

- The Lifetime Allowance for pension savings will increase in line with the Consumer Prices Index (CPI), rising to £1.03 million for 2018-19.
- Both the basic State Pension and the new State Pension will increase by 3% in April 2018 – with CPI inflation of 3% determining the increase under the triple lock.
- Autumn Budget announced various reforms to the roll-out and implementation of Universal Credit.
- OBR has formally assessed spending against the welfare cap; the fiscal rule is judged to have been met.

Investment and savings

- The band of savings income subject to the 0% starting rate of income tax will stay at £5,000 for 2018-19.
- The government will publish a new long-term strategy to ensure the UK asset management industry continues to thrive and deliver the best possible outcomes for investors and the UK economy.

Tax and National Insurance Contributions (NICs)

- Both the personal allowance and higher rate threshold for income tax will be increased in line with CPI inflation to £11,850 and £46,350 respectively.
- Autumn Budget reconfirmed that the implementation of a series of NICs reforms will be delayed by one year to April 2019. This includes the abolition of Class 2 NICs and reforms to the NICs treatment of termination payments. This is in line with a Written Statement to Parliament on 2 November.

This is the first Budget in the new annual cycle. In future, Budgets will take place in the autumn with a Spring Statement providing the opportunity to launch consultations on future reforms and respond to the OBR's corresponding forecast. Further details on the new tax policymaking process will be set out later this year.

If you would like to discuss any of these issues in more detail or have any questions please get in touch with your usual GAD contact.

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