

The last spring Budget?

Carl Emmerson and Paul Johnson

Presentation to BBC journalists, London, 27 & 28 February 2017

The new fiscal targets

No targets that apply this Parliament

Most challenging is to “return the public finances to balance as soon as possible in the next Parliament”

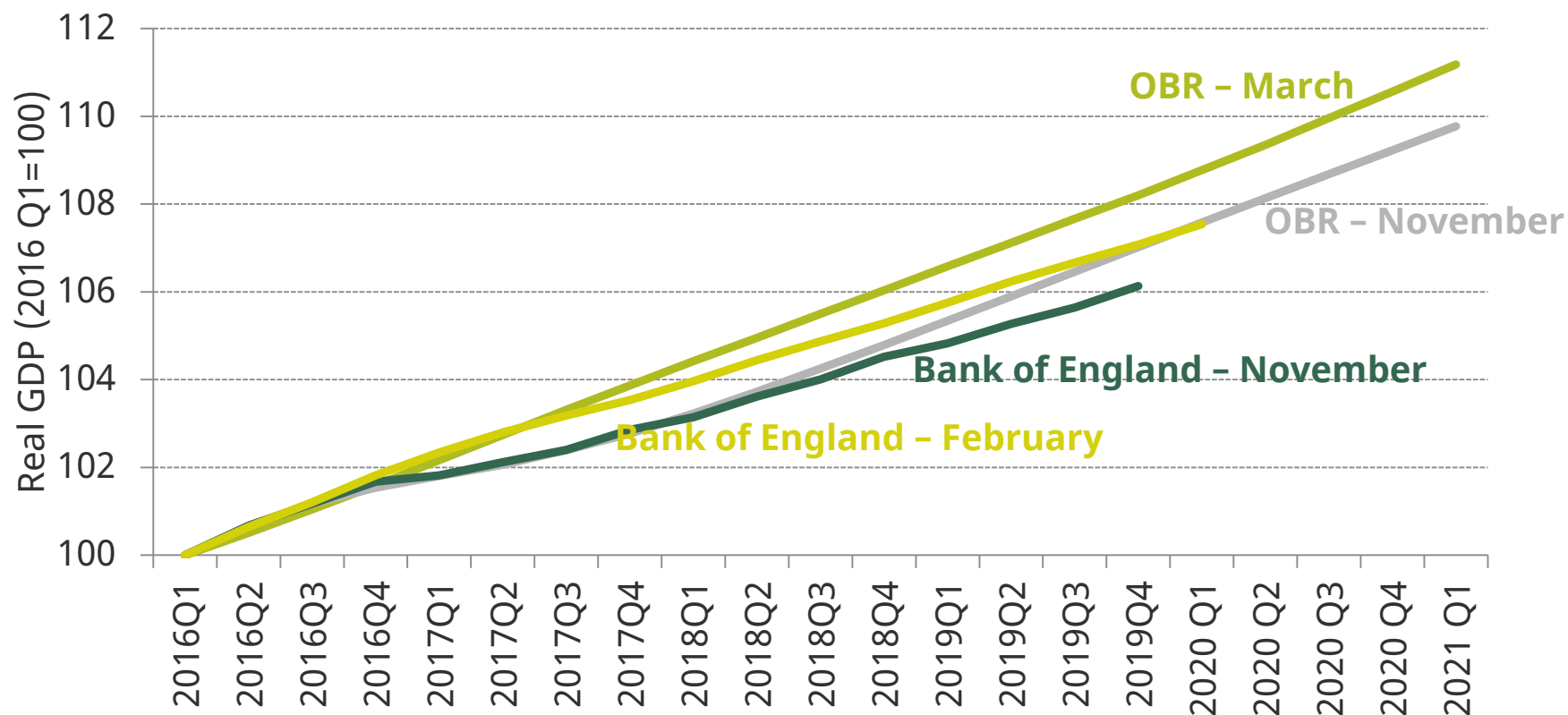
Developments since the Autumn Statement

Economy

near-term outlook may have improved

might Government White Paper on Brexit lead the OBR to revise its longer-term outlook?

Bank of England has upgraded forecast since November, especially in the short-term



Sources: OBR *Economic and Fiscal Outlooks*, March 2016 and November 2016; Bank of England, *Inflation Reports*, November 2016 and February 2017

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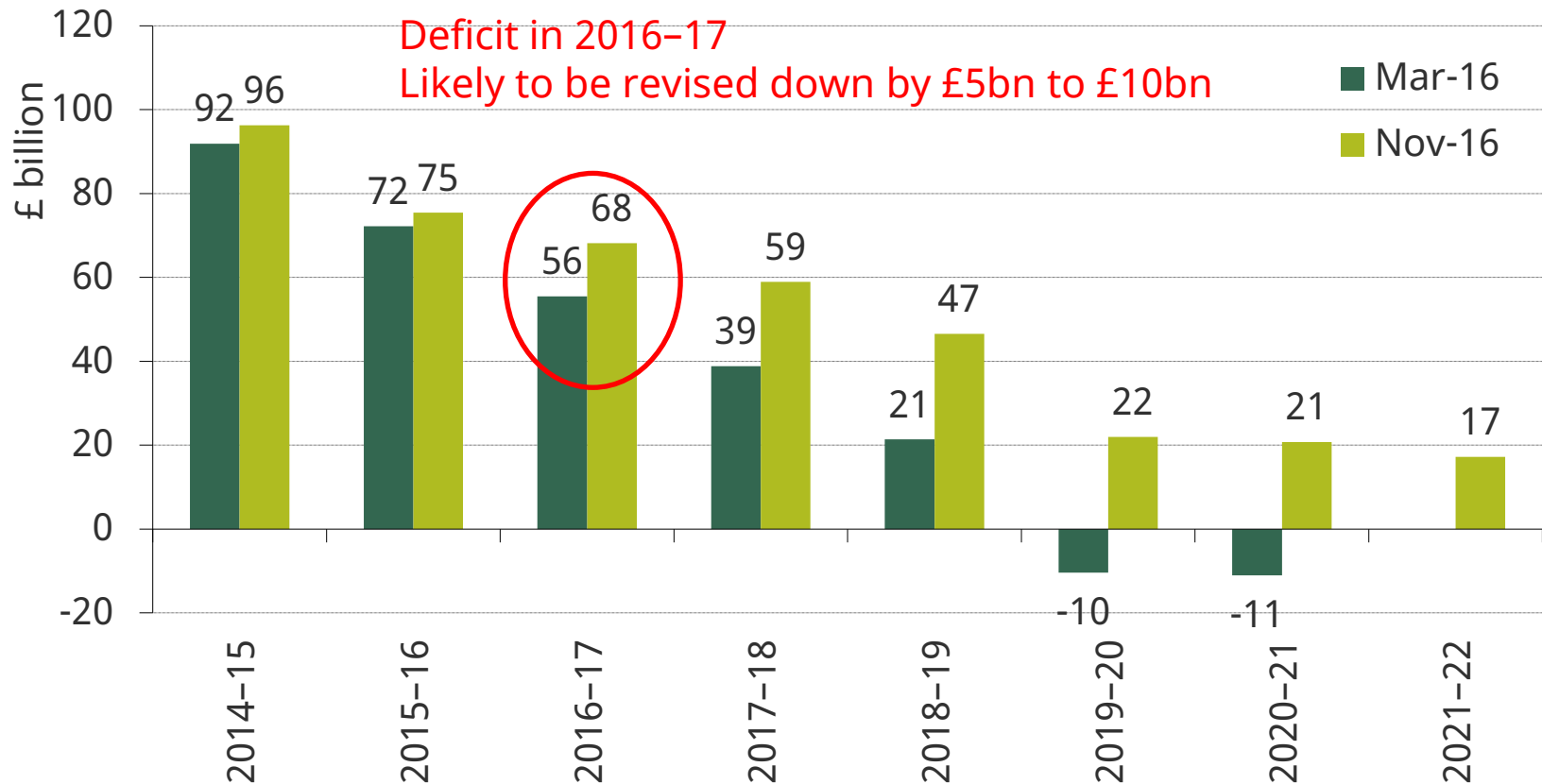
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Public finances

deficit in 2016–17 to be revised down, but this is unlikely to feed fully into lower forecast borrowing in future years

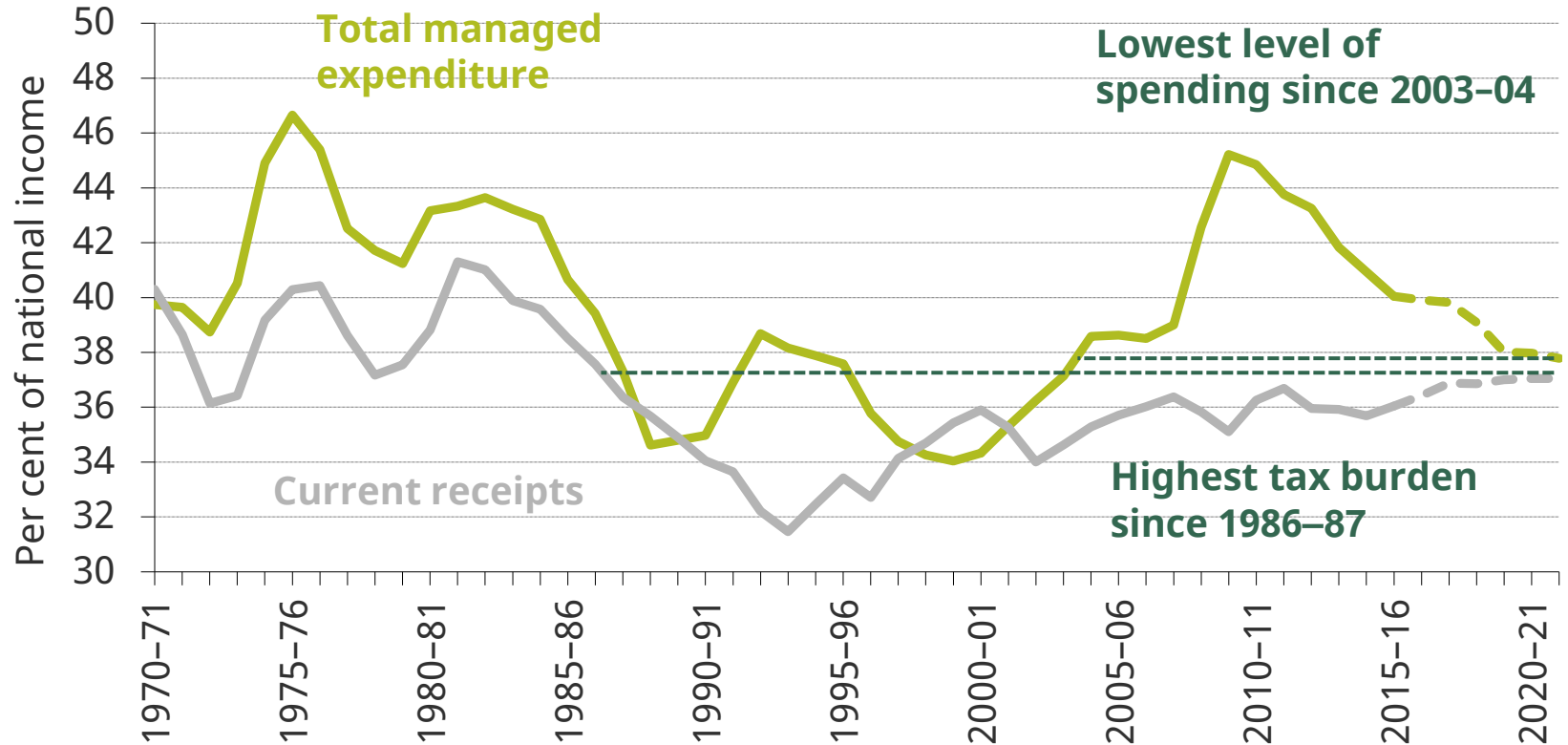
note: OBR forecasts assume financial contribution to the EU budget continues to be spent

Public sector spending and receipts



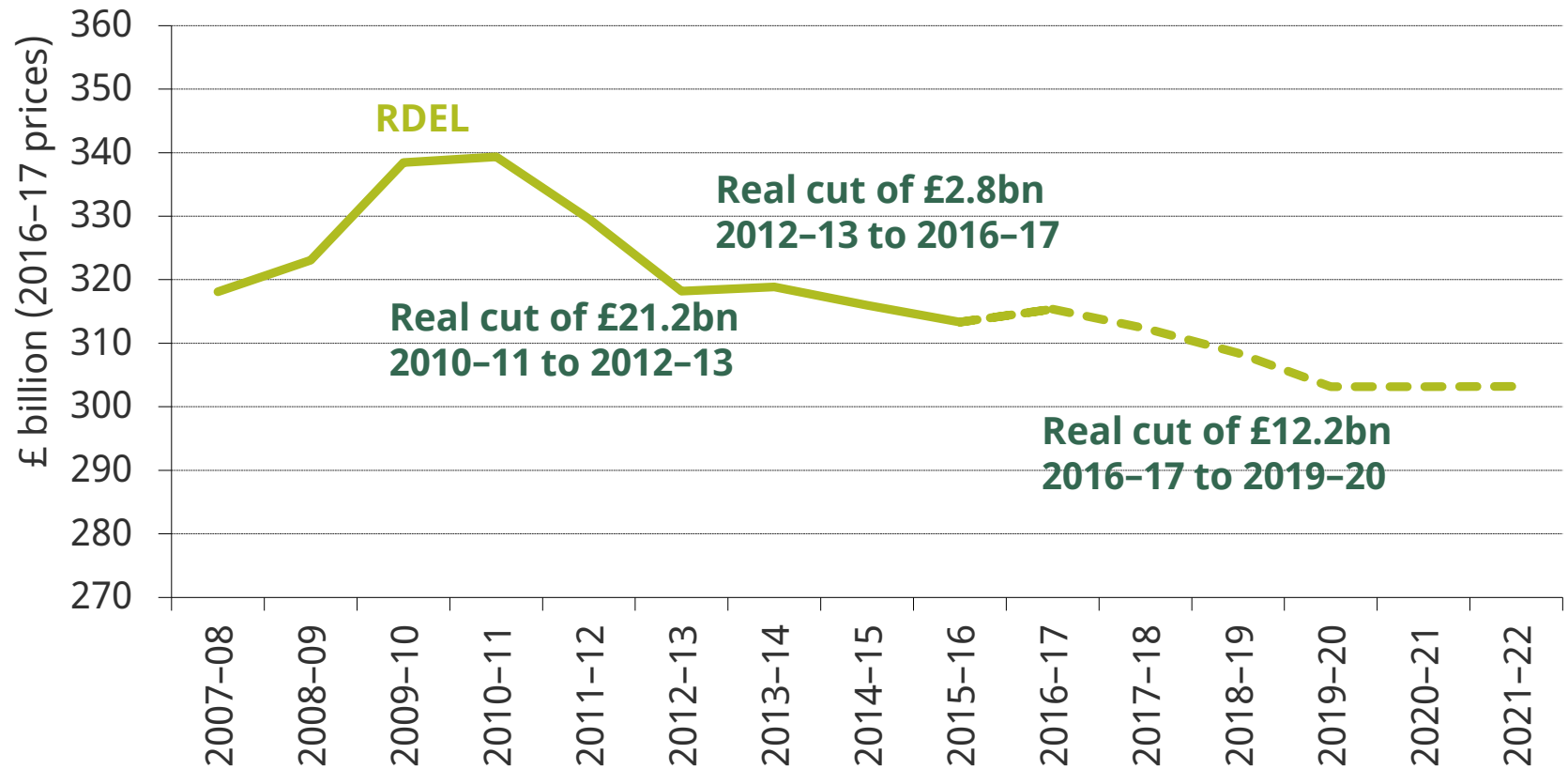
Source: Office for Budget Responsibility

Public sector spending and receipts



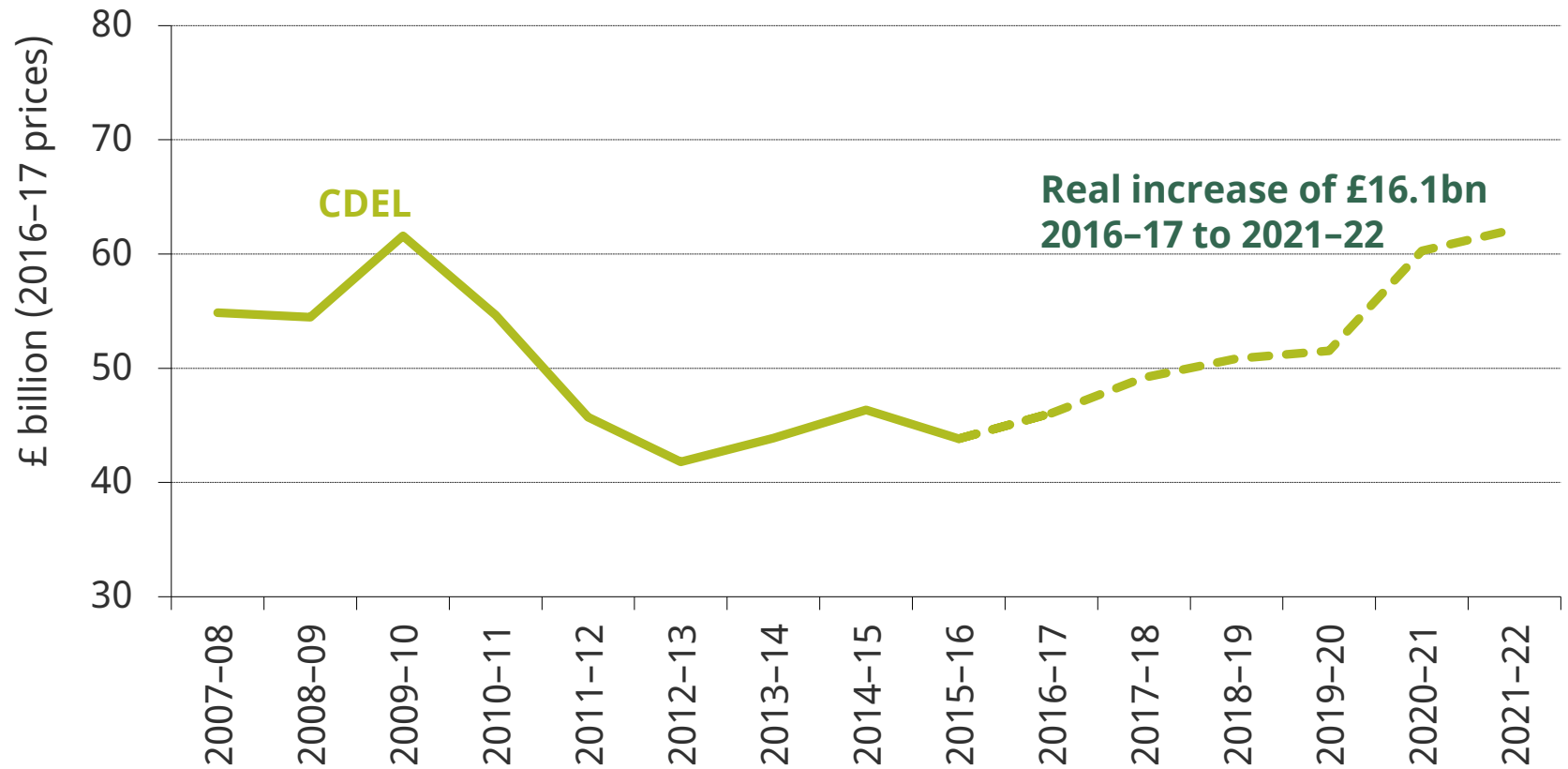
Source: Figure 3.1 of the Green Budget

Day-to-day spending set to face deep cuts



Source: Figure 3.9 of the Green Budget

But capital spending to grow



Source: Figure 3.10 of the Green Budget

April 2017 pre-announcements: taxes

Income tax

personal allowance increased to £11,500 (would have been £11,100)

higher rate threshold increased to £45,000 (£43,510) (not in Scotland)

Savings

main residence allowance in inheritance tax introduced

Lifetime Individual Savings Accounts introduced, ISA limit increased

Companies

apprenticeship levy introduced at 0.5% of paybill above £3m

rate of corporation tax cut from 20% to 19%, restrictions on some reliefs

Fuel duties frozen (again)

Working age benefit rates

most rates frozen (April 2017 is the 2nd year of the 4 year benefit freeze)
rather than increased by 1.0% in line with CPI

Employment and Support Allowance work-related activity group cut from £102p.w. to £73p.w.

applies to new claims only; long-run cut of £680m per year from 450,000 individuals (20% of ESA recipients)

Removing housing benefit from some 18-21 year olds

exemptions: working FT, have children, have partner, have health problem, deemed “inappropriate” to live with parents

policy estimated to affect 10,000 individuals a year by 2020–21, cutting spending by £100m over the whole of this parliament

April 2017 pre-announcements: benefits (2/)

Removing tax credit entitlement for 3rd and subsequent children

applies to new claims and new children only; long-run cut \approx £3bn per year from 0.9m families

Removing extra tax credit payment for first child

applies to new claims and new children only; long-run cut \approx £2bn per year from 4m families

Possible March 2017 Budget decisions?

Public service pressures?

NHS spending

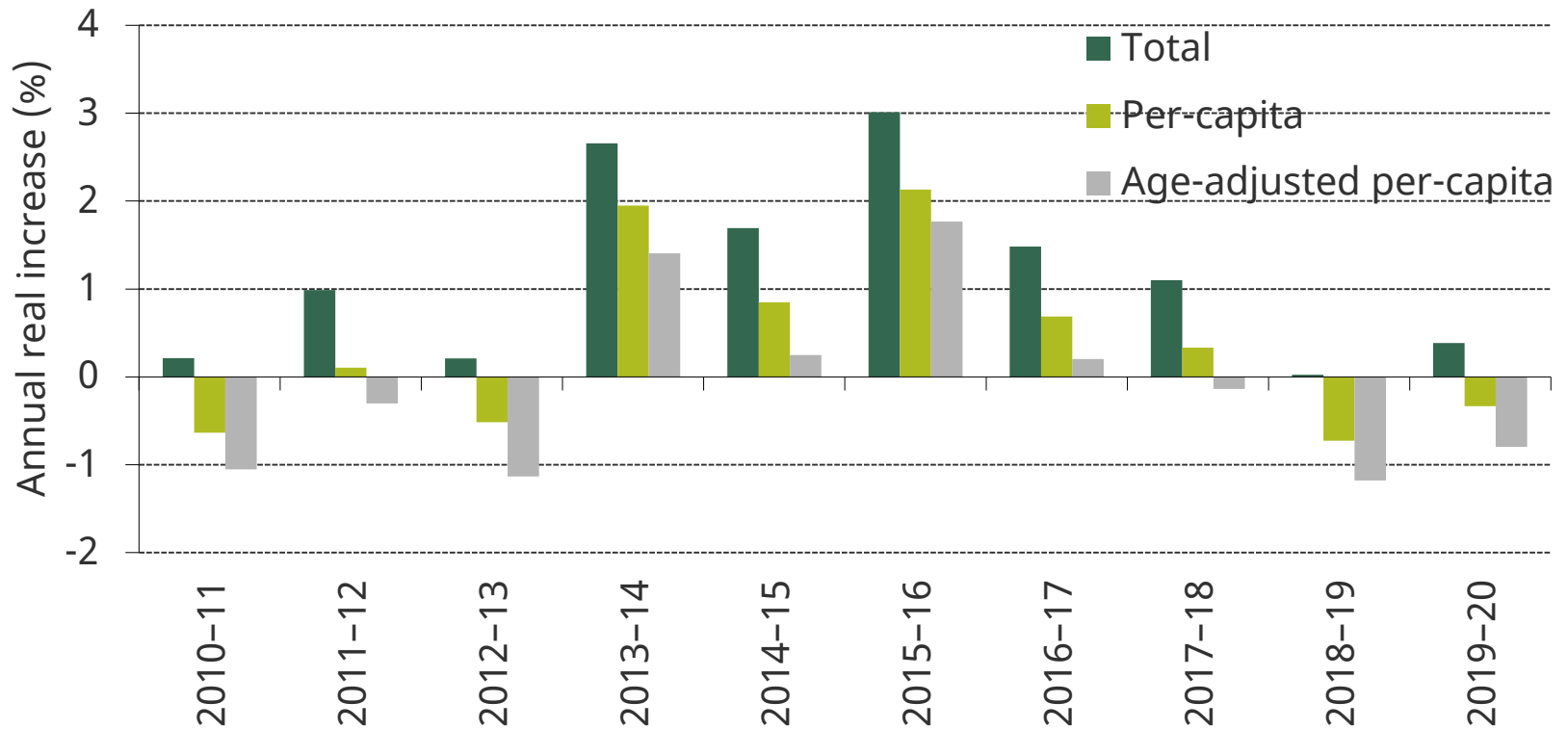
social care spending

schools spending (in light of formula changes)

Business rates

Cridland review of state pension age post 2028 to report before May 7

Department of Health spending



Source: Figure 5.10 of the Green Budget

Business rates

Current revaluation is not a reform, nor a revenue raiser

last revaluation was done 7 years ago

where rents have risen most, bills will rise: for example London

where rents have risen least, bills will fall: for example parts of the North

ultimately increased business rates likely to depress rents

But big rise in bill clearly come as a shock to many tenants

particularly as it will take some time for rents to adjust

More generous transitional relief would ease the pain at cost of making bills more related to out-of-date rents

Better solution is to: have more frequent revaluations and tax land value rather than property value

Conclusions

Outlook for the economy and the public finances

near-term outlook improved

not clear to what extent this will feed into stronger medium-term position

in any case outlook will be weaker than a year ago

Many policies already in the pipeline for this April

significant changes to the tax system

significant cuts to the working-age benefit system

Most likely new announcement something on business rates?

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