



Dods Monitoring: Spring Budget 2017 Speculation briefing



Updated: March 6 2017

Overview

The next UK Government Budget will take place on 8 March 2017, just days ahead of the Prime Minister officially triggering Article 50.

Theresa May has outlined plans to notify the EU of the UK's intention to leave by the end of March 2017 whereby official negotiations with the EU will then commence.

The Chancellor's Philip Hammond's first and final Spring Budget will therefore take place against a backdrop of significant – if unofficial – posturing for position ahead of formal negotiations. The Budget will be watched closely for any update on government's goals in negotiations if official forecasts of the effect of Brexit on the UK economy change. The previous calculations from the Office for Budget Responsibility (OBR) showed a £60bn effect on UK GDP over the next Parliament.



The March Budget will be the last to take place in the Spring, as the Chancellor moves to a timetable of one Budget per year, replacing the Autumn Statement. The UK's two fiscal statements per year had been seen as unusual internationally. The International Monetary Fund had previously been critical of the "frequency with which fiscal policy objectives appear to change, combined with the Autumn Statement effectively evolving, in recent years, into a mini budget."

The Autumn Budget 2017 will now be complemented by a Spring Statement of the fiscal position of the Government in order to comply with requirements for the OBR to be able to analyse public finances twice per year.

- ◆ **Ahead of the final Spring Budget, Dods' team of political consultants have pulled together the range of potential announcements we may expect from the Treasury's red box on March 8. This comes ahead of an upcoming briefing reviewing the policy and legislative announcements expected in the coming months.**

Debate and Finance Bill

The Budget is usually followed by four days of debate on **the Budget Resolutions** that are the tax measures announced in the Budget. Each day of debate covers a different policy area such as health, education and defence. Resolutions can come into effect immediately if the House of Commons agrees to them at the end of the four days of debate but they require the Finance Bill to give them permanent legal effect.

A **new Finance Bill** is presented to Parliament each year, and enacts the proposals for taxation made by the Chancellor of the Exchequer in his Budget statement. The Government had committed to confirming the majority of measures for inclusion in the [Finance Bill](#) at least three months prior to introduction of the Bill itself and, where possible, to publish draft legislation for each of these measures. They did this in December 2016. The [consultation on draft clauses](#) is intended to ensure that the legislation worked as intended. **The final contents of Finance Bill 2017 will be subject to confirmation at Budget 2017.**

Once published, the Finance Bill will be **scrutinised by both Houses of Parliament** with it starting the Commons and normally completing committee stage ahead of the summer recess. The House of Lords has a limited role in respect of Finance Bills with MPs having the sole right to initiate and amend bills whose main purpose is to levy taxes or authorise expenditure.

Following each Budget statement the **Treasury committee** also conducts an inquiry into the Government's proposals, gathering evidence from expert witnesses and publishing a report with its conclusions and recommendations whilst the Lords Economic Affairs Sub-Committee examines selected aspects of the Bill.

Updated speculation

Business and employment

Self-employment tax

The Chancellor has made it clear he is concerned about the [issue of self employment](#) and is likely to announce reforms to the tax system so that the treatment of permanent and self-employed workers is more equitable.



As [the FT](#) and others report, the Chancellor is considering an immediate announcement to increase the National Insurance class 4 rate, paid by the self-employed, by 3p in the pound, equalising the tax rate with employees at 12 per cent. The Treasury is expected to consult widely before making comprehensive changes.

On other tax raising options, its important to note the Conservative manifesto for the 2015 General Election commits the Chancellor not to increase VAT, income tax or national insurance.

Business rates

Headlines during February were occupied with urgent calls from businesses shortly to be affected by significant rises in business rates. The Chancellor has since told MPs that he has been listening to concerns and will act to help small companies facing the largest increases. Bigger changes are in the pipeline and the Chancellor will use the Budget to announce a review of the long-term structure of business rates to ensure that the tax reflects the changing ways companies operate and compete.

Productivity

As part of his drive to make the UK “match fit” for all eventualities, Hammond will allocate more than £500m from a productivity fund for investment in areas including electric vehicles, robotics and artificial intelligence.

Economic forecasts

Hammond will be able to reveal an upgrade to this year’s economic forecasts and an increase in his £27bn war chest for either smoothing the path towards Brexit or offering some pre-election sweeteners. While the Office for Budget Responsibility will forecast slowing growth this year as household finances are squeezed by higher prices, this is not severe enough to dent a close-to £12bn improvement in public borrowing compared with the Autumn Statement forecasts. Overall, Hammond will say that growth is set to rise to about 2 per cent in 2017 and there will be a significant fall in borrowing.

Workplace re-training

As outlined in the Industrial Strategy Green Paper, to renew communities affected by economic changes and support people in industries at risk of decline, Government is set to explore new approaches including more effective outreach directly into workplaces to promote retraining. They are to set out this approach at the Budget.

Making tax digital

Making tax digital remains somewhat under the public-radar and is due to commence in April 2018. Looking at the more immediate period, some are expecting a statement on the digital tax system, with the possibility of the timetable being deferred. Equally, there is speculation that the Budget could be used to announce the proposed exemption threshold.

Social care

Funding

There are calls from a range of organisations and stakeholders for the Spring Budget to deliver a further injection of cash to support social care services.

Recent weeks have also seen increased pressure from both sides of the House calling for the Government to address the sustainability of the social care system, with the Government's position being that the focus should be on delivery of services. Several sources have reported new funding in the Budget (possibly £1.3bn extra) as one of a number of solutions and it appears the Government may compromise in having the commissioning of services through the new fund inspected.



HSJ have further [reported](#) that there may be a bolster in the form of talks between Care Quality Commission, HM Treasury and Department of Health on extending the regulators role to cover local council's management of additional a short term stabilisation fund for social care.

Among those urging the Government to take action, the Association of Directors of Adult Social Services state the Government must invest an extra £1bn in the sector next year. The organisation also urged ministers to make provisions in the Spring Budget to close the funding gap faced by social care, which sector leaders estimate will be at least £2.6bn by 2020.

Age UK have warned that measures so far — financial transfers from the NHS, the social care precept and calling on family and friends to do more—were inadequate. Notably these calls came shortly after health minister David Mowat told a parliamentary committee that the Government had no “final answer” on how it was going to cope with the rising costs of social care.

Education

Technical qualifications

The Chancellor will confirm reforms to further education, designed to boost vocational skills after Brexit. The new technical T-levels will be introduced in Autumn next year to improve the reputation of work-based qualifications among employers. There will be 15 subjects by 2022.

Youth services/careers funding

The Government are due to announce a renewed youth policy statement, as [noted](#) by minister Rob Wilson in November. Recently, Cat Smith MP pressed the Government on this matter, asking whether it would entail increased funding for youth services and whether it will be announced before the Spring Budget. The Government's careers strategy is also due to be published this year as set out in the Industrial Strategy. Funding for careers guidance may therefore form part of the youth policy statement in or instead be a feature of this upcoming Budget.



Further education

The Association of Colleges has called for more funding to the post-16 sector, citing the impact from cuts over last few years and also in light of the role of further education in supporting the industrial strategy. AoC's assistant chief executive Julian Gravatt has [suggested](#) the creation of an “English Social Fund” and a reinvestigation of the idea of learning accounts as a means to help people learn throughout their working lives. They suggest that “adequate funding levels are a precondition for the full implementation of the plans outlined in the Sainsbury Review, which are due to start in 2019.”

Energy and climate change

Energy prices

In the Autumn Statement last November the Government pledged to set out a long term future for the Levy Control Framework, the mechanism designed to control the costs of low carbon electricity levied on consumer bills, at Budget 2017. When asked recently by Green MP Caroline Lucas when the Government intended to make an announcement, Treasury Minister David Gauke confirmed this would be at the Spring Budget.



Energy technologies

The Government have used the last few fiscal events to announce funding for research into energy technologies such as storage, demand side response and small modular nuclear. With their 'Smart Systems Plan' on the future energy system also due in Spring, there may be further funding allocated.

Savings

National Savings Bonds

The Government were asked via a written question about plans to publish the full terms of his planned Investment Guaranteed Growth Bonds. In reply, the Treasury [indicated](#) that the Government would publish further details of the terms of the NS&I Investment Bonds and with sufficient time for prospective customers to be informed ahead of the product going on sale in spring 2017. They said the final rate would be confirmed at the 2017 Spring Budget.

Equitable Life

During a back bench business committee session, MPs called for a debate on compensation for Equitable Life policy-holders. Whilst meetings with the Treasury had indicated Government were not prepared to provide more money, MPs had hoped to secure a debate before the Spring Budget to put pressure on government to provide further compensation. However, it is not expected that the Government will announce anything further on this on March 8.

Pensions

Whilst Hammond remains committed to the triple-lock scheme, increasing pressures on the public purse and increased scrutiny on general living standards caused by devaluation and low wage growth could result in a review of the policy. In this Budget however, no wide ranging reforms are expected.

Former pensions minister Steve Webb has said pensions tax relief is likely to be cut as the cost to Treasury continues to rise, and the ability to raise revenue from traditional areas like alcohol, petrol or insurance are constrained.

Whilst consultation on changes to defined benefit pension schemes will be ongoing at the time of the statement, FSB calls for the Treasury to take "immediate action to underpin stability in firms' defined benefit pensions" could be answered in this Budget. Similarly, there is [speculation](#) that cuts to the money purchase annual allowance could be reversed.

Housing

The Office of Tax Simplification has noted that on [their project](#) on 'paper' Stamp Duty, they will be publishing a paper before the Spring Budget, though that will, as planned, be a shorter note setting out the potential way forward and calling for evidence. They are aiming for a final report in summer 2017.



Digital

5G

The Autumn Statement was largely welcomed by those in the digital sector, with the announcement of £1bn for full-fibre broadband and 5G networks. However, the Spring Budget is set to reveal even more support in this space, as the Government [has committed](#) to responding to the recommendations put forward by the National Infrastructure Commission in their report [Connected Future](#) which recommended that the UK become 5G ready as quickly as possible.



Indeed, this commitment was more recently reaffirmed by minister Matt Hancock who in a written answer [stated](#) the Government would publish further details of the fibre and 5G trials programme alongside a new 5G strategy at the Spring Budget.

Consumer affairs

Green paper

Hammond will set out elements of a forthcoming consultation on consumer protection including better protection for those who sign up for certain subscription offers. There are also proposals for new powers to impose fines on companies that mistreat customers.

Unsolicited calls and scams

Following a consultation on a package of measures aimed at tackling different areas of pensions scams there was an [indication](#) that “next steps will be announced at Budget 2017”. An announcement may include further funding for the Financial Conduct Authority to enforce and inform about a cold calling ban and potentially a ban on electronic communications.

Justice

Serious Fraud Office

The Serious Fraud Office have requested further funding to deal with major investigations. The response from the Solicitor General, Robert Buckland, was inconclusive but in a [written ministerial statement](#) it states a cash advance of £15.5m was needed from the contingencies fund to meet ‘an urgent cash requirement for existing services’ to tide it over until Parliament approves the full £21.1m of extra funding.

Equality and Human Rights Commission

There have been a number of questions and debates about the future of the EHRC and its funding following a turbulent restructure and redundancies. Minister Caroline Dinenage finally [confirmed](#) at the end of January that Budgets for the years 2017-18, 2018-19 and 2019-20 were being finalised by the department in consultation with the EHRC and would be confirmed shortly. The Budget may give some clarity on the figures.

Police funding

With the Policing and Crime Bill out of the woods and following a long wait for a new police funding formula, this budget may give some clarity on how funding will be allocated under a new collaborative structure with the fire service.

If not a new funding formula, it may at least give clarity on allegations by the Liberal Democrats that the Government are “secretly planning to slash the policing budget for England and Wales by £57m next year”.

Science and research

R&D

When asked in a [written answer](#) in late January on the timetable to review the current tax system for research and development, Treasury minister David Gauke confirmed the government was reviewing the tax environment for Research and Development (R&D) to look at how to make the UK an even more competitive place to do R&D. He confirmed the review was due to conclude at the Spring Budget.



As reported, this could include increasing expenditure credits to 12.5 per cent to give a 10 per cent net headline rate and monetarising R&D allowances which could encourage business to ‘lay foundations’ to lock in their investment in the UK for the longer term.

Devolution and growth deals

City deals

As with other fiscal events in the past, we may see further announcements around devolution and city deals from a government still focused on this agenda.

SNP MPs most [recently secured](#) a short debate calling on the UK Government to fall in with the Scottish Government and offer strong support to the Ayrshire growth deal. In West Yorkshire, after approximately 12 months of discussions, the West Yorkshire Combined Authority has called for clarity from the Communities Secretary on whether the Government plans to move forward with the deal.

International development

Spending commitment

With pressure growing from the steady deluge of press coverage of the Department of International Development’s spending decisions, a spokesperson for the prime minister [confirmed](#) the 0.7 per cent spending commitment would be reviewed before 2020. This followed the Chancellor’s [comments](#) to the Treasury select committee, in which he did not guarantee 0.7 would survive the next spending review.

Meanwhile the Commonwealth Development Corporation Bill, due to become law this week will enable the secretary of state to funnel £12bn – equivalent to the entire aid budget – through DfID’s private equity arm. Although the sector may not be expecting to see movement on 0.7 until manifestos are drawn up, the Chancellor may yet surprise.

Public health

Duty on high strength alcohol

The Alcohol Health Alliance UK [has called](#) for the Chancellor to increase duty on cheap, high strength alcohol in the Spring Budget. This call was echoed during a [Westminster Hall debate](#) on the impact of alcohol where MPs asked the Treasury to increase the duty on white cider specifically, noting the ban on below-cost sales had had no impact on sales of strong cider.



As reported a few days ahead of the Budget, possible increases on alcohol duty were being explored.

Tobacco

Last year's Budget saw confirmation that the Treasury would introduce a Minimum Excise Tax (MET) on cigarettes, to set a minimum amount of total duty to be collected on any sale of cigarettes.

Draft legislation for the MET was published in December as part of the draft Finance Bill and public health minister Nicola Blackwood has indicated that the rate will be announced at this forthcoming Budget.

Infrastructure

PF2 investment

There is speculation the Spring Budget might include further announcements about PF2 investment in infrastructure. The Industrial Strategy seems to imply this is the case stating: "The Autumn Statement 2016 included new announcements about both the UKGS and PF2: the Government has extended the UKGS to at least 2026, and committed to explore construction-only guarantees; and has committed to explore a new pipeline of projects suitable for delivery through PF2, to be set out in early 2017."

Home Affairs

Border force

There has been criticism of the capabilities and resources of the Border Force with questions raised, if in light of Brexit and the ongoing migration crisis, their budget would be raised.

It has recently purchased new capability, in the form of coastal patrol vessels but following a critical report by the Independent Chief Inspector of Borders and Immigration on the UK Border Force's identification and treatment of potential victims of modern slavery – one of Theresa May's projects as Home Secretary – the Budget may allocate further funding.

Minister Robert Goodwill recently [confirmed](#) "allocations within the 2017/18 Home Office budget, including the Border Force allocation, remain subject to review and final ministerial approval."

Other taxation

VAT

The Office of Tax Simplification has [recently indicated](#) their VAT project is progressing well. As planned, they are due to publish an interim report and call for evidence on VAT prior to the Spring Budget, ahead of delivering our final report in advance of the Autumn Budget.

There are also calls for Government to re-introduce postponed accounting for import VAT, allowing business to offset import VAT via their quarterly VAT returns rather than having to pay it at the point of importation and claim it back up to three months later.

Insurance premiums



Despite calls for some charity groups, there are no signs that the HM Treasury has plans to reduce the amount of insurance premium tax paid by charities. Insurance Premium Tax is set to rise from 10 per cent to 12 per cent in June and the charity sector has been lobbying for an exemption. This is the third increase in recent years, from a base of 6 per cent in 2015.

However, in a written statement Jane Ellison, financial secretary to the Treasury, said: “While all tax policy is kept under review, it would be challenging to implement an exemption for insurance purchased by any specific group.” Ellison also said it is “up to insurers to decide whether to pass on any tax paid”. The AA has warned that it may have to raise its prices because the government has doubled the tax rate on insurance policies in less than two years. This has also been affected by the fall in discount rate announced in March.

Corporation tax

In relation to the corporation tax computation review, the intention when this was launched in May 2016, was that the Office of Tax Simplification would deliver a final report before the Spring Budget. However, following discussions with HMRC and HMT, not least as regards the interactions with work on Making Tax Digital for companies, they have now said they are [targeting publication](#) in the second half of March.

Some speculate that corporate taxes could be reduced to 15 per cent to make Britain more attractive to international businesses but that may be premature.

On the day

- ⇒ The Chancellor is expected to rise from his seat at approx.12:30 on Wednesday 8 March, after PMQs, with the Budget statement normally taking approx. 45mins to one hour to deliver.
- ⇒ Dods’ [Politics Home](#) will be covering the event directly through their live blog, updated throughout with speech transcripts direct from HM Treasury.
- ⇒ Your monitoring team will be publishing the Red Book and all key documents as soon as they are available followed swiftly by a key headlines round-up providing you with all the main announcements.
- ⇒ Our end of day summary will include a line by line account of all *new* consultations and announcements as well as a range of stakeholder responses across individual policy areas.

Do get in touch with your consultant if you have any particular requests or queries about our Budget coverage.

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