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

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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

Deficit in 2016–17
Likely to be revised down by £5bn to £10bn

Source: Office for Budget Responsibility
Public sector spending and receipts

Per cent of national income

Total managed expenditure

Lowest level of spending since 2003–04

Current receipts

Highest tax burden since 1986–87

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

Real increase of £16.1bn 2016–17 to 2021–22

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)**
April 2017 pre-announcements: benefits (1/2)

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 ≈£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 ≈£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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