SNAPSHOT

Autumn Statement 2014

3 December 2014

On Wednesday 3 December Chancellor George Osborne delivered the last Autumn Statement of this Parliament.

With some of the content leaked in advance, the Chancellor kept a few surprises up his sleeve, not least considerable changes to stamp duty.

Rounding up the content of the speech FTI Consulting takes a look at the announcements that have been made.

A list of measures announced can be found overleaf.

"We will stay on course to prosperity"

This Autumn Statement was delivered with both eyes on the upcoming election. In the face of admitting he wouldn't achieve his target of eradicating the structural deficit by the end of the parliament, the Chancellor announced a recalculation by the OBR with the new figures forecasting a £23billion surplus by 2019/2020

Carefully recapping past measures which have contributed to the recovery and announcing a mixture of new policies he strived to position this Autumn Statement as one targeting a successful economy. A mixture of substantial, politically-shrewd and populist announcements ensured he sat down to cheers from his backbenchers.

For an Autumn Statement of which we knew most of the detail in advance, Ed Balls had plenty of opportunity to prepare his response at the dispatch box, and delivered it with more forcefulness then 12 months ago. Unsurprisingly the Shadow Chancellor was quick to challenge the recalculated OBR figures and before he sat down he was supplied with the numbers he needed to challenge the Chancellor's assertions.

Labour is likely to struggle to develop a coherent position and strong opposition to all the measures announced today – indeed they only have 24 hours to decide if they will vote for the stamp duty measures. However, the shadow Chancellor's rapid reaction will go some way to mitigating what appeared to be good news for Mr Osborne. Before he sat down Mr Balls found what he needed and leveled the line most would expect him to make: accusing George Osborne of being a political operator with his party's interests at heart, rather than those of the country.

In a nod to the UKIP challenge, Osborne was keen to announce that payments to the European Union were also forecast to diminish.

Business and economic climate

Leading up to the Autumn Statement, bad news from the OBR was widely expected so it was with a note of glee that Osborne announced a recalculation of the OBR's forecasts which meant he could report higher growth, lower unemployment combined with a falling inflation and deficit.

MPs will be asked to vote on a new charter of budget responsibility to set deficit reduction targets next year. Anticipating criticism over the recalculation, Osborne was careful to put the OBR's findings in context – repeating Cameron's G20 line that "the warning lights are flashing for the Global Economy and emphasizing the UK's successful growth rate over the past years

Positioning the Conservatives as the only party to "stay on the course to prosperity" the Chancellor committed the Government to further reductions in departmental spending and unveiled a number of initiatives designed to increase confidence in the business and economic environment.

Pre-announced commitments worth £15bn for 84 new road projects – most located in Conservative and Lib Dem marginal seats – 13,000 new homes in a garden city in Bicester and £2.3bn for flood defence projects were today joined by a number of other measures squarely aimed at 22 May: government backed student loans of up to £10,000 will be made available to all young people undertaking post-grad masters degrees; measures designed to develop the "Great Northern Powerhouse"; the freezing of fuel duty; and the scrapping of APD for children under twelve – which has already seen airline shares pushed up in the City.

The two groups Osborne really focused on wooing were SMEs and homeowners. On the former, he re-announced an extra £1bn of funding along with the doubling of small business rate relief and an extension of the funding for lending scheme.

On the latter, Osborne said 98% of buyers would benefit from the scrapping of the "single-slab" rate and the introduction of a more gradual rate. The UK remains a nation of homeowners and these reforms are bound to get a good write up in the papers tomorrow when a vote on the measures will take place. The new stamp duty changes which will see an increase of duty for properties over £937,500 will also challenge Labour into developing a public position on the proposal and are squarely aimed at undermining electoral potency of the mansion tax proposal.

Financial services

Surprises for the financial services industry in two places: a new tax for banks and a new tax for technology companies.

Addressing the aggressive tax optimisation practices which have made national headlines in recent months, Osborne will introduce in April 2015 a Diverted Profits Tax of 25pc on multi-nationals making profit in the UK which is artificially shifted out of the country. This so-called “Google Tax”, which particularly affects a number of corporations in the technology sector is set to raise £1bn over the next five years and is 4pc higher than the current UK Corporation Tax.

Osborne acknowledged the importance of a competitive tax landscape and promised to accept or consider 51 recommendations made by the Office of Tax Simplification on top of implementing reform for rules related to benefits and expenses of employees.

As anticipated, the Chancellor sought to capitalise on the UK’s current G8 presidency and promised to introduce "internationally recognised measures on hybrids and reporting of tax by country", to ensure transparency and to reduce the power of multi-nationals to exploit differing tax regimes internationally through the OECD BEPS project. There has already been industry commentary on the announcement that a Diverted Profits Tax will be applied using a rate of 25%. The lack of detail from HMRC to accompany this ahead of the Finance Bill next week is likely to cause uncertainty for big business. Further measures to apply stamp duty to corporate takeovers and an increase in the remittance charge for non-domiciles were also announced.

Shares in UK banks slid by as much as 2.1pc (TSB) as the Chancellor announced it would target the amount of tax that banks can offset by carried-forward losses which will increase the amount of corporation tax they pay. Reforming policy that enabled banks to offset their losses due to the impact of the economic crisis, he vowed to ensure that banks “support the recovery”. Limits on offsetting are expected to raise £4bn more in tax revenue.

The Chancellor will also take steps to challenge the view that banks are “too big to fail” by transposing the EU Directive on Bank Recovery and Resolution into UK legislation, aimed at ensuring a common approach across the European Union to the recovery of failing financial institutions. This goes hand in hand with the continuation of the work done by the Fair and Effective Markets Review launched in June which will make recommendations on regulation and behaviour in the financial sector.

Increasing competition in the sector remains a focus and the statement also announced support for peer to peer and crowdfunding platforms as an alternative access to finance scheme, with proposed measures including a review as to whether ISAs could be eligible for crowdfunding, a bad debt relief for P2P lenders and a promise to review legislation that currently regulations institutional P2P lending. The expansion of the British Business Bank will also enable greater P2P lending. The Payment System Regulator was endorsed in the Autumn Statement and designation of systems were announced. The PSR will look to review the impact of systems on small businesses particularly.

Finally, addressing pensions, the Chancellor abolished the 55pc higher rate “death tax” and enabled pensions and ISAs to be transferred to spouses and civil partners tax free.

Energy

While Chief Secretary to the Treasury Danny Alexander will present further plans tomorrow in Aberdeen, the Chancellor provided headline announcements today.

From 1 January 2015 the industry will see a 2% reduction in the rate of the Supplementary Charge (Tax) from 32% to 30% while a new allowance to incentivise high pressure, high temperature projects will be introduced. Additionally the government committed to extending the ring fence expenditure supplement from 6 to 10 accounting periods for all ring fence oil and gas losses and qualifying pre-commencement expenditure incurred on or after 5 December 2013. Budget increases for a number of oil and gas focused research and development centres were also announced.

A sovereign wealth fund for prospective tax revenues from shale gas in northern England will be established while further proposals on shale are promised for this Parliament. Addressing public concerns around shale exploration, the government announced it would dedicate £5 million to providing the general public with independent evidence concerning the adequacy of the existing regulatory regime and confirmed an increase of the budget of the Oil and Gas Authority (OGA).

A considerable boost for funding to support the rolling out of energy efficiency in households and the announcement that the Government will start “closer” discussions over a potential tidal lagoon project at Swansea Bay are unlikely to satisfy green activists who will be disappointed at the focus on oil and gas in the Autumn Statement.

The widely expected cut in the North Sea tax regime for the oil and gas industry will be welcome by certain industry players but they will continue to question whether investors can rely on long-term investment stability in the UK oil and gas sector. Consistency of oil and gas taxation in Norway over decades created the conditions for sustainable and consistent investment, politicisation of the UK oil and gas taxes may undermine future investment.

Healthcare

As Labour’s traditional safe-spot, speculation has been rife around the Chancellor’s future plans for investment in the NHS. With a number of the measures leaked ahead of today’s speech, Mr Osborne offered few surprises, confirming a multi-year higher than expected £3.1 billion in UK-wide investment, to fund frontline patient care, advanced care in GP-led services and mental health services. He sought once more to tie the future of the NHS to economic stability, attempting to undermine the Liberal Democrat position by exceeding their demands for £1.5 billion of investment (and indeed Labour’s of £2.5 billion). Fines collected from banks that broke the foreign exchange market rules will be used to create a £1billion fund for advanced care in GP practices in England and primary care facilities will be encouraged to integrate with local job centres, social services and other community services to ensure the NHS is also supporting people back into the labour market.

Poking at the announcements from the dispatch box as well as from on televisions panels in the immediate follow up, the

Shadow Chancellor, countered that the measures George Osborne proposed offered little more than a 'short term sticking plaster', and that some £700 million of today's announced figure was really a reallocation of funds rather than any real new investment, implying that while the Tories may have committed to guarding the NHS' finances the measures will not get to the root of the challenges facing public healthcare. No doubt, Ed Balls will have been encouraged to see the Conservatives facing an additional blow today in one of the key political battlegrounds following the release of secretly recorded footage which saw Conservative MP, Kwasi Kwarteng, suggest that David Cameron may have to renege on his promise to safeguard NHS spending if the Tories win the next election.

Snap Market reaction

The FTSE 100 remains lower, down 18.52 points at 6,723.58

- Airline shares rising due to APD changes.
- Oil and gas shares rallied initially in the first few minutes of trade before falling back.
- On the currency markets, the pound rose 0.19% against the dollar to \$1.5668 and climbed 0.67% against the euro to €1.2713.
- Sectors such as house-building and air transport got a boost by Finance Minister George Osborne's pledge to cut property purchase taxes and some air travel taxes.

Summary of key announcements

Infrastructure & Government Funding

- £15bn for 84 new road projects
- 13,000 new homes in a new garden city in Bicester
- £2.3bn for flood defence projects
- £900m extra funding for small businesses
- Student loans worth up to £10,000 for young people taking post-graduate masters degrees
- £45m package to boost exports
- An extra £5.9bn in science funding
- Reform of residential property stamp duty

Financial Services

- Limits imposed on bank profits that can be offset

Taxes

- 25% tax on profits introduced on multinationals that shift profits out of the UK
- Fuel duty to stay frozen
- Inflation-linked increase in business rates capped at 2%
- Air Passenger Duty for children under 12 abolished
- Extension of inheritance tax exemption to be extended to aid workers
- Increase in charges for non-doms for people who have been in the UK for more than 12 years
- Northern Ireland to gain control over corporation tax, provided assurances are met
- ISAs to be transferrable to partners tax free and ISA threshold to increase

Healthcare

- £3.1 billion UK-wide investment to fund frontline patient care
- Better Care Fund to integrate health and social care into which local areas will pool £5.3 billion in 2015-16
- £1 billion fund for advanced care in GP practices in England from fines collected from banks that broke the foreign exchange market rules
- £123m for Scottish Government; £71m for Wales; £41m for Northern Ireland
- £150m over 5 years for NHS England to develop the best approaches to caring for young people with eating disorders in both inpatient and community settings
- At least £15 million into new and pioneering areas of research into dementia.
- To embed joint planning in health and social care and to build on the Better Care Fund

Energy

- Reform of the oil and gas fiscal regime
- Incentives for technically challenging high pressure, high temperature projects
- Sovereign wealth fund for North of England for shale gas revenues
- Incentives for household energy efficiency

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