



A look at the final
Autumn Statement

GK



“Today’s Autumn Statement was not going to be easy for our new Chancellor, but he took to the stage armed with clever spin and on fighting form. Dealing with a post-Brexit financial deficit and satiating the request from his new boss to include measures for those who are ‘just about managing’, there was a lot to do but little room to do it in. What he delivered was a National Productivity Investment Fund, targeted giveaways and some bold promises around increasing productivity, but his statement was most notable for its omissions; health, social care and education were scarcely mentioned. The Chancellor has clearly prioritised infrastructure investment whilst continuing to squeeze public sector spending. But is this a shrewd tactic by the Chancellor? Only time, and the strength of the backlash, will tell.”

Emily Wallace, CEO, **GK Strategy**

The recurring theme of the Government’s emerging policy agenda since the summer, in line with the Conservatives’ party conference slogan last month, is creating a country and an economy that ‘works for everyone’. The task of Philip Hammond as the new Chancellor was to reassure MPs – and the public – that the Government will be able to achieve this while the UK deals with the political and financial uncertainty of managing its withdrawal from the European Union.

We have learned this afternoon that the cost of Brexit to the UK economy is forecast to be a little greater than some may have expected – it will amount to an additional £122 billion of borrowing over the next four years, with national debt reaching a peak of 90.2% of GDP in 2018/19 as a consequence of economic growth being, in Hammond’s words, ‘slower than we would wish’ up to 2020.

Hammond has to tread a difficult line in keeping both sides of the Brexit argument in his own party happy, and while some may accuse the Office for Budget Responsibility (OBR) of producing projections that are overly-pessimistic, its independent analysis concludes that it is only able to reach cautious, ‘broad-based’ assumptions about the actual economic impact of Brexit on the nation’s finances given the lack of detail of what deal the UK may strike with the EU on the terms of its exit.

Confirming that the Government’s existing fiscal rules had been broken, Hammond announced that he had revised the Government’s targets to give it more flexibility to respond to a challenging environment following the vote for Brexit. The Chancellor now intends to combine maintaining the Government’s commitment to ‘fiscal discipline’ while ‘recognising the need for...fiscal headroom’ in a new Charter for Budget Responsibility. The new fiscal rules will require the structural deficit to be below 2% of GDP in 2020/21, debt falling as a proportion of GDP by 2021/22, and welfare spending to be below a revised cap in 2021/22. The OBR predicts that the Government is fully on course to meet its new rules.

With regard to the politics of the Autumn Statement, much has been made over recent weeks of supposed tensions between the Prime Minister and the Chancellor. The former apparently keen for the statement to include some eye-catching policies that follow through on her commitment upon entering Number 10 to help people who are 'just about managing', and the latter preferring a policy-light approach that focuses on the state of the public finances. In the end, it was a matter of both. Hammond gave a sober assessment of the latest forecasts from the OBR, but with a few significant policy announcements that the Government hopes will demonstrate its aim to ensure that Theresa May is fulfilling her promise to help those who are 'just about managing'.

Where Hammond was evidently successful in the tussle with the Prime Minister's office was regarding spending on innovation and infrastructure, which the Chancellor was known to want to prioritise and took pride of place near the beginning of the statement.



“ No news on health and social care, which means that we're in for some tough decisions over the winter as waiting times increase and bed blockers are not sent home quickly enough. The Government should expect a strong reaction from health commentators. ”

Andrew Nye, Head of Health & Social Care **GK Strategy**



“ By announcing the National Productivity Investment Fund, in which digital communications is a key pillar, Hammond has gone some way to provide the infrastructure needed to boost the UK's role as a leader in tech innovation as well as made £400 million available for venture capital funds to help innovative firms. Good news for tech and innovation, however, in order to solidify this the Government needs to ensure there is available talent by boosting digital skills and ensuring digital devolution. ”

Helen Martin, Account Director, **GK Strategy**

The science and technology sectors will be enthused by an increase in spending on research and development of £2 billion by 2020/21, which builds on commitments made by the previous Government. Housing will also be a key priority for the Government; following on from reiterating a determination to build more homes, Hammond announced a £2.3 billion housing infrastructure fund, plus £1.4 billion to develop 40,000 more affordable homes and relaxing restrictions on the types of homes that can be built using government grants. Many will be wary of such promises having heard positive rhetoric on housebuilding before, but the sector can be pleased with the Government's ongoing commitment to see more homes being built.

Elsewhere in the housing market, one of the most high-profile and heavily-trailed measures announced by the Chancellor was a ban on fees charged to tenants by letting agents. Despite the previous administration fiercely opposing attempts by Ed Miliband's Labour to introduce this as part of the Consumer Rights Act just last year, and the Housing Minister outlining his opposition to the policy on social media a matter of weeks ago, the Government will seek to bring in the ban 'as soon as possible'. Relief from tenants will be matched by anger from those within the industry who fear for the future of the private rented sector following Brexit and past changes to the buy-to-let market.



“ The Chancellor has explicitly linked housing as a key part of the Government strategy to boost productivity and as suspected, he largely focused investment on increasing housing supply. However, beyond the numbers, questions remain over whether there will be more changes to the planning system to accelerate housebuilding and avoid throwing good money after bad – questions the Government will need to address in its forthcoming White Paper. ”

Jack Withrington, Associate Director, **GK Strategy**

There are also notable sectors that have missed out on additional funding. Despite concerns from the Health Select Committee that the Government's promised £10 billion for the NHS is failing to materialise, Hammond made little mention of the health service in his speech. Similarly, social care will not be receiving any further funding, despite widely-held concerns over the sustainability of the sector and rumoured representations from both within Government and stakeholders to deliver more upfront funding or flexibility for local authorities around the council tax precept. Beyond some capital funding for new grammar schools, there is also no new cash for education.

Appropriately for a Chancellor known to be reluctant to include policy 'gimmicks' in his statement – unlike his predecessor – Hammond's final announcement of the afternoon was that this would be the last Autumn Statement. The man known semi-affectionately as 'Spreadsheet Phil' will in future use only the Budget to propose policy changes, allowing the Chancellor to focus on the numbers in a new 'Spring Statement'. This may be seen as a small victory for Hammond, but we know from his statement today that there are significant challenges ahead.


Since becoming Chancellor, Hammond's style has frequently been contrasted with that of his predecessor, George Osborne. However, one area of agreement between the two men became clear this afternoon: devolution to the regions. While Hammond's only reference to the Northern Powerhouse was to make a joke at Labour's expense, he confirmed that devolution remained 'at the heart' of the Government's agenda and announced that, in addition to new city deals in Scotland, London will be taking control of its adult education budget, employment support and will be given more than £3 billion to deliver on affordable housing commitments.

For some sectors, the Chancellor's statement will be seen as a forewarning of difficult decisions to come. The Government will keep in place the triple lock on the state pension and the ring-fence on health spending until the end of parliament, but these will then be subject to review. He also committed the Government to continue to review the functioning of the retail energy market; there had been some suggestions that the Treasury could further emulate the Miliband model and propose price caps, but this appears to have been deferred at least for now.



“ The Chancellor faced a difficult proposition in the Commons: presenting the cost of Brexit – effectively an extra £59 billion of borrowing over the next 4 years – without being accused by critics of undermining the case for leaving. He provided some reassuring words about the resilience of the British economy, but with a big increase in debt forecast ahead of a possible parliamentary vote on Article 50, MPs on both sides of the Brexit debate will be even more focused on the economic consequences of Brexit. ”

Jamie Cater, Research Manager , **GK Strategy**



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