Policy briefing

8 March 2017

Budget 2017

This briefing provides some background and high level analysis of the areas of the Chancellor's Budget that will be of interest to Chartered Insurance Institute members. The note covers:

- Economic background and context
- Key policy announcements: especially general taxation, long-term care, consumer rights and technical education
- Stakeholder views

Chartered Insurance Institute response to the T-levels announcement:

> **The Chartered Insurance Institute welcomes the Chancellor's financial commitment to T-Levels and support of 16-19 year olds. Getting the transition from school to workplace right is vital to the future prospects of both young people and to our economy. This is more important than ever given the post-Brexit world we are preparing to enter.**
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> **Keith Richards, CII Managing Director Engagement said**
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> **"The introduction of T-levels will only be, to use the Chancellor's words, "game changing" if there are the providers to deliver the specific occupational elements of the routes and the employers to provide meaningful work experience. We therefore welcome the sensible timeline for implementation. The Chartered Insurance Institute has and will continue to work with the Government on the development of T-levels, to ensure their relevance to learners and employers. Achieving this will ensure a genuine post-16 choice for young people."**

Economic background: stable platform for Brexit but "no room for complacency"

Continuing the trend of robust economic growth across much of the year, real GDP grew by 0.7% in the final quarter of 2016. GDP grew by 1.8% over the year as a whole, and employment reached a new record high.

The OBR expects the level of GDP in 2021 to be broadly the same as it forecast at Autumn Statement 2016, although the profile of growth has changed. The OBR now forecasts GDP growth of 2.0% in 2017, 1.6% in 2018, and then 1.7% in 2019, 1.9% in 2020 and 2.0% in 2021. Household and business spending have been stronger to date than forecast in November. The fall in sterling over the course of 2016 is expected to push inflation to 2.4% in 2017 and 2.3% in 2018, before falling back to 2.0% in 2019.

While consumption growth has been robust in recent years, this has not been accompanied by a sharp increase in debt. Total household debt as a proportion of disposable income in Q3 2016 was 10% below the peak reached in Q1 2008. Within this unsecured debt as a proportion of disposable income rose over the year to Q3 2016, but remained 8% below the peak reached in Q1 2007. Consumer credit funded less than a tenth of the growth in consumption over 2016. Household saving as a proportion of disposable income declined gradually over the two years to Q2 2016, before falling more sharply to 5.6% in Q3 2016.

UK Economy Actual and Forecast (% change from previous year unless otherwise indicated)

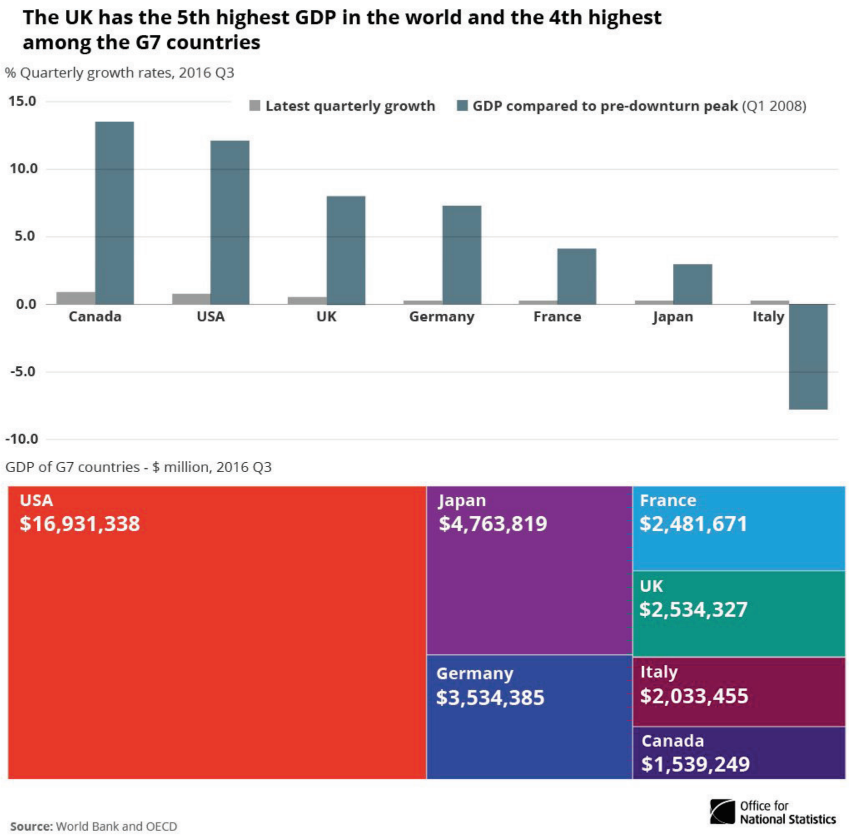
	2015A	2016A	2017F	2018F	2019F	2020F
GDP Real Growth	2.2	1.8	2.0	1.6	1.7	1.9
Per capita GDP	1.4	1.1	1.3	0.9	1.1	1.4
Household consumption	2.4	3.0	1.8	0.9	1.7	1.7
Household debt (% hh consumption)			145.5	147.7	149.6	151.3
Inflation: CPI	0.0	0.7	2.4	2.3	2.0	2.0
Unemployment claimant count (millions)	0.80	0.78	0.83	0.86	0.87	0.88
Unemployment rate (& rate)	5.4	4.9	4.9	5.1	5.2	5.2

Source: Office of Budget Responsibility, selected from tables

"Easily biggest change in OBR's history to current year's public finance forecasts between November and March. But improvement doesn't last." Paul Johnson, The Economist

- Inflation is forecast to hit 2.4% this year, according to the Office for Budget Responsibility.
- It will then fall to 2.3% in 2018 and 2% in 2019, the Chancellor says.
- That will keep it at or above the Bank of England's 2% inflation target for three years.

The independent Office for Budget Responsibility has - as expected - raised its economic growth forecasts for this year. It now expects the UK economy to grow 2% rather than 1.4%, the Chancellor says. In 2018 growth is forecast to slow to 1.6%, before picking up to 1.7%, then 1.9%, and back to 2% in 2021, he adds.



Major announcements

Philip Hammond's first Budget was also his last Spring Budget. In future there will only be one major fiscal announcement a year, which will be an Autumn Budget, in addition to a Spring Statement that responds to OBR forecasts as mandated.

There were few give-aways in this Budget, and many announcements that were expected such as pensions tax relief, the triple lock and insurance premium tax never materialised.

General taxation

The Government announced that the tax system needs to be fair and sustainable in order to support critical public services. It also needs to be competitive, to support economic growth and maintain the UK as one of the best places in the world to set up and grow a business. These principles are reflected in the government's increases to the personal allowance and higher rate threshold, reductions in the rate of corporation tax to 17% by 2020, and significant steps taken since 2010 to tackle tax avoidance and evasion. The Budget takes further steps in line with this:

- £820m worth of changes to make sure taxes are collected properly, including financial penalties for white collar workers who enable schemes that are later labelled avoidance.
- the dividend allowance will be reduced from £5,000 to £2,000 from April 2018, to reduce the tax differential between the self-employed and employed, and those working through a company, to raise revenue to invest in public services, and to ensure that support for investors is more effectively targeted
- the main rate of Class 4 National Insurance contributions will increase from 9% to 10% in April 2018 and to 11% in April 2019 to reduce the gap in rates paid by the self-employed and employees, and to reflect the introduction of the new State Pension to which the self-employed have the same access. About half the people affected by this measure are Director/Shareholders of private companies. The rest are investors in shares with holdings worth, typically, over £50,000 outside ISAs. And of course everyone will benefit from the generous £4,760 increase in the annual ISA allowance, to £20,000 and the further increase in the personal allowance to £11,500 from April.

"Self employed Class4 NIC increase by 2% but self employed still have 14.8% tax advantage related to employees"
Ros Altmann, former Pensions Minister

Long-term care

The Budget takes further steps to improve the services people care most about, providing more support for health and social care. Building on the short-term actions taken in December 2016, the Government will provide £2 billion additional funding for social care to councils in England between 2017-18 and 2019-20, to help ensure people receive the social care support they need and to reduce pressure on the NHS. It will also invest a further £425 million to improve local NHS services and support Accident and Emergency improvement. The Government will also set out proposals in a green paper to put the social care system on a more secure and sustainable long-term footing.

Consumer rights

A Green Paper will shortly be published to examine markets that are not working efficiently or fairly. The Budget sets out the initial steps the government will take to make a difference for consumers, including:

- legislating at the earliest opportunity to allow consumer enforcement bodies, such as the Competition and Markets Authority, to ask the courts to order civil fines against companies that break consumer law. This will be a strong and effective deterrent, and will enable consumer bodies to take tough action against firms that mislead or mistreat consumers

- developing proposals to protect consumers from facing unexpected payments when a subscription is renewed or when a free trial ends
- considering how to make terms and conditions clearer, simpler and shorter for consumers to engage with, building on the call for evidence on terms and conditions last year

Education and skills

The Government will deliver the recommendations of Lord Sainsbury's panel, and create "clearer system of qualifications one that is designed and recognised by employers with clear routes into work, more time in the classroom, and good quality work placements. One that replaces the 13,000 or so, different qualifications, with just 15 clear, career-focused routes."

- **T-Levels: 16-19 Technical Education** – The Government will deliver the recommendations of Lord Sainsbury's panel. The government will increase the number of programme hours of training for 16-19 year olds on technical routes by more than 50%, to over 900 hours a year on average, including the completion of a high quality industry work placement during the programme. To ensure the routes are well-designed and colleges properly prepared, they will be introduced from 2019-20, increasing funding in line with this roll out, with over £500 million of additional funding invested per year once routes are fully implemented.
- **Further Education maintenance loans** – The Government's aim is to encourage students to continue their training at high quality institutions such as National Colleges or Institutes of Technology. This will create real parity with the academic route and develop the higher-level skills employers demand. From 2019-20, the government will provide maintenance loans, like those available to university students, to students on technical education courses at levels 4 to 6 in National Colleges and Institutes of Technology. This will also support adults to retrain at these institutions.

In the modern global economy, the government recognises that individuals should have the opportunity to retrain and upskill at all points in their life, and to develop skills at the highest level. The Budget sets out further steps to achieve this ambition:

- **Lifelong learning pilots** – The changing nature of work makes retraining and reskilling essential and so the government will spend up to £40 million by 2018-19 to test different approaches to help people to retrain and upskill throughout their working lives.
- **Return to work support** – The government will work with business groups and public sector organisations to identify how best to increase the number of returnships, supported by £5 million of new funding. Returnships offer people who have taken lengthy career breaks a clear route back to employment. (4)
- **Part-time maintenance loans** – To promote equality with full-time undergraduate study and support lifelong learning, the government confirms the terms of maintenance loans for part-time undergraduates, previously announced at Spending Review 2015. These loans will become available for degree level study in 2018-19, with an extension to distance learning and sub-degree study in 2019-20.

Stakeholder responses

Association of British Insurers (ABI)

Today's Budget confirms a massive £6 billion hit to the NHS caused by the Lord Chancellor's decision to cut the personal injury Discount Rate to -0.75%. This extraordinary bill for taxpayers - bigger than any other in this budget - shows how absurd this avoidable decision was. The OBR has also confirmed today that this will lead to higher inflation for years to come as the effects of such a massive increase in claims costs are felt by customers. This makes it even more urgent that the Government deliver a fair deal for consumers and claimants by bringing forward changes to the law this year.

British Insurance Brokers' Association (BIBA)

In its 2017 Manifesto – Enabling the Insurance Market, the British Insurance Brokers' Association (BIBA) called for 'a fair system of taxation' and highlighted the extent to which Insurance Premium Tax (IPT) is a burden on businesses and individuals. This was backed up by lobbying at the highest level in Government to call for no further increases to this regressive tax; a campaign supported by our members and their customers who took the time to write to their MPs about the issue – for which we are grateful.

We see the absence of an IPT rate hike in the 2017 Budget as good progress and will continue to campaign to keep the tax at its current level, ideally without the planned increase in June, or lower. We also call on Government to push forward the legislation necessary to bring Claims Management Companies under the auspices of the Financial Conduct Authority to help reduce the incidence of fraudulent whiplash claims which in turn will help keep premium levels down.

KPMG

Chancellor of the Exchequer Philip Hammond today delivered what people had expected – a Budget of few surprises to provide a “strong, stable platform for Brexit”. Most of the key announcements were not strictly related to tax, with attention paid to the funding of adult social care in England and the upcoming revaluation of business rates. However, the previous Chancellor having announced that Class 2 National Insurance was to be abolished with effect from April 2018, the Chancellor has announced an increase in Class 4 National Insurance contributions for the self-employed.

Links

Government Budget policy paper: http://bit.ly/2miuo9u

The Chancellor’s Spring Budget speech in full: http://bit.ly/2negZOZ

Other Treasury supporting documents: http://bit.ly/2lXZNMT

The OBR forecast: http://bit.ly/2ne96JI

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