



The Autumn Statement

RJF Public Affairs and Bloomer Heaven Briefing Paper

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Combining tax and accountancy expertise with high level parliamentary intelligence, RJF and Bloomer Heaven are pleased to offer clients and stakeholders an advance briefing of what to expect in the Autumn Statement this Thursday.

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RJF Public Affairs is the only dedicated public affairs and political communications consultancy owned and based in Greater Birmingham.



Bloomer Heaven is one of the most established and successful independent Chartered Accountancy practices in the West Midlands.

“Can confirm that autumn statement will be on 4th Dec. That’s when we’ll set out next steps in plan to secure the economic recovery #AS2013”.

@George_Osborne

Introduction

The Chancellor George Osborne announced the date of the Autumn Statement 2013 via a tweet on Friday 11 October 2013. Demonstrating the rise of social media, the tweet also included a Twitter ‘hashtag’ for the Autumn Statement 2013, #AS2013.

However, following the Osborne/Johnson trip to the East, and the thawing of frosty relations which dominated Anglo-Sino relations since Cameron met with the Dalai Lama last year, the PM has chosen to [delay the Statement with a trip to China](#) to **Thursday 5th December**.

The Office for Budget Responsibility (OBR) will publish its latest report on the UK’s economic and fiscal outlook – including its revised estimates for UK economic growth – on the same day as the Chancellor’s Autumn Statement 2013, [HM Treasury confirms](#).

Our Priorities

This document seeks to give readers a short summary of what is expected to be in the Autumn Statement on Thursday. [On pages 8-9](#) you will also find our priorities and perspective on what we think could and should be included in Chancellor Osborne’s Statement to the House of Commons. These include:

- Capping business rates or a business rate holiday
- Scrapping or re-directing the Help to Buy scheme
- Additional incentives for small and medium sized businesses, including through the Regional Growth Fund, the PAYE system and enhanced capital allowances
- Providing relief to the hardest hit local authorities
- Increasing the size and scope of the Local Growth Fund
- Providing councils and local enterprise partnerships with greater freedom over new financing schemes.

“The Autumn Statement is Political Theatre”

“Osborne will certainly try to pull some rabbit out of the hat, for example further commitments to freeze fuel duties, but we do not expect him to seriously exploit the better than expected deficit figures.”

Brian Hillard
Société Générale

For the first time since taking office Chancellor George Osborne has some good news to deliver in the upcoming Autumn Statement.

The Bank of England has upgraded growth forecasts from 1.5 per cent this year to 1.8 per cent and from 2.5 per cent to 2.8 per cent in 2014. ONS figures suggest Osborne remains on track to borrow less this fiscal year than the 120 billion pounds the independent OBR predicted he would in March, thus reducing the deficit.

But the Autumn Statement is no longer a simple ‘state of the nation’ announcement on fiscal performance, it is also, as Brian Hillard of Société Générale has described, “political theatre”.

Tax Cuts

Despite its position in the parliamentary landscape, Osborne's statement is [unlikely to be packed with any pre-election promises](#) – but will certainly indicate the direction of travel for the Budget next year.

Addressing the IMF recently, The Chancellor said:

“I will provide a fiscal forecast on 4 December. I would just remind everyone that I still sit down at the table at the G20 with one of the highest budget deficits. Britain still continues to have some very serious public finance challenges that need to be addressed. Although we've brought down the deficit by a third, it is still too high. ... we've got to make sure that we are doing what we can to reduce our deficits and debts.”

For the time being the Coalition government focus seems to be on the greater goal of perceived fiscal discipline, rather than any immediate political 'gifts' for their key constituencies.

Foreign Property Owners

George Osborne looks set to clash with the Mayor of London as he considers a [new tax on foreign property owners](#) in Britain.

Currently, non-resident property owners are exempt from capital gains taxes - supporters suggest a move to bring in new taxes on these transactions could potentially bring billions into the Exchequer.

Critics state this could discourage investment, inadvertently hit thousands of British expats and raise less than £100 million.

Similarly the Liberal Democrats, while they welcome the tax-raising measures from their Coalition partners, have stated that they do not consider this a replacement for their preferred increase of stamp duty on expensive properties, known as the 'Mansion Tax'.

Stamp Duty

It has been widely reported that stamp duty revenues have returned to the peak of the 2007/2008 boom, bringing in £852 million last month, and are set to bring over £8.7 billion into the Exchequer this year.

The figures come amid growing evidence that, thanks to record low interest rates and the Chancellor's 'Help to Buy' scheme, the housing market is experiencing a fully-fledged boom.

But there are concerns this boom is in fact a bubble ready to burst and that this renaissance in house prices is artificially inflated due to the 'Help to Buy' scheme and disproportionately benefits the South, particularly London.

“If you don't make sure that the market is attractive for investors, they simply won't come and build and then you'll get no homes at all - so it is much more important that London should be open and dynamic than try and close people out..”

Boris Johnson

Stamp duty is paid at 1% for properties worth more than £125,000, 3% for properties worth more than £250,000 and 4% on those beyond the £500,000 level.

Some Tory MPs and conservative groups, in contrast to the Liberal Democrats' Mansion Tax, [are calling for the Chancellor to scrap stamp duty for properties under £500,000](#) in an attempt to increase home ownership for middle income households and encourage the housing market in the north and Midlands to catch-up with that in the south.

“The business rates system is uncompetitive, perverse and in dire need of reform...A complete root and branch review, while rates are frozen for this year and next, is the only way to create a system that works for business, government and the economy as a whole”

*John Longworth
Director General,
British Chambers of Commerce*

Likewise, revenue from Business Rates has also helped the Chancellor bring down his budget deficit.

Business Rates

Business rates currently bring in £25 billion to the Exchequer's coffers, but are rapidly overtaking rents as the biggest cost faced by the retail sector, and the system is 'outmoded and outdated' [according to senior figures in the retail industry](#).

The Chancellor is coming under mounting pressure to announce a freeze in business rates while the system is reformed to better reflect the realities facing the retail sector.

Large retail outlets claim the system is holding back jobs and growth and disproportionately favours online outlets. Smaller businesses have [called for an extension of the Small Business Rate Relief](#), removing the potential for a damaging rates increase on a recovering sector. Consequently, those from across all sizes of business seem to back a freeze in the rates.

Labour has turned up the heat as it has already pledged to freeze business rates for small businesses if it is elected in 2015, and the Shadow Business Secretary, Chuka Umunna, has reiterated this pledge recently:

“We believe that a positive signal could be sent by either capping business rates to the inflation target or (being even more radical) introducing some form of business rate holiday in respect of certain property”

*Jay Boyce
Director, Tax and Wealth
Management
Bloomer Heaven*

“There is nothing to stop George Osborne matching our commitment to cut, then freeze business rates in 2015 and 2016 when he delivers his Autumn Statement in two weeks. If he does, we will support him.”

As a result, the Chancellor seems likely to make some change to business rates in the Autumn Statement, even if tacitly agreeing to a Labour pledge.

Green Levies

As Labour pushes Osborne on the business rates, the Chancellor may also feel the need to take the attack to Labour on the 'cost of living' agenda that has dominated the headlines since Ed Miliband's speech at the party conference.

The Labour Leader's energy price freeze policy has been gaining political traction, and [Miliband is expected to suggest that the Chancellor's proposed cap on pay day lending concedes that market regulation in this manner can be successful](#).

“[Green] policies that we have got support tens of thousands of people who work in the booming green energy sector, actually keep bills down in the long run because if you don't insulate people's homes today they are going to be spending more on their gas and electricity bills in the future heating their homes”

*Nick Clegg
Speaking on LBC*

Speculation about the Government's response has been focused on the removal of the Energy Companies Obligation scheme, so-called 'Green Taxes' or 'Levies'. Many Conservatives believe that removal of these charges would trigger the much needed cut in bills.

Opponents such as the [National Federation of Builders](#) suggest this would jeopardise retrofitting schemes that reduce bills long-term and boost construction.

Similarly, it has been reported that the Liberal Democrats are expected to block any move that may damage eco-friendly policies, despite David Cameron's promise to 'roll-back' green taxes.

The Chancellor has responded ahead of the statement has outlined his proposals to reduce energy bills by an average of £50 a year in an effort to offset rising costs.

The Chancellor has said he will pay for the policy by spreading the cost of insulating homes across a longer time frame and that government will take on some of the burden faced by customers. It will be funded in part by shifting levies into general taxation and extra tax revenue from cracking down on tax avoidance.

A number of energy companies have announced they will pass the average saving of £50 onto the tax-payer. However, this is only a saving on the average £120 rise the companies have previously announced.

Labour have accused the Chancellor of using “smoke and mirrors” to hide a “cosy deal” between the government and energy companies. The Shadow Chancellor Ed Balls said that the government were simply “shifting the burden” from energy bills to the taxpayer.

National Insurance

In a major move to tackle youth unemployment, George Osborne is said to be making an allowance for plans to scrap national insurance contributions for employers if they hire an unemployed person who is under 25. Reportedly, the Chancellor is considering the policy in order to get more young people into work.

While overall unemployment has fallen, the latest employment figures revealed that the number of young people out of work remains stubbornly high, only falling by 8,000 to 965,000.

The West Midlands in particular has lagged behind much of the country in the labour market – unemployment still remains at 9.5% in the region, a significant proportion of that youth unemployment.

Scrapping national insurance for employers, which the Tories branded a "jobs tax" before the 2010 General Election, could cut firms' wage bills for each young worker by £520 a year.

“We simply cannot go on with thousands of our young people leaving school and not going into work for months and years at a time. Like everyone, they need challenge and purpose in their own lives and to be able to contribute to the society in which they live”

*Albert Bore
Leader
Birmingham City Council*

Supporters argue that the move would actually save the Treasury money, [because the annual cost per young worker is less than paying them to be on benefits.](#)

[The Chancellor said at the Telegraph's Festival of Business](#) that he wanted "simpler taxes" and so this could feature in the Autumn Statement.

Fuel Duty

“Provided we can find the savings to pay for it, I want to freeze fuel duty for the rest of this Parliament.”

George Osborne

In his speech to the Conservative Conference, George Osborne pledged to freeze fuel duty for the remainder of the Parliament, although with a significant caveat – provided it could be afforded.

Again business groups, such as the Freight Transport Association, have put pressure on the Chancellor to keep to his pledge to freeze fuel duty as a means of delivering significant benefits including creating jobs, boosting GDP, and in some circumstances, delivering a net increase in tax revenues.

Local Government

“There have even been guarded warnings from the District Auditor that the time may come when he has to declare that Birmingham’s Council cannot balance its books and is no longer a ‘going concern’..”

Kevin Johnson
Partner, RJF Public Affairs

The [Local Government Association has asked](#) the Chancellor to protect budgets for local services following a 43 per cent cut in funding for local government.

In the face of rising demand and existing cuts to funding, councils are struggling to meet the strains of their current financial settlement. This has led to greater calls for fiscal freedom, including Sir Albert Bore, leader of Birmingham City Council, calling for business rates to go directly to local government.

Liberal Influence

Nick Clegg and the Liberal Democrats are pushing the Conservatives to make further cuts to income tax in the Autumn Statement.

The government has repeatedly raised the personal allowance - the amount people can earn before paying income tax - since the 2010 election. The threshold is due to reach £10,000 in 2014/15 but Mr Clegg wants to make it £10,500 from 2015.

The government has also recently announced plans to let parents share leave for a year after a child is born. Under the new rules, a mother could choose to return to work more quickly and hand over her unused allowance to the father.

The Liberal Democrat policy has been under discussion for the last 12 months as the Conservatives wanted to secure safeguards for employers.

HS2

Following the HS2 Hybrid Bill, greater detail, all 50,000 pages worth, is being released about the project. However, it has been suggested that the Autumn Statement offers the perfect opportunity to give local authorities the powers and funding to begin planning and investing into the project at local level.

Bloomer Heaven Priorities



Jay Boyce

Director, Tax and Wealth Management
Bloomer Heaven

The region is being held back by a lack of business investment and we need further support and incentives.

Bloomer Heaven believe that the **business rate system** acts as a barrier to freeing up investment in buildings and structures generally both of which are essential to support the recovery. The current system is complex and makes us uncompetitive and is badly in need of root and branch reform.

We believe that a positive signal could be sent by either capping business rates to the inflation target or (being even more radical) introducing some form of business rate holiday in respect of certain property.

The **Help to Buy** scheme, although laudable in its objectives, has the capacity to create a housing bubble.

Bloomer Heaven believes the scheme has served its purposes in giving the property market a kick start and should now be scrapped. The scheme has a greater take up in London and the South East where they do not suffer the same challenges as in the Midlands and the north of the country.

We believe that money earmarked for the scheme could be more profitably directed to the Midlands and the North, for example by contributing towards the cost of the business rate reform.

The overwhelming majority of jobs created in the last five years have been created by small and medium sized business, a significant number of which are located in this region.

Bloomer Heaven believe there needs to be additional incentive and support provided for these businesses **by way of the Regional Growth Fund**, enhanced capital allowances (where relief could be given at 150% for qualifying capital expenditure) and greater access to finance. On the latter point, crowd funding has provided a fantastic addition to the business funding market and is to be welcomed and encouraged.

Although regulation is important, care needs to be taken to ensure that this vital supply of business funding is not choked off at the very time it is needed to support the fragile economic recovery.

The regional economy requires more skilled individuals and it is vital that employers across all sectors are encouraged to recruit young people and make a meaningful investment into training our future workforce.

Bloomer Heaven believe some form of incentive through the **PAYE system for employers** (as with maternity pay) could be one way of doing this in a targeted manner.

RJF Perspective



Kevin Johnson
Partner
RJF Public Affairs

Will the Chancellor have anything much to say about local government, and if he does will his remarks give a glimmer of hope beyond the gloomy austerity message of the past two years?

Local government continues to feel the brunt of the Government's strategy to pay down debt through an unprecedented public sector squeeze.

Birmingham City Council, the UK's largest public body, will have experienced a 50 per cent cut in its net revenue budget between 2010 and 2018, on current forecasts. About 10,000 council jobs will have disappeared over the eight years.

When the impact of reduced government grant and the pressure for increased spending on adult social services is taken into account, the council expects it will have to identify £825 million of savings between 2010-11 and 2017-18. That figure is almost as large as the annual revenue budget.

Over the next four years the council estimates it will have to slash budgets by £550 million. There have even been guarded warnings from the District Auditor that the time may come when he has to declare that Birmingham's Council cannot balance its books and is no longer a 'going concern'.

The Rowntree Commission on Local Government set the scene last year with an influential report urging Mr Osborne to move away from the traditional role that "local government is part of the problem rather than part of the solution.

"Councils can stimulate good local economic growth, ensuring that the benefits are felt by all, and forge a new social contract with citizens to reinforce and restore people's faith in local democracy as a progressive and vital British institution."

The Rowntree Commission talked about ways of leveraging in more cash through innovative schemes such as tax increment financing. Enterprise Zones in Birmingham and elsewhere are based on allowing the city council to fund regeneration by borrowing against increased business rate streams and, in theory, have the backing of Mr Osborne and the Treasury.

Mr Osborne may have something positive to say about Lord Heseltine's No Stone Unturned report, which envisaged a 'single pot' of Whitehall money being handed over to local authorities via local enterprise partnerships.

The scheme has tentative Treasury support, but the first 'pot' turned out to be nowhere near as generous as the £50 billion envisaged by Lord Heseltine. Mr Osborne played it safe with a £2 billion pot. He could use his Autumn Statement to increase the size of the pot, but don't bank on it.

If Mr Osborne wishes to be radical he could show an interest in some of the funding schemes being suggested, like municipal bonds and regional banks as well as permitting councils to levy additional business rates and a tourism tax. It seems unlikely, though.

Ideas being developed by Labour Birmingham city councillor John Clancy and Aston University professor David Bailey, dubbed ‘Clancynomics,’ would enable £200 billion of local government pension funds to be used for investment in local regeneration and house building. It is reported that the scheme is being actively considered at the top of the Labour party.

Clancy points out that pension fund investment in public sector regeneration schemes is commonplace in Europe and could be implemented here at no additional cost to the government.

Birmingham City Council chief executive Stephen Hughes entered the debate recently with a novel suggestion for Mr Osborne. Mr Hughes proposed scrapping the city council’s main source of income – government revenue support grant worth over £750 million a year – and allowing the council instead to syphon off a proportion of VAT collected in Birmingham.

This, Mr Hughes argued, would give the council an incentive to bring new businesses to Birmingham and to regenerate the local economy because by doing so the local authority would receive more income through additional VAT.

It’s an interesting idea although, as with any method of funding local government, ways would have to be found to protect poorer authorities against richer cities where the amount of VAT collected is considerably greater. As Mr Hughes candidly admitted, “I don’t suppose anyone is going to do this.”

About RJF

Contact us: RJF Public Affairs is the only dedicated public affairs and political communications consultancy owned and based in Birmingham.

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Our client portfolio includes Bullring Birmingham, Birmingham City University, Broad Street BID, Go Ahead, Groundwork Trust West Midlands, the Library of Birmingham Development Trust, Live Nation, Vision for a Connected Midlands, Watkin Jones and The University of Warwick.

Our advocacy service includes influencing, or advising those who wish to influence, the UK Government, Parliament, the devolved legislatures or administrations, regional or local government or other public bodies on any relevant matter.

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About Bloomer Heaven

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Bloomer Heaven is one of the most established and successful independent Chartered Accountancy practices in the West Midlands. From our offices in the heart of Birmingham's business district we provide accountancy and business advisory services to a wide range of companies and organisations. We have built up a portfolio of clients that range across many sectors including manufacturing, property, law and not-for-profit.

Our reputation is built upon the values of **trust**, **efficiency**, **relevance** and **value**. Our team of specialists can provide accountancy and business support from audit and tax through to payroll and strategic financial planning.

Bloomer Heaven's philosophy is a simple one. We work hard to understand your business - that's how we can provide services that are relevant. We pride ourselves on developing positive and effective working relationships built upon knowledge, respect and understanding. At Bloomer Heaven we will take a pragmatic, flexible and constructive approach to your business. Underpinning everything we do is a commitment to value for money and providing a first class client service.

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Bloomer Heaven is also a member of Morison International, a global organisation of independent accountants, auditors, business advisors and lawyers created specifically to support the cross border objectives of member firms' clients. 90 firms are now part of the network, located in 65 countries which means that Bloomer Heaven can provide a truly global perspective and network to clients with specific international requirements.

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