

Welcome to our briefing on the 2016 Autumn Statement - a detailed summary of the most important announcements by new Chancellor Philip Hammond.

“This Autumn Statement in no way speaks to the scale of the challenge that Britain faces in delivering a successful Brexit and addressing deep seated inequalities. What we needed was bold investment in public services and social infrastructure: commitment to housing, quality job creation, and support for young people. What we’ve got is a policy-lite statement, with only tokenistic attempts to help those that are “Just About Managing” (JAMS), and very little to help those that aren’t managing all”.

- Dr Faiza Shaheen, Director of CLASS

What is the Autumn Statement?

Every year, the government sets out its economic plans for the year ahead in an Autumn Statement, which is a sort of mini budget.

Not everything in the Autumn Statement will happen, as a lot will be dependent on the state of the economy over the next few years, and uncertainty around Brexit. Similarly, it is likely there will be many policies and decisions made in the next four years that are not announced in the Autumn Statement.

Chancellor Philip Hammond ended his speech with the announcement that this will be the last Autumn Statement. From now on, we will see an Autumn Budget and a Spring Statement.

Background to the Autumn Statement

This Autumn Statement this year was very much overshadowed by an impending Brexit, with no clear indication of what sort of deal the government will be pursuing.

As this is the first economic announcement of Theresa May’s government, many expected it to give us an indication of what policy direction we’ll be heading in for the next few years.

The Office for Budget Responsibility (OBR)

announced on Wednesday that it expects growth to slow next year as Brexit uncertainty causes business to delay investment, and a weaker pound increases the price of imports. Eurosceptic MPs were quick to criticise the OBR forecasts as anti-Brexit.

Read more

- [OBR Report](#)
- [Autumn Statement](#)

Here at CLASS, we were surprised to see Theresa May talking about inequality in her first speech as PM. More specifically, Theresa May’s government have coined the term, “Just About Managing”, or JAMs, to refer to those who are only just getting by in the UK. Any announcements in the Autumn Statement should be judged against the claims Theresa May has made about the importance of tackling inequality.

Read more

- Dr Faiza Shaheen: [Theresa May’s brand of inequality](#)

Key announcements

- Softening the blow of cuts to Universal Credit. The taper rate (how quickly money is withdrawn for those who find employment) has been reduced from 65% to 63%.
- Increasing tax free personal allowance
- Ban on letting agents fees
- £2 billion annual R&D fund
- Freezing fuel duty
- £1.1 billion road/rail investment
- Raising ISA limits
- £1.4 billion for 40,000 affordable homes
- £50 million to establish new grammar schools
- Ending certain categories of salary sacrifice perks

The 'budget surplus' and other fiscal rules

Announcements from previous Chancellor George Osborne were driven by his goal of generating a

budget surplus by 2020, an arbitrary target with no necessity, which was used as a justification for brutal cuts to public spending.

Fortunately, Philip Hammond abandoned the 2020 budget surplus target [in his speech](#) at Conservative Party Conference in October.

Further reading

- [Eminent economists denounce Osborne's budget surplus plan](#)

Hammond has instead announced a new Charter for Budget Responsibility, and three fiscal rules:

1. The public finances should be returned to balance as early as possible in the next parliament, and, in the interim, cyclically-adjusted borrowing should be below 2% by the end of this parliament.
2. Public sector net debt as a share of GDP must be falling by the end of this parliament.
3. Welfare spending must be within a cap, set by the government and monitored by the OBR.

While the end of the budget surplus rule is a welcome one, the third fiscal rule announced by Hammond is particularly concerning, as it indicates that Theresa May's government will continue to pursue ideologically driven caps on benefits that don't take need into account.

Further reading

- [IFS Post-Autumn Statement Briefing: Fiscal Rules](#)

Social Security and Universal Credit

The introduction of Universal Credit has arguably been a PR disaster for the Conservatives.

Original plans to combine benefits into one payment, a "Universal Credit", have been repeatedly delayed. Ian Duncan Smith, the Conservative Work and Pensions Minister who

introduced Universal Credit (now a backbench MP) has been publically lobbying the government to reverse planned cuts.

Currently, the “work allowance” is due to be lowered for those who earn Universal Credit. That means the amount someone can earn before losing some of their financial support will be lower.

Today’s headline announcement has been that Hammond will soften the blow of cuts to Universal Credit. Unfortunately, this isn’t the U-turn many have called for, but just a small adjustment.

Hammond has announced that the taper rate (how quickly money is withdrawn for those who find employment) will be reduced from 65% to 63%. This means that for every £1 someone earns above the “work allowance” they will lose 63p rather than 65p.

However, the Labour party has pointed to [House of Commons analysis](#) showing that for many families, lowering the taper rate will not mitigate the impact of planned cuts to the work allowance.

Further reading

- [Autumn Statement 2016: Reaction from Our Panel](#)
- [IFS Distributional Analysis](#)

Housing

At Conservative Party Conference in October, it was announced that the government would create a £4 billion fund to tackle the housing crisis. In the Autumn Statement, an additional £1.4 billion has been pledged to build 40,000 affordable homes.

Although pledges on affordable homes sound promising, there are issues surrounding the government’s definition of “affordable”, and also the number of homes they have promised.

Affordable housing is defined by the government as costing [somewhere above the price of social housing and below the market rate](#). This is arguably not what

most people would understand “affordable” to mean.

Meanwhile, the average house price in the UK is [£216,750](#), and a 5% deposit on the average house in the UK would therefore be over £13,000. The median annual wage in the UK is [£28,200](#) – the average earner in the UK would need to save the equivalent of 46% of their gross annual salary for a 5% deposit on the average house.

Disappointingly, the Chancellor also announced a pilot of Right to Buy for Housing Association tenants. A policy of the previous Tory government, Right to Buy is presented as a mechanism to allow people to buy their first home. In reality, Right to Buy contributed to rising house prices as homes [were not replaced as they were sold](#).

The most welcome announcement on housing is the proposed ban on letting agency fees, which are already banned in Scotland—a policy that was in the 2015 Labour party manifesto.

It is estimated that the average renter pays [£223](#) in letting agents fees, making moving more difficult and unfairly penalising those in the private rental market. Conservative Housing Minister Gavin Barwell stated in September that he would [expect landlords to pass on letting agency fees to tenants](#) rather than pay agencies themselves, but research from Shelter into the impact on Scotland—which banned letting agency fees in 2012—found that [this wasn’t the case](#).

Further reading

- Shelter: [What is affordable housing?](#)

Education

Education was mentioned only once in this Autumn Statement. The government have again set out their commitment to extending existing grammar schools with [£50 million](#) in annual funding in 2017 and 2018.

The evidence demonstrates that grammar schools undermine social mobility. Very few of the poorest students attend grammar schools, even in areas where there are multiple grammar schools like in Birmingham or Kent. Only [2.6% pupils are on free school meals](#) (FSM) in existing grammar schools, compared to 15% across the UK.

Many were disappointed to see no end to cuts in education that are putting serious pressure on teachers and schools. Research by the National Union of Teachers found that [83%](#) of schools have lost funding in real terms since the Conservatives took office.

Further reading

- Dr Faiza Shaheen: [4 reasons why grammar schools are a bad idea](#)
- Video - Dr Faiza Shaheen: [Why are grammar schools on the agenda?](#)
- [Comment from Kevin Courtney, General Secretary of the National Union of Teachers](#)
- Professor Danny Dorling: [Comprehensive Schools Are Not Enough: The Challenge of Education Policy for the Left](#)

Northern Powerhouse/Midlands Engine

The Northern Powerhouse was a phrase coined by previous Chancellor George Osborne. There has been so little action on this policy that a poll last year found [more than half](#) of Northerners don't know what the term means. In spite of this, Hammond is continuing with similar rhetoric about the Northern Powerhouse, and we've recently been introduced to the "Midlands Engine".

However, this time the government has published a Northern Powerhouse Strategy, setting out £1.8 billion in funding for the North to tackle what they identify as barriers to productivity in the region.

Under the Growth Deals Programme, [Local Enterprise Partnerships \(LEPs\)](#) in the North will receive £556m in extra funding. However, it has not been announced where in the North this funding will go.

Hammond also announced £400m for an SME investment fund in the North.

Meanwhile, the government has pledged to come forward with detailed plans for the "Midlands Engine", presumably a similar scheme for the Midlands, including cities such as Birmingham and Leicester.

Infrastructure and productivity

The Autumn Statement also included investment in infrastructure, most notably roads and rail links. Hammond announced that he would commit between 1% and 1.2% of GDP every year after 2020 for economic infrastructure covered by the National Infrastructure Commission, and would put £23 billion into a new National Productivity Investment Fund.

However, when compared with the cost of the HS2 high-speed railway—which is set to cost £56bn at the last count—it's difficult to imagine what kind of big projects could be built with this new funding. It may sound impressive, but won't actually go that far, and plans are still very vague.

Hammond also announced support for the Oxford-Cambridge growth corridor — a rail link between Oxford and Cambridge — with £110m of funding, and pledged £1 billion to explore 5G broadband.

Further reading

- Nils Pratley: [Don't Mistake Autumn Statement For Infrastructure Splurge](#)
- TUC: [Chancellor Goes A Little Way to Meet His Investment Challenge](#)

JAMs

So-called JAMs— those Just About Managing— has become a buzzword for this government. Theresa May spoke of JAMs [in her first speech](#) as Prime Minister, but we have not been given a detailed description of who this group is. We can assume from May's speech that that they own their own home, but struggle with their mortgage, they are "ordinary working people", and they have small or no savings.

Several policies were expected to be aimed at JAMs in the Autumn Statement. Those announced included:

- The introduction of tax free childcare to be rolled out from 2017
- Fuel duty to be frozen in 2017 for the seventh consecutive year
- Raising the income tax personal allowance to £12,500 by the end of the parliament
- ISA limit to be increased to £20,000 by April 2017 (previously announced, and a manifesto commitment)

However, those the government describe as JAMs would also be reliant on public services such as the NHS, but there were no new policies on NHS funding announced in [Hammond's](#) speech, and nothing in the [Autumn Statement document](#) released by the treasury either.

Innovation Fund

Announced on Monday by Theresa May, the government has pledged a £2 billion annual fund for science and technology innovation, believed to be designed to cushion the blow of Brexit and the loss of EU funding.

Total EU investment in the UK in 2014 was [£5.5 billion](#), and UK businesses and universities received approximately £800million in EU funds, so £2 billion would certainly be a significant boost. However, although an innovation fund might help

protect business, poorer areas of the UK stand to lose huge amounts of EU funding – in 2014 poorer regions received [almost £1.4 billion](#) in investment, and parts of Wales and Cornwall receive more EU funding than any other region in the EU.

It remains to be seen if adequate additional funding will be directed to poorer regions. The only mention of Wales in the Autumn Statement [documents released by the Treasury](#) was a statement of continued support for the city deal with Cardiff.

What was missing?

There were some big policy areas missing from the Autumn Statement this year. Most notably:

• The NHS

The NHS is experiencing the first decline in spending per head since its creation, but there was no mention of additional NHS funding in the Autumn Statement.

Instead, the Chancellor repeated that the government would be investing the £10billion a year NHS bosses asked for by 2020. However, this claim is misleading, and [NHS bosses actually asked for more](#).

There was also no mention of or additional funding for social care budgets, despite four in five councils claiming they [can't meet demand for elderly care](#).

• Climate change and the environment

£390 million was earmarked for electric cars. Climate change was not mentioned at all.

What has CLASS published?

- [Director's blog: The 2016 Autumn Statement: Tackling Inequality, or Business as Usual?](#)
- [Spending Review: Our Panel's Reaction](#)
- [A Guide to Tackling Inequality for Dummies](#)