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When is a Budget not a Budget?

At the time of the Autumn Statement, the Chancellor of the Exchequer set out his plan to move the Budget, which covers the decisions on key policy changes, to the autumn from 2017 onwards. It is no surprise, therefore, that the EY ITEM Club Spring Budget preview sets out an expectation for a relatively low-key event on 8 March. Although it is described as the Budget, in the context of the Chancellors’ proposed changes, it seems unlikely that a Chancellor who resisted the temptation for a major policy reset in the autumn will do so now.

Will it tell us anything new?

The main news in the Budget is likely to be the OBR’s update to the economic outlook. The EY ITEM Club expects that this will not involve any dramatic shifts and will be on the following lines:

► The OBR is expected to revise down its forecast for public sector net borrowing in the current fiscal year, 2016-17, by around £3bn to close to £65bn.

► An upward revision to the 2017 forecast for GDP growth from 1.4% to 1.6-1.7%.

► A higher forecast for debt servicing costs of around £2bn in 2020-21, compared to the level expected last November, due to an upward shift in the forward curve for gilts.

The current UK Government is much more circumspect than its recent predecessors about sharing thinking on policy before the details have been worked through. As a result, commentators and analysts, starved of the regular flow of information from previous administrations, will be looking at the detail behind the headlines to try and glean what they can about the future direction of policy and the areas that the administration may have concerns over.

Probably not on Brexit...

Inevitably, there will be significant interest in how the OBR tries to incorporate the latest developments around Brexit into its forecasts. In November, it made much of the fact that it had “been given no information regarding the Government’s goals or expectations for the negotiations that is not already in the public domain.” Since then, as the EY ITEM Club notes, the Government has laid out its plans, first in a speech by Theresa May on 17 January and then in greater detail in a White Paper. If the OBR moves its forecast in the key areas of trade and migration, then we may glean some greater insight into the sensitivity of the economy to these factors.

…or short-term changes to economic policy...

There may be some relatively minor tweaks to policy to try to maintain economic activity at current rates. Most obviously, we might see a cut in fuel duty or a
freeze or reduction in Air Passenger Duty, allowing the Chancellor to soften the squeeze on living standards.

With the corporation tax rate already set to fall from 20% to 19% this April, and then to 17% in April 2020, the UK’s corporate tax regime is already looking very competitive by large economy standards. Action in this area seems unlikely and any moves could be interpreted as the Chancellor having some concern about the UK’s future competitiveness for foreign direct investment.

…but more long-term thinking would be welcome...

The Chancellor has signalled his desire to shift the heavy lifting on policy to the autumn. There is a risk though that policy is overly focused on delivering Brexit, while other necessary economic reform is neglected. Two obvious areas that businesses would like to see further thinking on are business rates and the apprenticeship levy.

► April will see the introduction of the apprenticeship levy, at a cost to employers of close to £3bn per year. Given the cost pressures faced by firms from rising commodity prices, the national living wage and expanding pension auto-enrolment, there is perhaps a small chance of the Government watering down this policy, perhaps excluding certain sectors or, more radically, delaying implementation for a year. However, there is a case for a more fundamental review to ensure everyone is clear what the objectives of this policy are, and whether the current scheme is well placed to allow the UK to deliver on these.

► We may also see some business-friendly moves on the thorny issue of business rates. Under current plans, business rates are indexed to rise each year by RPI inflation. A switch to the current official (and generally lower) CPI measure is due to take place in 2020-21. The Treasury could heed the calls of organisations like the CBI, and bring forward the switch at a cost of around £350m per year. If the Government is serious about its desire to rebalance the economy, then more radical calls such as excluding plant and machinery from property valuations, merit consideration.

…and is needed in certain areas

In political terms, the NHS is emerging as a major issue for the Government. It was recently reported that the number of patients on hospital wards in England has been at unsafe levels at nine out of 10 NHS trusts over the current winter. Increasing pressure on social care spending has also been very public. The Government could find itself in the position of delivering a smooth Brexit, and yet still disappointing the public if dissatisfaction with the NHS increases. Any moves to relax the constraints on growth in NHS and social care funding in the upcoming Budget would signal that the Government is alive to the issues in these sectors.

A low-key Budget but worth watching

Expectations are for a low-key Budget with no significant policy changes. If this is what happens, then we can take it that the Chancellor is reasonably confident about the economic outlook. Any shifts beyond the very basic will provide business with hints as to the areas of concern to Government. Beyond this, more strategic moves would provide more confidence to investors that the administration is serious about its desire to transform the UK economy, as well as delivering Brexit.
Highlights

► The OBR is likely to deliver some rare good news to the Chancellor by revising down its forecast for public sector net borrowing in the current fiscal year, 2016-17. A stronger than expected performance from tax receipts should push down the OBR’s borrowing forecast by around £3bn to close to £65bn. However, given that this improved performance has coincided with stronger-than-expected economic growth, the OBR will probably deem it to be a cyclical improvement.

► An upward revision to the 2017 forecast for GDP growth from 1.4% to 1.6-1.7% looks likely given the stronger momentum at the end of 2016. The OBR has more information on which to base its long-term forecast now that the Government has outlined its vision for the UK’s post-Brexit relationship with the EU, although there remain sizeable gaps, such as the likely length of the transitional agreements and the potential shape of customs arrangements. We suspect that the OBR will resist the urge to make any substantive changes to its forecasts, suggesting that any negative effects of Brexit on growth from, for example, trade destruction or lower levels of immigration, are likely to develop outside of its forecast horizon of 2021.

► Though an upward shift in the forward curve for gilts means that the forecast for debt servicing costs might be around £2bn higher in 2020-21 than expected last November, there are unlikely to be many other significant revisions to the fiscal projections. As such, the £27bn margin for error that the Chancellor had against the most important of his new fiscal rules - that the structural deficit should be below 2% of GDP in 2020-21 - should remain largely intact.

► Meanwhile, fiscal policy faces major challenges on both the revenue and public spending sides. But with the Chancellor having intimated that he sees the new autumn Budget as the key fiscal event of the year, it would be odd if he used 8 March to announce major policy measures. Moreover, the continued robustness of the economy and public sector borrowing on track to undershoot the OBR's forecast mean that there is little pressure to use fiscal levers to support activity or fill any fiscal ‘black hole’.

► Unless the Chancellor rigidly sticks to the idea of leaving all key policy changes for the autumn, the Budget will not be completely devoid of measures. The Conservative Party's 2015 manifesto commitments to raise the tax-free personal allowance to £12,500 and the threshold for the 40% rate of income tax to £50,000 by the end of the current parliament both remain in force. We are likely to see some further progress made towards achieving those goals.

► And if the last episode of elevated inflation in 2010-11 is anything to go by, the Budget may include action to alleviate the squeeze on household incomes that is set to arise this year off the back of sterling's weakness and rising oil and commodity prices. A cut in fuel duty may be on the cards, as might a freeze or reduction in Air Passenger Duty.

► However, talk of the UK going down a post-Brexit route of becoming the ‘Singapore of the West’, with taxes on businesses slashed, is unlikely to see any realisation in the Budget. The Government has been careful to reserve the option of such an approach for a world where negotiations with the EU break down. And with the corporation tax rate already due to fall from 20% to 19% this April and then to 17% in April 2020, the UK’s corporate tax regime is already looking very competitive by large economy standards. However, the Treasury may respond to increasingly vociferous criticism about the business rates regime, perhaps by bringing forward the switch to indexation from RPI to CPI inflation.

► One area where a change of tack from the Chancellor seems likely is in day-to-day spending on public services. Austerity in this area saw noticeably little in the way of relaxation in November’s Autumn Statement. But with recent months producing increasingly adverse headlines on pressures faced by the health and social care budgets, the Chancellor may be compelled to provide more cash in these areas.

► But overall the final Spring Budget is likely to be an unusually low key event, as a lack of material forecast changes and a desire to hold back any fireworks for the forthcoming autumn Budget encourage the Chancellor to adopt a low key approach.
Having announced a major change to the fiscal timetable in the Autumn Statement, Chancellor Philip Hammond will present his final Spring Budget on 8 March. This Special Report starts by looking at where the Office for Budget Responsibility (OBR) may make changes to its forecasts, which will be published alongside the Budget, including the implications of the Government’s Brexit plan, which has been published since the Autumn Statement. We then move on to assess what the Chancellor might do from a policy perspective.

1. **OBR’s forecasts for the economy and the public finances**

As the chart to the right shows, history suggests that the OBR typically only makes very small revisions to its main economic and fiscal forecasts at the time of the Budget, with most major changes occurring in Autumn Statements. We would attribute this to the fact that the calendar of fiscal events is so unbalanced, with Budgets taking place in March¹ and Autumn Statements being presented eight, or sometimes nine, months later in November or early-December. This pattern would appear to back the Chancellor’s decision to switch to holding Autumn Budgets and Spring Statements, with the latter being regarded as the less important event. But before the new regime begins, with only a little over three months between the last Autumn Statement and the final Spring Budget, we are once again likely to see a set of forecasts which are little changed compared with the previous vintage.

**Borrowing set to come in a little lower in 2016-17**

The first issue for the OBR to tackle will be the borrowing performance for the current fiscal year, 2016-17. The Autumn Statement saw the OBR make a substantial upward revision to its forecast from £56.0bn² to £68.2bn, but this time around we expect the OBR to deliver better news to the Chancellor.

Over the first nine months of the fiscal year, public sector net borrowing (PSNB) totalled £63.8bn, some £10.6bn (14%) lower than over the equivalent period of the previous year. Compared with the latest outturn for 2015-16, there would need to be a 9.6% decline over the whole fiscal year to achieve the OBR’s forecast of £68.2bn, so we are running some way ahead of schedule. Indeed, if the improvement seen over the first nine months of the fiscal year were mirrored in the final three months, borrowing over the year as a whole would come in at £61.2bn, some £7bn lower than the OBR had anticipated.

In reality things are not that simple and several factors on the spending side will eat into this £7bn difference. Differences in the timing of some elements of current spending and investment mean that government spending is likely to be somewhat higher over the latter months of the fiscal year than what we have seen so far. Similarly, inflation will be

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¹ We have confined this analysis to ‘regular’ Budgets and have, therefore, excluded the Summer Budget of July 2015

² Though the Budget 2016 forecast was £55.5bn, subsequent classification changes mean that it would have been £56.0bn had it been produced on the same basis as the Autumn Statement 2016 forecasts
much higher in early-2017 than it was at the beginning of 2016, which means that the cost of servicing index-linked gilts will be greater.

Unusually, tax revenues have been performing better than expected in recent months; central government receipts (excluding APF transfers) have risen by 5.6% year-on-year over the first nine months of 2016-17, well above the 4% that the OBR had projected for the year as a whole. However, almost 30% of tax revenues come in the final three months of the fiscal year, so there is still time for the picture to change.

There are two key opposing forces which will be influential with regard to the performance of tax revenues over the last three months of 2016-17. On the plus side, self-assessment income tax receipts should be boosted by forestalling associated with the pre-announced April 2016 increase in dividend tax. On the flip side, receipts from stamp duty are likely to be well down year-on-year, with revenues in the first three months of 2016 having been boosted by forestalling ahead of the increase in stamp duty payable on buy-to-let properties and second homes. Our modelling suggests that over 2016-17 as a whole, we are likely to see HMRC tax revenues come in around £3bn ahead of the OBR’s forecast (see Table below), with the better-than-expected performance being mostly due to stronger income tax, NICs & capital gains tax receipts, with smaller positive contributions coming from VAT and corporation tax.

### HMRC tax revenues, year-to-date and projections for 2016-17

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<th></th>
<th>Outturn, Apr-Dec</th>
<th>2016-17 projection</th>
<th>Difference</th>
<th>OBR</th>
<th>ITEM</th>
<th>Difference</th>
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<td>2016-17</td>
<td></td>
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<td>Income tax, NICs &amp; CGT</td>
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<td>209.3</td>
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<td>-1.2</td>
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<td>Other duties &amp; levies</td>
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<td>16.1</td>
<td>2.1</td>
<td>21.2</td>
<td>20.9</td>
<td>-0.3</td>
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<td><strong>Total HMRC</strong></td>
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<td><strong>400.3</strong></td>
<td><strong>19.6</strong></td>
<td><strong>558.4</strong></td>
<td><strong>561.3</strong></td>
<td><strong>3.0</strong></td>
</tr>
</tbody>
</table>

Source: HMRC, OBR, EY ITEM Club

**2017 GDP forecast likely to be revised up**

In November the OBR had forecast GDP growth of 1.4% in 2017. However, this was based upon the expectation that the economy would grow by 0.4% in Q4 2016, rather than the outturn of 0.6%; if we assume that the OBR maintains its forecasts for quarterly growth rates through 2017 then this higher starting point would mean an upward revision to the 2017 forecast to 1.6%. We suspect that the OBR may also decide that its forecasts for H1 2017 are a touch too weak given the stronger than expected momentum carried into this year, in which case the forecast could be revised up to around 1.7%. Historically the OBR has stuck pretty close to the consensus and a forecast of 1.6-1.7% would already put it 0.3-0.4pp higher, so we would be surprised if the OBR went as far as the Monetary Policy Committee did in its recent forecast (2.0%).

**Brexit plan will give the OBR food for thought over the medium-term**

Further out, there will be much interest in how the OBR attempts to integrate the latest developments around Brexit into its forecasts. In November it made much play of the fact that it had “been given no information regarding the Government’s goals or expectations for the negotiations that is not already in..."
the public domain." Since then, the Government has laid out its plans, first in a speech by Theresa May on 17 January and then in greater detail in a White Paper.4

We would expect the OBR to base its new forecasts on the assumption that the Government is successful in its aims of negotiating transitional arrangements followed by a free-trade agreement. However, there are still some major gaps in the Governments’ plans which will prevent the OBR from making a comprehensive judgement, such as the likely length of the transitional arrangements and the potential nature of customs arrangements. We also await details of the size of the UK’s ‘divorce bill’, although with payments likely to be spread over a long period, the impact in the forecast horizon considered by the OBR should be minimal.5

Immigration threatens to be a wildcard in these forecasts. At the time of the Autumn Statement, the OBR said that they had effectively downgraded their expectations for immigration as a result of Brexit because it had stopped them from responding to persistently high immigration by moving to use the ‘high migration’ variant of the ONS’s population projections. This represented something of an uncomfortable fudge and the OBR could make further revisions in this area. Their challenge is that while the Prime Minister has placed “controlling immigration” at the forefront of her post-Brexit plan, the Government has offered no detail in terms of what this means in terms of immigration numbers. One potential compromise would be for the OBR to switch to using the ONS’s ‘low migration’ variant, which assumes net inflows of 105,000 a year over the medium-term, compared with the 185,000 assumed in the principal projections. It is unlikely that this would have a significant impact on the forecast, given that it would probably only be imposed in the last year or two of the forecast, once any transitional arrangements had come to an end. But it would allow the OBR to signal how the projections for potential output might be affected if there were to be much lower levels of immigration for a prolonged period.

But we think it most likely that the OBR will leave immigration for another day and will conclude that the new information on Brexit is broadly consistent with its previous forecast, with any negative effects on growth from, for example, trade destruction or lower levels of immigration, likely to develop outside of its forecast horizon of 2021. As such, we would expect the OBR to stick close to its forecast that GDP will grow by around 2.0% a year from 2018-21. This is well above both the consensus forecast (1.6%) and our own projections (1.5%). In the case of our own forecasts, the difference is partly because we expect the Government to be unsuccessful in its negotiating aims and assume that the UK will move to trading with the EU according to WTO rules in early-2019, with the added burden of additional customs checks. However, we also believe that the OBR has been overly optimistic about the degree to which the UK’s recent dismal productivity performance will improve; we suspect that this factor is also important in explaining why the consensus is more pessimistic about long-term prospects than the OBR.

The Government should retain a healthy margin for error against its fiscal targets

The OBR will probably deem the lower borrowing in 2016-17 to be a cyclical improvement, given that it has coincided with a period of stronger-than-expected economic growth. As such, it should not impact upon the borrowing forecasts over the longer-term. If we also assume that the OBR makes no substantive changes to the long-term economic forecasts, then other developments since the Autumn

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5 See, for example, 'The €60 billion Brexit bill: How to disentangle Britain from the EU budget', Alex Barker, Centre for European Reform, February 2017, http://www.cer.org.uk/sites/default/files/pb_barker_brexit_bill_3feb17.pdf
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Statement suggest - at worst - a modest deterioration in the longer-term projections for the public finances.

Movements in the forward curve for gilts have caused several sizeable revisions to the fiscal forecasts over recent years because of the impact that it has on the projections for debt servicing costs. Our calculations, using the OBR’s ready-reckoner,\(^6\) suggest that the 30bp increase in the forward curve since the Autumn Statement could add just under £2bn to debt servicing costs in 2020-21, the target year for the Chancellor’s new set of fiscal rules.

While the oil price has risen much more sharply than the November forecast had envisaged, the futures curve has not changed a great deal so the OBR is unlikely to upgrade its expectations for oil-related revenues. Similarly, there appears little reason for the OBR to make material changes to its projections for either inflation or equity prices, two areas which have also caused sizeable revisions to the forecasts of the public finances in recent years.

Therefore, we expect the ‘pre-measures’ forecast for 2020-21 to be - at worst - £2bn weaker than the OBR had projected in November. Indeed, if the OBR deems the better-than-expected fiscal performance in 2016-17 to be a structural, rather than cyclical, improvement then it may even present a marginally stronger picture for the public finances. As such, the £27bn margin for error that the Chancellor had against the most important of his new fiscal rules - that the structural deficit should be below 2% of GDP in 2020-21 - should remain largely intact.

2. What policy measures can we expect?

The Government faces challenges but a low-key Budget is in prospect

Last November delivered an underwhelming Autumn Statement on the measures front for those hoping that, post-EU referendum and with a new Chancellor, Philip Hammond, in place, fiscal policy would see a significant change of course. Granted, the measures announced by the Chancellor did constitute a modest net ‘giveaway’, proffering some extra money for infrastructure and a small easing of planned cuts in welfare spending. As noted earlier, the Chancellor also loosened the rules around the Government’s debt and deficit targets to provide more room for manoeuvre in the future. But in macroeconomic terms, the direct effect of November’s announcements was pretty minimal.

That the economy had proved far more buoyant in the aftermath of last June’s vote than many forecasters, including HM Treasury, had expected, goes a long way to explaining the Autumn Statement’s muted content. And the continued resilience of activity, with the OBR likely to revise up its forecast for economic growth in this year at least, is one reason why we expect the forthcoming Budget to deliver little in the way of drama. This would certainly be consistent with soundings from the Treasury - in an interview at the Davos Economic Forum in January, the Chancellor hinted heavily at a low-key fiscal event, commenting that “Budgets should be boring”.

Another reason to expect few fiscal fireworks on 8 March relates to the changes in the fiscal calendar announced by the Chancellor last November. The Chancellor said that starting in autumn 2017, the UK would move to having an autumn Budget, delivering, in his view, the benefit of allowing tax changes to be announced well in advance of the start of the tax year. From 2018 there will be a spring Statement, responding to an updated forecast from the OBR, but no major fiscal event.

So this year will, unusually, see two Budgets. But with the Chancellor presumably wishing to establish the autumn event as numero uno for fiscal policy, it would be odd if he used what will be the last spring Budget to announce any significant headline-grabbing measures. Choosing to do so would also undermine the potential benefits of moving to a single annual fiscal event of note. As identified by the Institute of Fiscal Studies and others, these include a reduction in the frequency of new significant

changes of direction, releasing resources for better consultation, producing higher quality legislation
and more effective implementation, and making life simpler for taxpayers.\(^7\)

Admittedly, if the recent fiscal numbers were proving to be particularly bad, the Chancellor would not
necessarily have the luxury of putting his feet up. But as set out earlier, public borrowing in 2016-17
looks set to have run some way below the OBR’s forecast in 2016’s Autumn Statement. And the
reformed fiscal rules announced last November, particularly the abandonment of the previous pledge to
achieve a budget surplus by the end of the current decade, means that the Chancellor has a significant
amount of leeway to absorb any unexpected economic shocks without having to tighten policy.

Of more weight is the fact that the Government does face difficult long-term fiscal issues which will need
to be resolved sooner or later. On the revenue side, the expansion of the ‘gig economy’ and various other
factors eroding revenues, ranging from the growth of e-commerce to the increasing popularity of
electric cars, will have to be addressed. And public spending on the NHS and social care face ongoing
and increasing pressures from an ageing population, pressures which have become very apparent in
recent months. As discussed below, the Chancellor will no doubt touch on and perhaps seek to partially
address these challenges in the Budget. And the timing of the political cycle suggests that if radical steps
are needed, it would make political sense to do something soon, given the strength of the Conservatives
in the opinion polls and that the next general election is still some way off. But for the reasons outlined
earlier, we think that any significant action will wait until towards the end of this year.

Further moves towards tax allowance/threshold goals likely...

So what can we expect? Much will depend upon how rigidly the Chancellor sticks to this idea of leaving
the major policy changes to the autumn. If the Chancellor is flexible, then we could see some movement
on the Conservative Party’s 2015 manifesto commitments to raise the tax-free personal allowance to
£12,500 and the threshold for the 40% rate of income tax to £50,000 by the end of the
current parliament. April will see the former increase to £11,500 and the latter to
£45,000, implying still some way to go in the three remaining fiscal years before the next
general election comes due in May 2020. An increase to £11,800 in the personal allowance
and to £46,500 for the 40% threshold to take effect in April 2018 would keep progress on track, as well as offering households some
future compensation against the squeeze to living standards this year from a temporary period of higher inflation.

The default policy for tax allowances and thresholds is for these levels to rise in line
with prices. So the recent and likely forthcoming acceleration in inflation will reduce the scorecard cost
of achieving the Government’s goals, one way in which higher inflation is not an unalloyed curse for the
public finances. Allowing for this, the increases we expect would cost close to £2bn after three years.

...perhaps with other action on tax to head off a ‘cost of living crisis’

Given the squeeze that accelerating price rises is set to exert on household budgets this year, the
Government could seek to use the tax system in other ways to allay some of the pressure, with the
political focus placed on helping those households who are ‘just-about-managing’. With that pressure set
to become more apparent as the year progresses, the Chancellor may choose to park any measures until
the autumn Budget. Alternatively, he might decide to do something now to head off the political
damage. A temporary cut in VAT would be one option, but the sheer cost of even a small cut in the main

\(^7\) Letter from the Institute for Fiscal Studies, the Institute for Government and the Chartered Institute of Taxation to the Chancellor
of the Exchequer, 28 September 2016.
https://www.instituteforgovernment.org.uk/sites/default/files/IFG%20IFS%20CiOT%20open%20letter%20FINAL_1.pdf
rate (close to £6bn per year for a one percentage point reduction) and the fact that the economy is far from falling off a cliff almost certainly rules this out.

Freezing fuel duty would be a much cheaper option and would cover the household spending item most exposed to rising oil prices and the fall in the value of the pound. The Government already announced last November that duty would be frozen in April 2017 (for the seventh successive year). However, it could go further and cut the level of duty. This would not be unprecedented - duty was cut by one penny per litre in the Budget of 2011, another period when households were being hurt by a bout of relatively high inflation. A cut in fuel duties would also be relatively inexpensive, particularly if it were temporary. A penny off the duty on petrol and diesel would cost just over £250m per year.

The Budget of 2011 also responded to what the media at the time were calling 'the cost-of-living crisis' by freezing Air Passenger Duty (APD) in cash terms, with the normal annual increase in line with RPI inflation deferred for a year. The Treasury may choose to replicate this approach in the forthcoming Budget at a cost of close to £200m. As well as a means of supporting travellers' spending power in a world of weak sterling, a freeze in APD could also be presented as an export-friendly measure, particularly in terms of promoting overseas sales in further-flung parts of the world.

Budget may reveal more on Government's view of taxing work

The tax system taxes income quite differently according to whether it is earned by an employee, a self-employed person or a company. This point was highlighted by the Chancellor in his Autumn Statement speech, where he noted in particular “the growing cost to the Exchequer of incorporation” - in other words, people declaring themselves to be companies rather than employees or self-employed in order to reduce tax bills. The Chancellor promised to consider how the taxation of different ways of working could be made fair between different individuals as well as sustaining the tax-base in a world where the economy was undergoing rapid change. A consultation in due course was proffered on any proposed change. The Budget may provide further enlightenment on this.

...but further reductions in corporation tax unlikely for now

Meanwhile, the Government’s implicit threat that a hostile negotiating attitude on the part of the EU could push the UK to seek to turn itself into a low-tax ‘Singapore of the West’ may have aroused some expectations that a further cut in corporation tax (CT) could be on the cards. In the words of Prime Minister Theresa May, in her set piece speech on Brexit in January, if the EU tried to impose “a punitive” arrangement on Britain, the UK could fight back, setting “the competitive tax rates and the policies that would attract the world's best companies and biggest investors”. Moreover, the very public ambitions of the new Trump administration to boost the corporate tax competitiveness of the US may also push the UK to follow suit.

But it is highly unlikely that any steps will be taken in this direction on 8 March. The main CT rate is already set to fall from 20% to 19% this April and then to 17% in April 2020, leaving the UK, on a current international comparison, with the joint lowest corporate tax rate among countries in the G20. As far as reacting to developments in the EU and the US is concerned, it would seem sensible to wait until the Brexit negotiations have actually begun and there is a better idea of what, if anything, the US might propose. And this is before the fiscal cost is considered - HMRC estimate that one percentage point off the CT rate costs the Exchequer almost £2.5bn after three years.

On another business-related theme, April will see the introduction of the apprenticeship levy, at a cost to employers of close to £3bn per year. Given the cost pressures faced by firms from rising commodity prices, the national living wage and expanding pension auto-enrolment, there is perhaps a small chance of the Government watering down this policy, perhaps excluding certain sectors or, more radically, delaying implementation for a year.

9 See footnote 3.
We may also see some business-friendly moves on the thorny issue of business rates. Under current plans, business rates are indexed to increase each year by RPI inflation. A switch to the current official (and generally lower) CPI measure is due to take place in 2020-21. The Treasury could heed the calls of organisations like the CBI and bring forward the switch at a cost of around £350m per year. But more radical calls, such as excluding plant and machinery from property valuations, seem unlikely given the multi-billion-pound cost involved.

**Bad headlines on NHS and social care may bring forth some extra cash**

As far as potential spending measures are concerned, the announcements made in the last Autumn Statement suggest that the Chancellor is keener on finding extra resources to improve the economy's long-run performance rather than to boost peoples' incomes or provide more money for public services now. While new money was provided for extra public sector investment in the latter years of the current Parliament via a new ‘National Productivity Investment Fund’, the Autumn Statement saw little to ameliorate ongoing cuts in day-to-day departmental spending and the welfare budget.

But the Chancellor may have to commit something of a volte-face in the Budget when it comes to spending on public services. The headlines in recent months have not been short of stories about pressures on the NHS budget and growing waiting times for operations. The number of patients waiting for operations in England may soon exceed four million for the first time in nearly a decade. And it was recently reported that the number of patients on hospital wards in England has been at unsafe levels at nine out of 10 NHS trusts over the current winter. Increasing pressure on social care spending has also been very public. January saw Surrey County Council, which encompasses the Chancellor’s own parliamentary constituency, announce plans (albeit subsequently withdrawn) to hold a referendum on increasing council tax by 15% to pay for more social care spending. So the Budget may see some relaxation of the spending constraints set in the November 2015 Spending Review on the health and social care budgets.

However, the sheer scale of spending in these areas means that a significant amount of extra money would be needed to make much difference, at least in proportional terms. For example, the Department for Health’s budget in 2015-16 is estimated to have been £117.2bn while local authority spending on social care amounted to £24.4bn. And while health spending has consistently risen in recent years and is forecast to do so over the remainder of the decade, the Institute for Fiscal Studies recently calculated that under current plans, after adjusting for the ageing of the population, per capita real spending on the NHS will still be lower in 2019-20 than in 2009-10. An additional £1.3bn would need to be allocated to the Department of Health in 2019-20 just to maintain per-person health spending at the level of ten years earlier on an age-adjusted basis.

Given the leeway enjoyed by the Chancellor in meeting his fiscal rules, it is not inconceivable that a rise in borrowing might be tolerated to boost health and social care beyond the Spending Review allocations. Or he could seek to raise additional cash via some radical steps, of which the abolition of the (very expensive) pensions ‘triple-lock’ (the policy of raising the state pension by the higher of growth in average earnings, consumer prices or 2.5% would be one). Timing-wise it would make sense to take any bold steps soon, while the polls for the Government are healthy and the next general election is some

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13 ‘Surrey to hold referendum on 15% council tax rise’, Financial Times, 19 January 2017. [https://www.ft.com/content/6dd2359c-de45-11e6-86ac-f253db7791c6](https://www.ft.com/content/6dd2359c-de45-11e6-86ac-f253db7791c6)
15 Ibid.
way off. But action on the triple-lock would involve breaking a manifesto commitment. And a desire to hold back any fireworks for the forthcoming autumn Budget will encourage the Chancellor to adopt a low-key approach for now.
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