CFG INSPIRING FINANCIAL LEADERSHIP

# Autumn Statement Briefing

**December 2012**

## Overview

This year the Chancellor announced a fairly dismal mix of a poorer than expected economic outlook, and welfare and departmental cuts. However, he was keen to drive home the message that the UK was making economic progress, opening his speech saying 'it's taking time but the British economy is healing.' The Chancellor also reaffirmed the Government's commitment to cut the deficit, with savings coming from 'bureaucracy', 'benefit bills' and the 'better off'.

Charities were not directly referred to by the Chancellor. However, there were a number of measures particularly pertinent to the sector, including:

- **Cuts to welfare –** expected to amount to £3.7bn by 2015-16
- The **cancellation of the planned 3p per litre rise in fuel duty**
- A new **spending review will be announced in 2013 –** to be held before the next election

The supporting documents did, however, contain announcements specific to charities:

- The Government will examine how Gift Aid administration can be improved to allow for **newly emerging forms of giving in a digital age**. i.e. mobile giving
- **Changes to the 'Gift Aid Small Donations Scheme'** to expand eligibility – following campaign work by CFG and other sector bodies – are expected to bring in an additional £85m to charities by 2017-18

CFG will continue to represent members' views to Government. If you would like to discuss the points made here, or any other issue arising from the Autumn Statement, please contact the CFG policy team at policy@cfg.org.uk or on 0207 250 8348.

## Charity-specific provisions

- While there was no reference in the Chancellor's speech, the Autumn Statement document announces that the Government will examine whether **Gift Aid administration can be improved to allow for newly emerging forms of giving in a digital age**.

  *CFG welcome this review and will be working closely with HM Treasury, charity members and other stakeholders to ensure that the right recommendations are made before Budget 2013. CFG has previously asked for Government to consider how Gift Aid can be modernised to allow for new forms of giving and we believe that this is essential in order to maximise the potential of Gift Aid.*

- There is also reference to the **Gift Aid Small Donations Scheme** which will be implemented in April 2013. The document includes details of the expected additional costs of the scheme as a result of changes to the provisions around eligibility.

  *This year CFG and other sector bodies have campaigned for improvements to be made to the eligibility criteria for charities to access the Gift Aid Small Donations Scheme.*

  *While we still have some concerns about specific elements of the legislation, overall we are pleased that the Government has made significant changes to improve the proposals, and that these changes could be worth an additional £85m over the next 5 years, culminating in an additional £30m per year to charities by 2017-18.*

- The document reiterated that **charitable giving would be exempt from the tax relief cap** which was announced in Budget 2012. This was the result of a successful period of campaigning by the sector.

## The economy

- **Growth:** Economy performed less strongly than the Office for Budget Responsibility (OBR) expected – the growth estimate for 2012 was revised down to -0.1% from 0.8%. The OBR is forecasting 1.2% growth in 2013-14, 2% in 2014-15, 2.3% in 2015-16, 2.7% in 2016-17 and 2.8% in 2017-18.

- **Borrowing** is forecast as £108bn in 2012-13, and expected to fall to £99 in 2013-14, £88bn in 2014-15, then £73bn in 2015-16 and £49bn and £31bn in the two years after that.

- The **deficit** is forecast to be 6.9% of GDP in 2012-13 (excluding the transfer of Royal Mail pension assets to the public sector), 6.1% in 2013-14, 5.2% in 2014-15, 4.2% in 2015-16, and then 2.6% before reaching 1.6% in 2017-18.

- The OBR thinks that Government is **'on course' to meet its target of cutting the structural deficit** within 5 years, but will miss the target of getting debt to fall by 2015-16 – it is instead likely to start falling a year later.

- **Unemployment** is expected to peak at 8.3% (currently at 7.8%), according to the OBR.

  *Look out for our new quarterly Economic Outlook Briefing that will be landing with you with the next edition of Finance Focus.*

## Departmental budgets

- **Departmental administration budgets will be cut** by 1% this year and 2% next year. If all departments made savings in line with the best performing departments, it could save £1bn. However:

- **Health and school budgets will continue to be protected**, in line with the 2010 Spending Review policy.
- **Local government will be exempt from the reduction in 2013-14** as local authority budgets will already have to deliver the council tax freeze.
- **HMRC will also be exempt–** to allow them to continue to focus on tax avoidance and evasion.

- **Overseas aid will remain at 0.7% of GDP next year;** however DfID's budget will be adjusted to reflect the lower than expected GDP.

- A **spending review to set out departmental spending plans for 2015-16** will be announced in the first half of 2013.

## Tax

- Autumn Statement measures are **fiscally neutral** – meaning any tax rises are offset with tax cuts.

- In 2013 a **General Anti-Abuse Rule (GAAR) will be introduced**. Guidance and legislation will be released later this month.

  *We will monitor work on this to ensure that it does not impact negatively on charities.*

- The Chancellor outlined a **number of measures to prevent tax avoidance and abuse**, including:

  - A tax settlement treaty with Switzerland which will bring in an expected £5bn from UK citizens' Swiss bank accounts over 6 years, and
  - £77m for HMRC to introduce measures to increase compliance.

- The **personal tax allowance** will rise by £235 more than planned in April next year (worth an extra £47), meaning it will go up by £1,335 in total to £9,440.

- **The higher rate threshold** will go up by 1% in 2014-15 and 2015-16.

- From 2014-15 the **lifetime pension relief allowance will go down** from £1.5m to £1.25m. And, as widely expected by commentators, the annual tax free limit will go from £50,000 to £40,000. Government expect to raise £1bn by cutting tax relief on pensions.

- The Government will **increase the capped drawdown limit** for pensioners of all ages with these arrangements from 100% to 120% of the value of an equivalent annuity.

- The overall **ISA limit will be increased** to £11,520.

- The **inheritance tax threshold** will increase by 1% next year.

- There will be **no new property or 'mansion' tax**.

- The Autumn Statement document reiterated the more favourable transitional arrangements on **VAT on approved alterations to listed buildings.**

  *CFG strongly opposed the removal of the zero rate for approved alterations to listed buildings, which we anticipate will bring significant costs to charities with heritage assets. Following lobbying by a number of organisations, including CFG, the Government did, however, commit to a number of significant concessions, including the more favourable transitional arrangements.*

## Welfare and housing

*Announcements here amount to real terms cut in benefits. This will have a huge impact on lower income individuals and families that are also dealing with increasing cost of living. Although some disability benefits are to remain linked with inflation, it is likely that these cuts will have a significant impact on some of the most vulnerable, therefore increasing demand for services.*

- The Government has announced **real terms benefit cuts**, disassociating most benefits from inflation.

- **Most working age benefits will increase by 1% for 3 years from April 2013**, apart from child benefit which will be frozen from 2013 (some disability benefits will remain linked to inflation). The 1% is in line with public sector pay.

- **1% uprating will also apply to Child Tax Credit and Working Tax Credit** (excluding disability elements). The basic elements will not be uprated in 2013-14 as set out in the 2010 Spending Review but will be in the following two years.

- The **basic state pension will be increased** in line with the triple guarantee in April 2012, meaning a cash increase of £2.70 a week to £110.15.

- **Universal credit** will be introduced and the parameters will be confirmed in regulations on 10 December 2012.

- In April 2012 **Local Housing Allowance rates will be uprated as previously announced**. However, for the following two years this will be subject to a 1% cap. 30% of the savings from the measure will be used to fund exemptions in areas where rent increases are highest.

- There will be **further measures to reduce welfare fraud,** including new requirements to provide evidence of eligibility for child tax credits to HMRC and new debt collection arrangements.

## Business and regulation

- The Government set out a number of measures in response to Lord Heseltine's review into UK economic growth, *No Stone Unturned*, ahead of a formal response next year. This includes:

- **Some regional spending will be pooled into a single pot** that Local Enterprise Partnerships can bid for, and more money will go into the **Regional Growth Fund**, in line with the view that Government spending should be better aligned with local business needs, and
- Additional support to industries and technologies where Britain has a clear advantage, in the form of an **increase to the annual budget of UKTI by £70 million** and **new £1.5 bn export finance facility** to support the purchase of British exports.

- £1bn of extra capital for the **Business Bank** was announced, which will lever in private lending to help small and medium sized firms and bring together existing schemes.

  *It will be interesting to see whether charities are able to benefit from the new Business Bank; hopefully opportunities to work with the voluntary sector as well as small business will be explored again, increasing the range of financing options available in the UK.*

- Increase in the **bank levy** to 0.130% next year.

- **Corporation tax** will be cut by a further 1% so that it will stand at 21% from April 2014, the 'lowest rate of any major western economy'.

- **Business rates will be cut.** The temporary doubling of the Small Business Rate Relief scheme will be extended for another year, until April 2014.

- The Government is legislating to introduce a new **employee shareholder status,** and confirmed the availability of tax relief on the scheme.

- From 1 January 2013 and for the next 2 years, **the Annual Investment Allowance in plant and machinery will increase**, going up from £25,000 to £250,000, covering the total annual investment undertaken by 99% of all businesses in Britain.

- A long grace period will be introduced before newly completed buildings have to **pay empty property rates.**

## Employment and education

- **£600m more for the UK's scientific research infrastructure** was announced, along with £270m to fund improvements in further education colleges and £1bn to expand good schools and build 100 new free schools and academies.

## Energy and infrastructure

- The **3p per litre rise in fuel duty, due in January, is cancelled,** and the planned increase due in April 2013 will be delayed until September 2013.

*A delay in the fuel duty rise was widely expected by commentators; however the cancellation is welcome surprise which will benefit charities, as well as businesses and households already struggling to keep up with rising living costs.*

- The Government's **Gas Strategy has been published**, and there will be a consultation on a **new regime for shale gas**. The Chancellor also announced the creation of an Office for Unconventional Gas.

- Funding will be made available for the introduction of **ultrafast broadband** in 12 cities.

- **Additional finance and investment in rail and for roads** was announced.

- The Chancellor announced the **delivery of flood defence systems** in more cities.