

Summary from Spring Statement 2017

Overview

The economic and fiscal outlook

- The Office for Budget Responsibility (OBR) reports that real GDP grew by 1.8% over the year and by 0.7% in the final quarter of 2016, with employment rates at a new record high.
- The OBR now forecasts GDP growth at 2.0% in 2017, down to 1.6% in 2018 and then to gradually recover to 1.7% in 2019, 1.9% in 2020 and 2.0% in 2021.
- Household and business spending have been stronger to date than expected.
- Inflation is forecasted to hit 2.4% in 2017 as a result of the fall in sterling in 2016, reducing to 2.3% in 2018 and back to 2.0% by 2019. This will negatively impact consumer spending.
- The deficit is forecast to fall this year due to a number of one-off factors to £58.3bn in 2017/2018.
- UK debt will peak at 88.8% GDP in 2018 with Britain's total public debt reported at nearly £1.7 trillion.
- The Chancellor reiterated plans to return the public finances to balance as soon as possible in the next Parliament, with an interim objective of reducing the structural deficit to less than 2% of GDP, and for debt as a percentage of GDP to be falling by 2020-21.
- The Chancellor forecasts "private investment to remain subdued"

Detailed extract from the Spring Statement 2017 relevant to Scaleups

The recently published Industrial Strategy green paper set out how the government will create the conditions for firms to invest and grow across the country. It outlined an holistic approach to raising productivity, including through investment in research and innovation, developing the UK's skills base, upgrading infrastructure, and encouraging investment. This chapter sets out further actions the government is taking in these areas.

Business tax

3.11 The UK is one of the most open economies in the world, and a highly competitive business tax regime remains a key factor in retaining that position. The UK's corporate tax rate is the lowest in the G20. As set out at Autumn Statement **2016**, the government will cut the rate of corporation tax to 19% from April this year and then again to 17% in 2020. Reflecting the move to a single major fiscal event in the autumn, the Budget does not make major changes to the business tax regime, but continues to provide a stable and certain environment to support business investment, consistent with the [business tax road map](#).

Corporate tax

3.12 Research and development (R&D) tax review – The Industrial Strategy green paper sets out the government's ambition to drive up the level of private investment in science, research and innovation across the economy. The review of the R&D tax regime has found that the UK's R&D tax credits regime is an effective and internationally competitive element of the government's support for innovation. To further support investment, the government will make administrative changes to the Research and Development Expenditure Credit to increase the certainty and simplicity around claims and will take action to improve awareness of R&D tax credits among SMEs. The government will continue to keep the competitiveness of the UK environment for R&D under review to ensure that the UK is profoundly pro-innovation.

3.13 Patient capital review – The review aims to ensure that high growth businesses can access the long-term capital that they need to fund productivity enhancing investment. Alongside identifying barriers to institutional investment in long-term finance, the review will also consider existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective, well targeted, and provide value for money.

3.14 Withholding tax on interest – In order to encourage investment in the UK and make it easier for businesses to raise finance, the government will:

- renew and extend the administrative simplifications of the Double Taxation Treaty Passport scheme to assist foreign lenders and UK borrowers. This scheme simplifies access to reduced withholding tax rates on interest that are available within the UK's tax treaties with other countries
- introduce an exemption from withholding tax for interest on debt traded on a Multilateral Trading Facility, removing a barrier to the development of UK debt markets. The government will consult in spring 2017 on implementation of the exemption

Property tax

3.15 Business rates – At Budget 2016 the government announced reductions in business rates worth almost £9 billion over the next 5 years. This included permanently doubling Small Business Rate Relief and extending the thresholds of the relief to ensure that 600,000 businesses will not pay business rates again.

3.16 The business rates revaluation takes effect in England from April 2017. In addition to the £3.6 billion transitional relief which was announced in November 2016, the government will provide £435 million of further support for businesses facing significant increases in bills from the English business rates system. This includes:

- support for small businesses losing Small Business Rate Relief to limit increases in their bills to the greater of £600 or the real terms transitional relief cap for small businesses each year
- providing English local authorities with funding to support £300 million of discretionary relief, to allow them to provide support to individual hard cases in their local area
-

Tax administration

3.39 Digital administration – The government will provide an extra year, until April 2019, before Making Tax Digital is mandated for unincorporated businesses and landlords with turnover below the VAT threshold. This will provide them with more time to prepare for digital record keeping and quarterly updates. The government will also consult on the design aspects of the tax administration system, including interest and penalties, with the aim of adopting a consistent approach across taxes. This will simplify the system for taxpayers.

3.40 Tax simplification – Following consultation, the government will increase the cash basis entry threshold to £150,000, and exit threshold to £300,000, and will extend the use of the cash basis to unincorporated landlords. The government will also simplify the rules on capital and revenue expenditure within the cash basis, to make it easier for businesses to work out whether their expenditure is deductible for tax.

Skills

4.4 Education and skills are drivers of productivity and growth in the UK economy, and important factors for regional variations in productivity. Weaknesses in the UK's skills base have contributed to its longstanding productivity gap with France and Germany.

4.5 As the UK begins the formal process of exiting the EU, creating a highly-skilled workforce will ensure businesses across the country have the talent and skills needed to succeed in global markets. Employer demand for skills is increasing; over the coming years, 42% of businesses expect to have more jobs requiring intermediate-level skills, and 74% expect to demand more higher-level skills.

4.6 Evidence shows that skills qualifications are also clearly linked to higher wage returns. An individual with a level 3 apprenticeship (broadly equivalent to A-levels) as their highest qualification can expect to earn between £77,000 and £117,000 more on average over their lifetime, compared to individuals with a lower-level qualification.

4.7 Investing in education and skills will help young people succeed in the workplace and increase their earnings, and support businesses of all sizes to thrive.

Further and Higher Education

4.8 The government's ambition, funded in the Budget, is for England's technical education system to match the excellence of its world-leading higher education system. The academic route from GCSEs, to A-levels, to higher education is well regarded and high quality. The UK is home to 12

of the top 100 universities in the world, and there are now more young people from England entering full-time undergraduate study at university than ever before, including record numbers of 18 year olds from disadvantaged backgrounds.

- 4.9 The government has already strengthened employment-based technical education; the introduction of the apprenticeship levy in April 2017 will support the delivery of 3 million apprenticeship starts by 2020.
- 4.10 But as the Industrial Strategy green paper outlined, more needs to be done. England's technical education system is confusing for students, with around 13,000 qualifications available – many of them of little value. Employers consistently cite a lack of skills as a major concern.

Box 4.A: Lord Sainsbury's Independent Review on Technical Education

The government commissioned an independent panel, led by Lord Sainsbury, to recommend options for a technical education system to rival our world-leading academic system. The panel's report was published in July 2016, alongside the government's Skills Plan that accepted all of the panel's recommendations. The recommendations included replacing the current system, comprised of thousands of qualifications, with a framework of 15 routes to skilled employment extending from level 2 and level 3 up to higher skill levels, with a streamlined set of valuable qualifications.

Central to the panel's recommendations was that the routes should focus on stretching technical content, shaped by industry professionals who are best placed to advise on the knowledge, skills and behaviours required to succeed.

For 16-19 year olds on college-based technical routes, the panel recommended that programmes last for 2 years. This would start with a core curriculum for the route that all pupils would study, followed by specialisation. Students would also complete a high-quality industry work placement, and be expected to reach a minimum standard of English and maths. Young people would therefore leave college with a quality qualification focused on a specific occupation or set of occupations; experience in their chosen field; and wider employability skills.

- 4.11 The Budget announces:
- **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.
- 4.12 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.
 - **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.

- **Doctoral loans** – The government confirms the terms of doctoral loans for 2018-19, previously announced at Budget 2016. These new loans will provide up to £25,000 for doctoral study and have the potential to reach a wider range of students and research than before.

Schools

4.13 The government's aim is for a good school place for every child, whatever their background. Almost 1.8 million more pupils are now taught in good or outstanding schools than in 2010. Free schools and academies programmes have ensured that the best schools and head teachers can extend their success and the new curriculum and qualifications are restoring rigour. The Pupil Premium, introduced for publicly funded schools in England, focuses on the most disadvantaged children; the attainment gap between disadvantaged and other pupils is now narrowing year on year. As a result of these reforms, 89% of schools in England are now rated as good or outstanding – the highest proportion ever recorded.

4.14 However, there are still 1 million children in underperforming schools. At Autumn Statement 2016, the government confirmed £50 million per year of new funding to expand existing grammar schools. The Budget sets out further steps the government is taking to ensure every child has the opportunity of a place at a good school:

- **Schools investment** – The government is committed to giving parents greater choice in finding a good school for their child, and will deliver the manifesto commitment to open 500 new free schools by 2020. The government will extend the free schools programme with investment of £320 million in this Parliament to help fund up to 140 schools, including independent-led, faith, selective, university-led and specialist maths schools. Of these 140 schools, 30 will open by September 2020 and count towards the government's existing commitment. The new free schools will be located where they are most needed to improve the choice of schools available to parents, following a rigorous assessment of local factors.

National Productivity Investment Fund

4.15 At Autumn Statement 2016, the government established the NPIF to provide over £23 billion of high-value investment between 2017-18 and 2021-22, with a focus on priority areas that are critical for improving productivity: economic infrastructure, housing and R&D. This built on existing plans for major investment over this Parliament, including resurfacing 80% of the strategic road network and the largest investment in the railways since Victorian times.

4.16 The NPIF provides the financial backbone to the government's Industrial Strategy, and will:

- support market roll-out of the fast and reliable full-fibre connections that will help businesses to grow
- tackle congestion and ensure the UK's transport networks are fit for the future
- enhance the UK's position at the forefront of technological progress globally
- accelerate new housing supply

4.17 This will provide a significant boost to the UK's productivity in the long term. The Budget sets out further detail of how NPIF funds will be invested in priority transport, digital communications and R&D programmes.

4.18 **Digital infrastructure** – The NPIF will invest £740 million in digital infrastructure by 2020-21, to support the next generation of fast and reliable mobile and broadband communications for consumers and businesses. The Budget announces the first steps towards this ambition.

4.19 **5G** – The government's [5G Strategy](#), published today, sets out steps for the UK to become a world leader in the next wave of mobile technology and services. This includes:

- a new National 5G Innovation Network to trial and demonstrate 5G applications. The first phase will invest up to £16 million in a cutting edge 5G facility with the technology to run the trials, delivered through cooperation between leading 5G research institutions. A new centre of 5G expertise within government will oversee this programme, working with public and private sector partners. Funding for future trials will be awarded on a competitive basis
- the government's response to the National Infrastructure Commission's [Connected Future](#) report and recommendations on 5G. This will include developing commercial options for improving coverage on roads and rail, and working with Ofcom to ensure the UK has a regulatory environment fit for 5G

4.20 Full-fibre broadband – Starting in 2017, the government will invest £200 million to fund a programme of local projects to test ways to accelerate market delivery of new full-fibre broadband networks. These will combine the following approaches:

- bringing together local public sector customers, to create enough broadband demand to reduce the financial risk of building new full-fibre networks
- offering full-fibre broadband connection vouchers for businesses, to increase take-up of services where new networks are built through the programme
- directly connecting public sector buildings, such as schools and hospitals. This will bring fibre closer to more homes and businesses, allowing them to be connected
- opening up public sector assets, such as existing ducts, to allow fibre to be laid more cheaply

4.21 Complementing the NPIF programmes, the **new Digital Infrastructure Investment Fund will be launched in spring 2017**. Government investment of £400 million will be at least matched by private sector investors, and will accelerate the deployment of full-fibre networks by providing developers with greater access to commercial finance.

4.22 Transport – Autumn Statement 2016 announced £1.1 billion from the NPIF to support local transport and £220 million to address pinch points on the national road network, improving productivity by making it easier for people and goods to move within and between towns and cities. The government has already made progress on allocating NPIF funding, and the Budget announces further details of support for transport:

4.23 R&D – Autumn Statement 2016 announced £4.7 billion from the NPIF for R&D, to support the UK's world-leading research and ensure that the next generation of discoveries are made, developed and commercialised in Britain. The Budget announces the first investments.

4.24 Industrial Strategy Challenge Fund (ISCF) – The new ISCF will support collaborations between business and the UK's science base. An initial investment of £270 million in 2017-18 will kick-start the development of **disruptive technologies** that have the potential to transform the UK economy. Following engagement with experts in academia and industry, the Budget announces that the first wave of challenges funded from the ISCF will include the following:

- leading the world in the development, design and manufacture of batteries that will power the next generation of electric vehicles, helping to tackle air pollution
- developing cutting-edge artificial intelligence and robotics systems that will operate in extreme and hazardous environments, including off-shore energy, nuclear energy, space and deep mining
- accelerating patient access to new drugs and treatments through developing brand new medicine manufacturing technologies, helping to improve public health

4.25 Talent funding – The NPIF will invest £250 million over the next four years to continue to build the pipeline of high-skilled research talent necessary for a growing and innovative economy:

- £90 million will provide an additional 1,000 PhD places in areas aligned with the Industrial Strategy. Around 85% will be in STEM disciplines, and 40% will directly help strengthen collaboration between business and academia through industrial partnerships
- a further £160 million will support new fellowships for early and mid-career researchers in areas aligned to the Industrial Strategy

4.26 Global research talent – The government will invest over £100 million over the next 4 years to attract the brightest minds to the UK, to help maintain the UK’s position as a world-leader in science and research. This includes:

- £50 million of NPIF funding specifically ring-fenced for fellowship programmes to attract global talent
- over £50 million from existing international funds will support fellowships that attract researchers to the UK from emerging research powerhouses like India, China, Brazil and Mexico

Cities and regions

4.27 As set out in the Industrial Strategy green paper, the government’s ambition is to support growth in all areas of the UK. The government will shortly be announcing the Midlands Engine Strategy, and is continuing to build the Northern Powerhouse.

4.28 Devolution – The government has agreed a [Memorandum of Understanding on further devolution](#) to London. The agreement with the Greater London Authority (GLA) and London Councils includes joint working to explore the benefits of, and scope for, locally-delivered criminal justice services; action to tackle congestion; and a taskforce to explore piloting a new approach to funding infrastructure.

4.29 City deals in Scotland and Wales – The government continues to make good progress towards city deals for Edinburgh and Swansea and is working constructively with local partners and the Scottish and Welsh Governments respectively to achieve this. The government has also opened negotiations for a city deal for Stirling and looks forward to considering proposals as they are brought forward for a Tay Cities Deal and a North Wales Growth Deal.