



Welcome to Bulletin 49 | December 2014

In this issue we focus on:

- The Autumn Statement Candy Store
- The Reality behind the latest OBR Report
- Merry Christmas and Happy New Year

The Autumn Statement Candy Store

There were a few sweeties after all in the Autumn Statement: the tiering of Stamp Duty and the immediate zeroing of the first £125k of property purchase price, Personal Allowance increases for all, the absence of NICs on young apprentices, inter-spouse ISA inheritance and to add to the previously announced inheritable untaxed unspent pension funds there will also be the ability for beneficiaries of annuitants (who die under the age of 75 with a guaranteed or joint life annuity in payment) to receive any future remaining annuity payments, tax free.

Everything else announced by the Chancellor might safely be labelled 'hubris'... or 'electioneering'. Nevertheless we're grateful for the news we've had and remain cheered over the comprehensive pension freedoms that are now only three months away.

The Reality behind the latest OBR Report

Alerted by the amount of spin that accompanied the Autumn Statement, I thought it would be sensible to have a look at the Report, now published by the Office of Budget Responsibility (OBR), which the Chancellor drew heavily upon, in his claims for success. The Report is very readable and although it runs to 228 pages, the meat of it will be found between Pages 80 and 140. Find it here:

http://cdn.budgetresponsibility.independent.gov.uk/December_2014_EFO-web513.pdf

Although we hear much of the OBR's independence, there is little doubt that their brief is to support Government policy. The Chancellor dwelt heavily on the upside of the OBR's Report – so what does the downside say? Well it makes interesting reading and could quite easily lead you to entirely different conclusions! Here are a few snippets to mull over – perhaps with a seasonal glass of something soothing in your hand:

- Inflation is expected to remain below 2% until at least 2017.
- Interest rates are expected to remain unchanged until Q4 2015 – thereafter to creep slowly up to 2% by Q1 2019.
- Inflation adjusted earnings are not expected to rise to pre-crisis levels "within the next 5 years".
- We are apparently now "in the 5th year of a projected 10 year fiscal consolidation". This year the Government's net borrowing requirement (the 'Deficit') will reach £98 bn – but is (still) expected to fall each year until it reaches a very small surplus by 2019.
- The Government's policy assumptions for total spending imply that the burden of 'fiscal consolidation' yet to come will fall overwhelmingly on the running cost of public services.
- The extent of the planned spending contraction on public services is dramatic. Central Government costs in this sector are projected to fall from 21.2% of GDP to 12.6% of GDP, i.e. from £5,650 to £3,880 per head (at 2014/15 prices) by 2019/20.



- A million public sector jobs are to go – all to be absorbed within the private sector, with those opportunities resulting from economic growth.
- Public Sector Net Debt (PSND) will continue to rise, peaking at 81.8% of GDP in 2015/16. Thereafter it is projected to fall steadily to 72.8% of GDP in 2019/20.
- Gross household debt to income ratio is rising and is expected to continue to rise from its current 140% of income to 185% of income by 2019/20.
- Central Government gross debt interest payments (£48.1bn in 2014/15) are projected to rise to £64.8 bn in 2019/20.

To a casual observer (holding a glass of Christmas cheer) these figures might look... well, fanciful. They certainly wouldn't gain the approval of your bank manager if you were seeking further support. Neither would they make happy reading in an End of Term Report!

Perhaps the most telling aspect of all of the Chancellor's imaginative claims is to be found in the OBR's own assessment of the Government's ability to deliver; their conclusion is... 'We judge that the Government has a greater than 50% chance of meeting the fiscal mandate'. Well thank goodness for that. We struggle to agree with this assessment but we live in hope ... and after all, 'tis the season of goodwill!

Merry Christmas and a Happy New Year

Our Christmas message to the Chancellor would be Merry Christmas and... 'must try harder'!

To all of the readers of our bulletins, thank you for reading them. We hope you will continue to read them in 2015, and wish you a merry Christmas and a happy new year.

This year, our Christmas card is a charity e-card from the University of Birmingham and Cure Leukaemia, which raises funds to help people with Leukaemia beat it and spend Christmas with their families.

Simply click on this link to view it: <http://charityecards.net/cards/mycard.asp?%=1417799902>

Geoffrey Stait
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