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knowledge

## 2015 Summer Budget Review



## Summary

**“This is a Budget that will put our country firmly on the path from a high tax, high welfare society to a lower tax, lower welfare society. It will provide a strong and solid foundation to secure a better future for people across the UK in the years ahead”**

David Cameron’s spokeswoman



**Devolution** was a key point of the Chancellor’s speech, with a commitment to be “bold in building the Northern Powerhouse” and news that the Chancellor has reached an agreement with 10 councils of Greater Manchester to devolve powers to the city. An invitation was extended to other cities for devolution in exchange for a directly elected Mayor.

A shake-up to road tax was announced to provide much needed funding for **road repairs**. Currently, the UK ranks alongside Puerto Rico and Namibia for the quality of our road network.



**Infrastructure** announcements were largely linked to devolution with the establishment of “Transport for the North” to connect northern areas together. Budgets for investment in transport for the regions were announced but there was no commitment to HS2 or renewed support for the electrification on TransPennine services.

3 million new apprenticeships are to be created by 2020. We hope that these will filter through into construction to relieve the chronic **skills** crisis. This should be welcomed, in the light of the changes to tuition fees and the removal of Maintenance Grants for university students from low-income families. The introduction of a new Living Wage will also be particularly welcome.



There was nothing in the Chancellor’s statement to encourage the building of new **homes**. We heard the re-announcement of the Help-to-Buy ISA which will boost demand. We also saw a reduction of social rents for the next 4 years and an extension of Right-to-Buy which are expected to impact upon the number of Housing Association homes. What the country needs is a greater supply of well designed, efficient and cost-effective homes. Planning reforms are due to be announced at the end of the week.

# Emergency Budget 2015

In the first all-Conservative Budget for almost 20 years, George Osborne set to readjust the relationship between the State, the employer and the individual. In 2010 Osborne, in a Budget drawn up in coalition with the Liberal Democrats, pledged to eliminate the deficit in 2014-2015, leading to a surplus of 0.8% this financial year. However, the deficit still stands at 4.9% of the annual budget, and to address this, George Osborne has commitment to £12bn in savings from the annual welfare bill in order to balance the books.

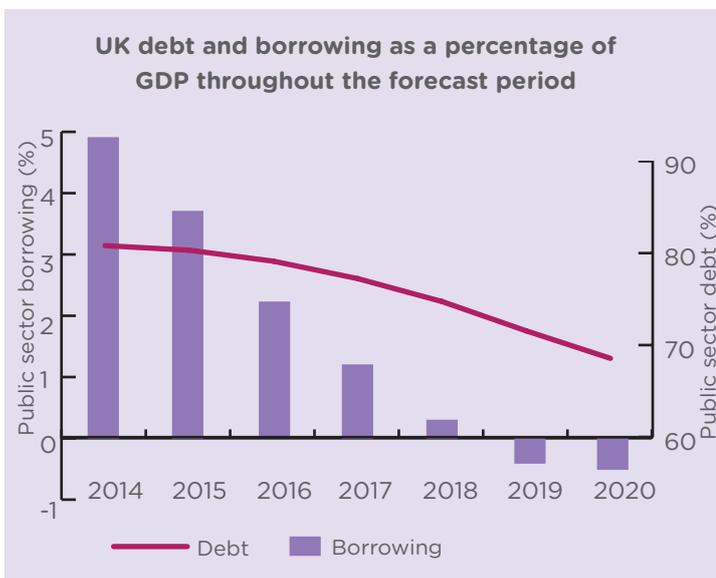
## The Economy

GDP has grown for the last nine consecutive quarters and last year, the **UK economy grew by 3%** against a backdrop of slowing global growth and creeping uncertainty. The UK was the fastest growing economy of the G7 in 2014, with two million extra jobs created since 2010. The Office for Budget Responsibility has slightly readjusted the coming years' growth expectations but the Chancellor reinforced that the economy as a whole is stronger now, with more people in work and with falling numbers of people in poverty. Based on the latest forecasts, we are set to see prolonged levels of low Consumer Price Inflation until 2020, when it finally reaches the 2% Bank of England target.

	GDP Growth	CPI
2014	3.0%	1.5%
2015	2.4%	0.1%
2016	2.3%	1.1%
2017	2.4%	1.6%
2018	2.4%	1.8%
2019	2.4%	1.9%
2020	2.4%	2.0%

Source: Office for Budget Responsibility

George Osborne stated that he aims to cut the deficit at the same pace seen over the last parliament saying **“we shouldn't go faster, we shouldn't go slower”**. The UK Budget will be slashed by £17bn this year, £12bn in welfare savings and £5bn from combating tax evasion, avoidance and aggressive tax planning.



Source: Office for Budget Responsibility

## The Welfare Budget

In the run up to the Budget, George Osborne had told MPs to expect a tough budget however, **better than expected tax revenues allowed the Budget to be eased slightly** and the cuts to be spread over several years. Whilst the welfare budget has no immediate impact on construction, the Emergency Summer Budget was focussed on the cuts to the welfare state and so they are too important to ignore.

The Chancellor announced that taxes would be cut for millions of middle class families by raising the threshold for the 40% tax rate from £42,385 to £43,000 as well as moving the **personal allowance** from £10,600 to £11,000. Despite calls from 160 Tory MPs, the Chancellor did not reduce the top rate of tax, explaining that his priority was to deliver on “the promises upon which we were elected” and possibly seeing the dangers of reducing taxes for the top 1.5% of earners whilst austerity rumbles on.

In increasing the personal allowance, Osborne removed all minimum wage workers from paying income tax and committed to making sure that this is always the way. The minimum wage was also increased to £7.20 for people over 25, which will raise to £9.00 in 2020 this will give £2.5 million people a much needed pay rise. In a move that has been debated by the Living Wage Foundation who support different Living Wages for London and the rest of the UK (currently £9.15 and £7.85 respectively), this new minimum wage has been renamed the “**Living Wage**” and aims to.

Whilst wages have increased above the rate of inflation (largely thanks to historically low rates of consumer price inflation), around 4.5 million people claim **tax credits** – a benefit introduced to help working people in low-paid jobs make ends meet. This system will be completely changed and will exclude non-disabled claimants without children and from 2017 will only apply to the first two children in a family.

## Housing

There were **no measures announced to boost the supply** of housing. The Help-to-Buy ISA was repeated as it comes into effect later this year. The much debated **Right-to-Buy** was also reaffirmed. The scheme would offer discounts from 35% on houses and 50% on flats (capped at 70%) and will require Local Authorities to

**“ The...principle we will apply to our welfare reform is this: the benefits system should not support lifestyles and rents that are not available to the taxpayers who pay for that system ”**

George Osborne

sell their most valuable council houses whenever they become vacant and the proceeds would be used to build new homes and fund Help-to-Buy. However opponents state that the money raised wouldn't be enough to buy new land and build in expensive areas such as London. **The National Housing Federation argues that since 2012, only 46% of homes sold-off have been replaced** with a new one, despite legislation requiring it. The Institute for Fiscal Studies have said that it could cost “billions of pounds”.

Whilst overall, **rents in the social housing sector will be reduced by 1% per annum** for the next four years, higher earning council tenants would be charged higher rents. Over 300,000 council tenants will now start paying full market rent if they earn over £40,000 per year in London or over £30,000 in the rest of the country, costing tenants on average up to £280 per month and will affect 9% of council tenants. The aim is to reduce the number of lifetime tenancies (once granted a council home, a resident can stay unless they default on rent or exceptional circumstances) and will unlock council homes for 1.9m people on the waiting list.

In its analysis, the Office for Budget Responsibility say that between 2013-2014, around 37,000 ‘affordable homes’ were built by Housing Associations, and now, with the changes to social landlords’ rental income, the **OBR expect over 14,000 fewer homes to be built over the next 5 years.**

Housing benefits have been removed for 18-21 year olds, to be replaced with a six month time-limited allowance after which young people will have to do training or community work in order to claim any benefits.

Further **planning reforms** will be outlined at the end of the week.

## Devolution - Northern Powerhouse

Amid the pre-budget ramblings earlier in the week, the Minister in charge of the Northern Powerhouse initiative was still trying to grapple with where the “north” was, it was early on the agenda for the Chancellor. Osborne announced that he had **reached agreement with the leaders of 10 councils of Greater Manchester to devolve further powers to the city** including a land commission in the city. In a return for a directly elected mayor, other cities would be offered the same thing. It was revealed that deals are also taking place in Sheffield, Liverpool City Regions and Leeds, and that Cornwall would be given greater say over local decisions.

Despite a catalogue of delays, missed targets and overspending, a funding gap putting the brakes on a five year plan for Network Rail earlier in the month (including the electrification of the Trans-Pennine route linking Leeds and Manchester), the Chancellor boldly announced a £30 million funding scheme for **Transport for the North** to connect northern England together and a £7.2 billion investment in transport for the South West.

## Infrastructure

The UK ranks behind Puerto Rico and Namibia for the quality of our road network and in the last 25 years, France has built over 2,500 miles of motorway but by comparison, the UK has built just 300 miles. To fix this, a **£3bn roads fund** was launched, which will change the way that Vehicle Excise Duty is calculated and will pay for much needed, sustained investment into roads.

Whilst missing from the main Budget speech, **High Speed 2** had a couple of passing mentions in the main Budget document about championing the opportunity to maximise the local benefits of HS2 in the Midlands.

## Apprenticeships

Three million new apprenticeships will be created by 2020, funded by a new levy on large employers. With the removal of maintenance student grants for students from households with low incomes, twinned with the recent (and future) increases in tuition fees, it's likely that increasing numbers of young people will be looking to apprenticeships as a way to forge a career and this

is something that construction could benefit from. In **2009-2010 there were 16,890 construction, planning and built environment apprenticeships but, last year, this was only 8,000**. With an ageing workforce and an ongoing skills crisis, the construction industry needs to ensure that more employers in the industry get involved with apprenticeships, making it easier for people to enter the sector.

## Other initiatives

- Corporation taxes are set to fall to 19% in 2017 and to 18% by 2018 to allow businesses to grow, invest and create jobs.
- The Annual Investment Allowance has been set at £200,000 per year to help SMEs, its highest ever permanent level.
- A mandatory Living wage of £7.20/hour rising to £9.00 in 2020. However, this contradicts studies by the Living Wage Foundation put the Living wage at £7.85 outside of London and £9.15 in London.

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The logo for Alinea, featuring the word "alinea" in a lowercase, white, sans-serif font. A small teal dot is positioned above the letter 'i'.

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