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Budget 2016 Review

Budget 2016 - Summary

With the political highlight being the new tax on sugary drinks, George Osborne delivered a Budget on 16th March that avoided controversy and put any ambitious reforms on hold, at least until the outcome of the EU Referendum is known.

Key points for construction

Devolution

Continued devolution was at the heart of the Budget as George Osborne continued towards 100% of local government resources coming from local government - raised locally, spent locally and invested locally.

- Greater London to have powers to collect business rates from next year
- East Anglia combined into a “single powerful” authority with £1 billion of investment
- A mayoral deal and £1 billion investment into the West of England - the most productive area outside of London.

Skills gap

The Apprenticeship Levy will start in April 2017 and the Office for Budget Responsibility forecast that it will raise £27 billion in its first year. The levy was introduced in 2015 and will only affect employers with annual pay bills in excess of £3 million, so less than 2% of employers will need to pay it.

Housing

The familiar rallying call of “our failure for a generation to build new housing” came late in the Budget speech, but no new plans for housing were announced. There were several attempts to calm the property market through control of second home ownership.

There was also the creation of a Lifetime ISA, which gives the under-40s the chance to invest £4,000 per annum, on top of which the government will add £1,000 per annum (with charges if the savings are not used for housing or a pension).

“This is a pro-enterprise, pro-infrastructure, pro-devolution budget that fully sums up what this government is about - transformation”

David Cameron’s spokeswoman

Infrastructure

Rail was by far the largest winner, receiving almost 76% of the infrastructure announced budget through various schemes such as High Speed 3 and Cross Rail 2. However, a lot of the money committed in the Budget was merely brought forwards rather than new money.

Insurance premium tax was raised by 0.5% to 10%. Money from this increase will raise £700 million for UK regions affected by winter floods. In November’s Autumn Statement, this premium was increased from 6% to 9.5%

Some of the schemes announced were:

- Cross Rail 2.
- High Speed 3.
- Trans-Pennine Tunnel.
- £161 million for improvements to the M62.
- Publication of the National Infrastructure Delivery Plan, setting out £100 billion of public sector investment.
- Highways England Innovation Strategy to carry out trials of driverless cars.

Stamp Duty

A reformed Stamp Duty Land Tax on commercial property was announced, replacing the slab system with a progressive slab system akin to the residential system adopted in 2014. The top rate of tax, payable on values over £500,000 increased by 1% to 5%. Purchasers of property under £1.05m will pay less stamp duty.

Stamp duty on leasehold transactions were also changed with leases with a Net Present Value (NPV) of rent over £5m will be charged an extra 1%, up from 1% for NPV over £150,000.

The extra stamp duty payable on second homes was reinforced with the addition that it will also apply to large investors.

Budget 2016 - Summary

Other key points

Economy

Growth in GDP forecasts for this year were cut from 2.4% to 2.2%. Government debt to GDP was increased from 81.7% to 82.3%. Government spending to 2020 is to be cut by £3.5bn.

Personal Finance

The income-tax free allowance was increased to £11,500 from April 2017 and the 40% tax band was also increased from £42,385 to £45,000.

Capital-gains tax was reduced to 10% for basic tax-payers and 20% for higher rate earners (cut from 28%).

Business Finance

From April 2017, small businesses with a rateable value of £12,000 or less will pay no business rates.

New measures to crack down on tax avoidance big businesses were announced, with hopes to raise £8bn from these measures.

Corporation tax is to be cut to 17% by 2020.

Indulgence

From 2018, a tax on sugary drinks will be in place. The £520m raised will pay for increased sports in schools.

Duties on beer, whiskey and cider will be frozen. Wine will see an increase in duty.

“Our economy is strong, but the storm clouds are gathering again”

George Osborne

Our view

A Budget of “fixes and fiddles” rather than outright reforms was perhaps understandable given the nation’s nervous anticipation of *that* vote on 23rd June (and the implications of this Budget will be overshadowed by the outcome of that momentous decision).

There are some things we liked, such as the principle of the Lifetime ISA and the reinforcement of the “devolution revolution”, but there are four key issues that we would like to see progress on:

1. The decline in the UK’s finances is disappointing, and therefore the robustness of funding for key infrastructure projects is questionable.
2. Whilst tweaks to housing policies were included, the real challenge was not addressed: how do we efficiently supply the cost-effective housing that our growing population desperately needs?
3. The sheer complexity and size of our tax regime is yet again increased, with the UK having one of the most difficult-to-comprehend tax system in the world - it needs to be simplified.
4. The Apprenticeship Levy is a move in the right direction but we need to see solid, longer-term commitment to training our crafts-people of the future.

Some of these represent challenges for our industry as much as they are issues for the government.

Budget 2016 | Economic Context

The Chancellor's speech was more downbeat than the Autumn Statement and Spending Review delivered at the end of 2015. Globally, financial markets were described as "turbulent", productivity growth in the west is low. George Osborne stated that the "outlook for the global economy is weak...it makes for a dangerous cocktail of risks". Yet he remains steadfast that Britain is in a much better place to counter these headwinds than it was eight years ago.

A deterioration in growth forecasts means that public finances are £56bn lower over the next five years, effectively cancelling out the £27bn windfall that was predicted in November, which allowed the turnaround on tax credit changes. Robert Chote of the Office for Budget Responsibility (OBR) stated that "weaker potential output growth in turn means weaker growth in spending and incomes and a significant loss of tax revenue"

	UK GDP Growth (%)	
	November	Now
2015	2.4	2.2
2016	2.4	2.0
2017	2.5	2.2
2018	2.4	2.1
2019	2.3	2.1
2020	2.3	2.1

Source: Office for Budget Responsibility

Despite the downgrading of these forecasts, George Osborne confirmed that this latest forecast expects Britain to grow faster this year than any other major advanced economy in the world. **The significant and topical caveat to this was that these forecasts rely on Britain remaining in the European Union.** The OBR is quoted thus: "a vote to leave in the forthcoming referendum could usher in an extended period of uncertainty regarding the precise terms of the UK's future relationship with the EU" and the awareness that this could impact upon business and consumer confidence resulting in greater volatility in financial and other asset markets.

Good timing for the Chancellor, on the morning of the Budget, employment figures showed a record number of people in employment and the unemployment rate holding at its 10-year low of 5.1%. This means that Britain now has the lowest proportion of people claiming out-of-work benefits since November 1974.

Aiming for a surplus

George Osborne remained certain of achieving a surplus of £10.4bn in 2019/2020, rising to £11bn the following year. However, analysis by the Institute for Fiscal Studies shows that there is only a 50% chance of achieving this and if the OBR downgrades forecasts again, "he will be forced to put some proper tax increases in or possibly find yet further proper spending cuts", according to the director of the Institute for Fiscal Studies, Paul Johnson.

The surplus is further challenged following some major changes to Budget measures in the days following the reading in the House of Commons, such as the cancellation of the significant changes to the welfare bill.

However average weekly earnings rose 2.1% in the first quarter of the year. Whilst this is better than economists expected (and an increase in real terms given low consumer price inflation), the growth is still low and below pre-crisis levels. Several reasons have been suggested by the Bank of England:

- hours worked per week is declining
- growth in employment is focussed on low-paid jobs
- low inflation is leading to low pay rises.

This low growth has impacted income tax receipts.

Other announcements

- Corporation taxes are set to fall to 17% in 2020 to allow businesses to grow, invest and create jobs.
- The tax-free allowance will be increased to £11,500 in April 2017 and to £12,500 by the end of parliament.
- The threshold for the higher rate of income tax is increased from £43,000 to £45,000 in 2017-18.
- The government's intention is for the welfare cap to be met by the end of Parliament. The OBR conducts its next assessment at the end of 2016.

Budget 2016 | Property and Construction

Property and housing

Measures were principally concerned with reforming planning, releasing public land for housing, and a new £115m fund to help tackle homelessness.

The Chancellor confirmed that the 3% stamp duty charge will go ahead from the beginning of April and that large investors will not be exempt. Funds from this will help create local housing schemes - for example, £20 million for family homes in the South West. It remains to be seen what the knock-on effect will be on the UK's growing Build-to-Rent and Private Rented Sector. Buy-to-let and second homeowners were also explicitly excluded from a large capital gains tax cut from 28% to 20%

Changes were made to commercial stamp duty as the slab system was replaced with a system akin to the residential progressive 'slice' system.

Help for those struggling to save to get onto the housing ladder was announced with the Lifetime ISA for the under-40s. Savers will be able to put away up to £4,000 from April each year until they are 50 and for every £4 saved, the government will give £1 extra. This bonus only applies if the account is used for the purchase of a first home or if the balance is withdrawn after your 60th birthday for use as a pension. Withdrawal for any other reason, loses the bonus and will incur a 5% charge.

Infrastructure

The Chancellor pledged money for major infrastructure developments such as High Speed 3, Crossrail 2 and the Trans-Pennine tunnel as well as funding for studies into infrastructure developments. Flood defences also received a £700m boost, which will be paid for via a 0.5% increase in the standard rate of Insurance Premium Tax.

These large schemes do not necessarily mean that we will immediately see work commence, the commitment was merely for funding and large projects such as these will have a considerable lead-in time.

The criticism here, is that this is not new money, funds for infrastructure across the government have been essentially shuffled and brought forwards.

Devolution

George Osborne's aim was to create a "radical devolution of power so more of the responsibility and

“North, south, east and west, the devolution revolution is taking hold”

George Osborne

the rewards of economic growth are in the hands of local communities”.

The Budget 2016 announced new devolution deals with East Anglia, Greater Lincolnshire and the West of England, as well as building on existing deals with Greater Manchester, Liverpool City Region, Sheffield City Region, the North East and Tees Valley. These deals mean that 57% of the population of the North of England will be covered by an elected mayor.

Devolution deals included greater powers to regions, namely control over criminal justice system to Manchester and for East Anglia to be combined into a single authority with an elected mayor, as well as £1bn of investment. This deal will be replicated for the new “western mayoral authority”.

Skills

There were no new commitments to apprenticeships, but the government remains “committed to increasing the quality and quantity of apprenticeships and will deliver 3 million apprenticeship starts by 2020”. Without significant moves to address the construction skills crisis, the government will not be able to achieve targets set in the government's *Construction 2025* of reducing costs by a third and halving delivery times.

The Apprenticeship Levy (announced in the Autumn Statement 2015, to pay for additional apprenticeships) comes into effect from April 2017 and the OBR shows that it will cost businesses £27bn in its first year.

Other announcements

- The standard and lower rates of Landfill Tax will increase in line with RPI, rounded to the nearest 5 pence, from 1 April 2017 and again from 1 April 2018.
- Aggregates Levy rate will remain frozen at £2 per tonne in 2016-17.
- In a move that could revolutionise Britain's infrastructure, the government is aiming to establish the UK as a global centre for excellence in driverless cars with trials on strategic roads by 2017.

alinea consulting LLP was formed in 2013 by six partners who know each other very well and represent the very best of the cost consulting profession. We have since grown to over 70 people. We work across a variety of sectors and possess a wealth of experience and complementary skills - but, most importantly, we share a desire to offer a better service to clients and a strong set of values that underpin everything we do.

Excellence | clever solutions from innovative thinking and smart systems

Teamwork | the best people working together, and with our clients

Trust | through an evident integrity and an eagerness to exceed expectations

Applying learning from both live projects and research studies, and feeding them into each other, is how we try to ensure that our clients and their teams get the best possible service from us. This is why we have been committed to research from the day we launched.

Whilst data and information are the lifeblood of our business, we understand that they alone do not represent knowledge - which requires analysis, insight and questioning. For these reasons we involve everyone at alinea, and we share our desire to innovate across borders: of discipline, geography and perspective. That way, we can learn from each other.

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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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