

## **The Budget**

March 2014

## 2014 Budget: The Boring Budget?

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### 1 Introduction

Aside from the widely expected “slow and steady” messaging due to resonate from the despatch box on Wednesday, the Chancellor will be focused on fulfilling his promises to business whilst sticking to the deficit reduction programme. Osborne’s personal challenge will be to deliver a Budget that translates the most promising economic landscape for years into a Conservative party poll boost. He will strive to balance the ‘good news budget’ with a clear articulation of the risks associated with subjecting a recovering economy to Labour control. In a bid to consolidate the recovery, improve his appeal to the politically sought-after ‘middle Britain’ and prove he ‘gets it’ on the cost of living debate, Osborne is expected to announce measures aimed at improving the tax scenario for those on the lowest incomes. Wage rises below inflation, and upward pressures on energy and food prices have combined to reduce the real value of earnings. Osborne’s efforts to reverse this trend will be hastened by the looming prospect of next year’s general election, by which time he will hope voters are feeling noticeably better off than the last time they made the trip to the polling station.



The Chancellor’s rhetoric will centre on boosting investment and encouraging exports, and will frame individual policy announcements against the backdrop of calls from business for a jobs and growth package. First time buyers and the construction sector look set to be the biggest winners



from this year's budget thanks to the extension of the Help-to-Buy scheme to 2020, unless Osborne acts on calls for a dramatic rise in the lower limit for National Insurance Contributions, a move that would greatly benefit employers.

## 2 Taxation and Employment

There has been much debate within the Conservative party regarding where taxation benefits should be targeted. Senior Conservatives have been calling for a greater increase in the 40p rate threshold, a move that would release some of the pressure on the often reported 'squeezed middle', an ever-growing force in British politics. Osborne is expected to argue that the recovery is not yet strong enough to fund tax breaks for the middle classes, instead favouring measures that improve the lot of those on the lowest incomes, most likely by raising the tax-free allowance from £10,000 to £10,500. The Chancellor also caused something of a storm when he remarked that he believes there are "advantages" for the Tories in having more people on 40p tax rate because they then "feel they are a success and joining the aspirational classes".



Building on the Chancellor's self-declared mission to make Britain 'aggressively competitive', a range of policies have been proposed. Regarding competitiveness in manufacturing and power generation, the CBI has called for relief from the 'green taxes', perceived as hindering UK companies, particularly from the carbon price floor which is widely expected to be frozen. Investors in infrastructure have been pressing for increased allowances for capital spending, currently at a rather mean level that does not compare well with other industrialised countries. Some economic commentators have argued that Osborne should bring forward the planned corporation tax cut to 20% to ensure UK plc feels the benefit when it matters most. Corporation tax is due to drop from its current rate of 23% to 21% in April, with the further cut to 20% scheduled to take effect from 2015.

When it comes to investment boosting tax measures, an extension of the current annual investment allowance beyond 2015 comes top of the predictions list. This allowance, currently set at £250,000, dictates how much new capital expenditure companies can offset against tax, with a high allowance encouraging firms to increase capital investment. Beyond an extension, some have been calling for an increase to £1m to induce the high levels of capital investment that would really benefit the economy.



## 3 Sectors to Watch

### 3.1 Energy

Having dominated political debate for many weeks after Ed Miliband's announcement of Labour plans to freeze energy prices, the 'cost of energy' debate continues to rumble on. Osborne is expected to confirm a freeze on fuel duty, overturning a planned rise of 1.61p per litre this September, whilst a carbon price floor (CPF) freeze is also anticipated tomorrow. The CPF currently adds approximately £5 per tonne of carbon produced, but this is expected to rise to nearer £18 by 2017, which many argue would add an unreasonable burden to companies operating in the UK. These measures, if implemented, may help to appease critics who continue to include energy prices within the cost of living debate which often sees the Coalition accused of failing to address the increases in energy prices seen in recent years.

### 3.2 Housing

Having already announced the expansion of the Help to Buy scheme and the first 'Garden City' in Britain for over 100 years, Political Intelligence can expect there won't be many more major announcements impacting the housing sector tomorrow. The Help to Buy scheme, which guarantees buyers' mortgages on newly built homes costing up to £600,000, was due to be winding down in 2016, but the Chancellor has announced plans to continue it until 2020. This has been welcome news to the Home Builders Federation, though it does little to restrain concerns that the scheme is contributing to another housing bubble by artificially raising house prices.



Osborne's announcement of the Garden City to be built at Ebbsfleet included detailing the Government's initial plan to build 15,000 homes within commuting distance to London. Mayor of London, Boris Johnson, welcomed the move as great news for London and the economy and the development has also been supported by local MPs and the local community.

### 3.3 Transport

The debate over HS2 continues and its rising costs have fuelled questions over how cost effective it will be. Osborne, however, remains committed to the project but has admitted there will be no more increases in spending available beyond the £50 billion budget. On the other hand, the Treasury is rumoured to have £1 billion to be made available for road and infrastructure projects, many of which we can expect to be in areas neglected by HS2.



## 4 The Opposition

In the midst of Osborne announcing the extension of Help to Buy, the Shadow Chancellor Ed Balls is calling for restrictions on the scheme and an emergency 'help to build' scheme to create more new and affordable homes by the end of this year. Reviewing the Chancellor's revelations on the upcoming Budget, Balls has claimed that having failed to undo the 50p tax cut, Osborne can't claim to represent



or legislate for those on lower and middle wages. The Shadow Chancellor has also committed a future Labour government to scrapping the marriage tax break that allows the transfer of one person's pre-tax allowance to apply to their partner's wages calling it 'perverse and unfair.'

## 5 Political Intelligence's View

Despite the healthy growth upgrades the Chancellor is expected to deliver tomorrow, he will surely stress that we aren't out of the woods just yet. That is partly because the spending cuts are less than half way through, partly because the public finances are still reeling from 2008 and partly because he has a political imperative not to allow voters to think everything is so good that they can flirt with Labour again.

Budget 2014 will be a steady-as-you go affair, designed above all to balance Britain's books in order to bolster the government's political case as having been a careful steward of the nation's finances. "Boring" some may say, to which the Government will respond with reason and with pride.

Don't be surprised that George Osborne's 2014 Budget is boring. The Chancellor has every incentive to save the best bits for just before the May 2015 general election. The real excitement will begin to be unveiled in the Autumn Statement in December of this year, a mere five months before the general election, which will provide the Government with the second to last set-piece political event of the Parliament in which to win over the voters.

## 6 Political Intelligence

For further information on the Budget 2014, or how Political Intelligence can help your business, please contact our Group Managing Director [Nicholas Lansman](#).