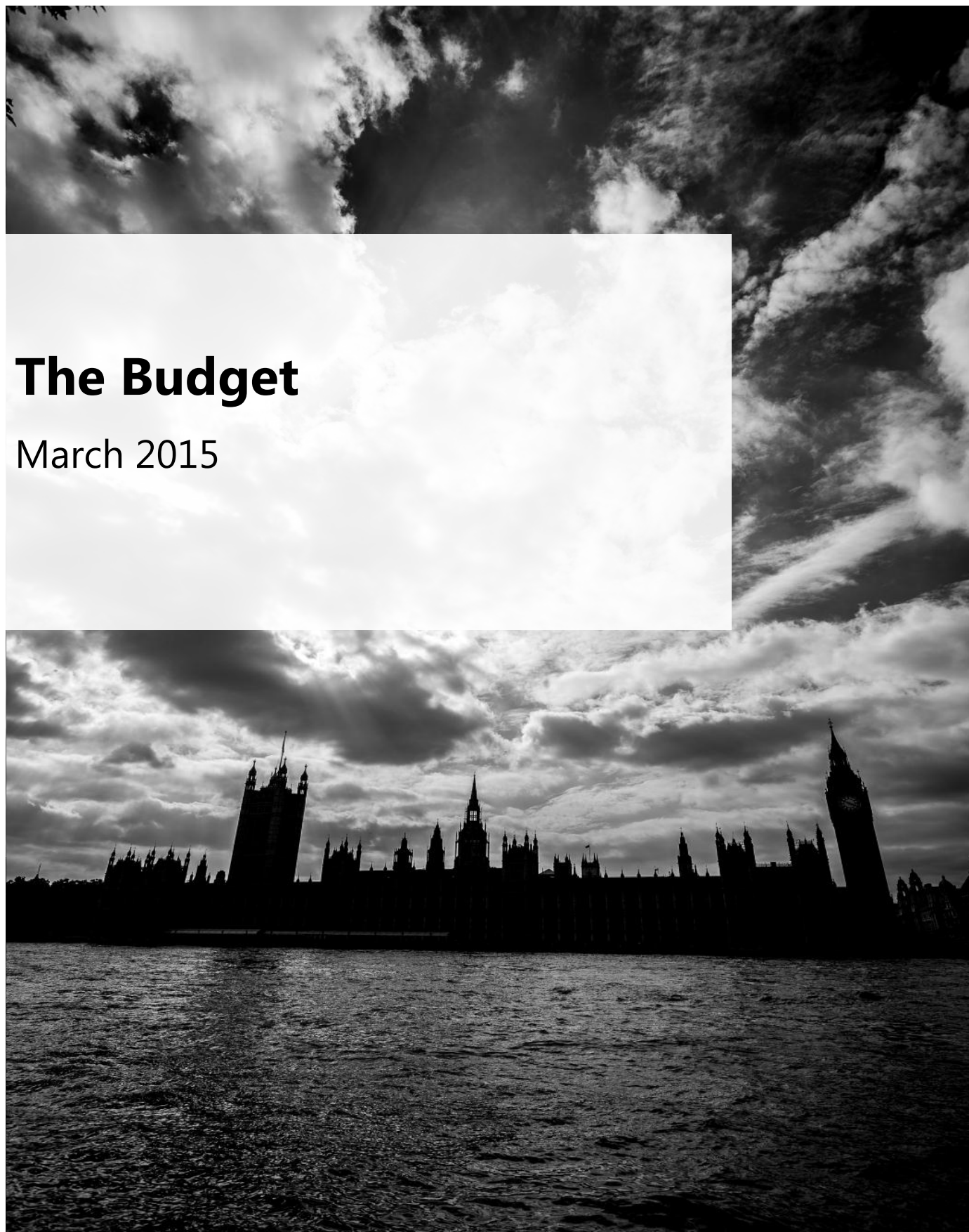


## The Budget

March 2015



## 2015 Budget: The Election Special

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### 1 Introduction



George Osborne has delivered his sixth and final Budget of this Parliament – and the last significant political act of the Coalition – ahead of the general election on the 7th May. The Chancellor has unveiled arguably his most political Budget to date as he attempts to translate the economic recovery into votes, promising tax cuts, a crackdown on tax avoidance and a loosening of austerity.

Less than two weeks before the launch of the formal general election campaign, the Chancellor told the House of Commons, repeating a key attack line dreamt up by the Conservatives' Campaign Director, Lynton Crosby, that the British electorate is facing a critical choice: "Do we return to the chaos of the past? Or do we say to the British people, let's work through the plan that is delivering for you?"

Conservative backbenchers will be hoping the Budget will be enough to break the opinion poll stalemate seen in recent weeks and give the Tories the momentum they crave. Crosby has reportedly told Conservative MPs that he expects "the crossover", the moment when the Tories inch ahead of Labour, to happen before Easter. Given that the economy is set to dominate this election, today's Budget could well decide who steps in to Number Ten Downing Street the day after the general election.



The Chancellor used interviews at the weekend to stress that there would be no 'giveaways' and no 'rabbits out of the hat' but if this Budget was fiscally neutral, it was far from politically so. This deeply political Chancellor has learnt much from his "omnishambles" Budget of 2012 to sculpt Budgets designed to reward key voting groups, poach his Coalition partners' favoured policies – such as raising the tax threshold – and simultaneously shutting down Labour's key attack lines whilst tarring them as economically irresponsible.

Despite the Treasury's Permanent Secretary, Sir Nick Macpherson, warning last week that those who leaked the Budget would be reported to the police, much was, of course, pre-briefed. So the newspapers were told before the Commons of the plans to end yearly tax returns, to be replaced with digital tax accounts, phased in by 2020; of the new twelve sided one pound coin; of new curbs on tax avoidance – the so-called 'Google tax' – and a further relaxation of pensions to allow savers to cash in on their payments.



This Budget was undoubtedly the last for either the Chancellor, George Osborne, or his Shadow, Ed Balls, even though due to parliamentary convention the Leader of the Opposition responds to the Budget. With polls showing the two main political parties swapping small leads, and with the 'other' parties gaining ground, much will rest on how the Budget went down today with who will win in forty-nine days.

## 2 Sectors to Watch

### 2.1 Technology

The Chancellor has aided the UK technology sector in his previous Budgets, and this one was no exception with announcements on digital-infrastructure, a nationwide focus on tech and easing regulations for the burgeoning sharing economy and FinTech sectors.

#### **Diverted Profits Tax**

The previously announced Diverted Profits Tax, better known as 'the Google tax', will be implemented next month, the Chancellor revealed. Taxation on technology providers has been a major theme of this parliament, and the Chancellor noted the Government's international work on taxation as a success story.

#### **Broadband and mobile networks**

The Government has been trumpeting superfast broadband rollout as a success and the Chancellor made a number of associated announcements, including a new 'ambition' to provide nearly all UK homes with access to 100Mbps broadband, and new subsidies for wireless technologies. Furthermore, Osborne doubled the cities eligible for 'Connection Vouchers' a scheme helping SMEs



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pay for broadband installations and pledged £600m to help free-up spectrum in the 700Mhz band to improve mobile signal. The Government also published a [Digital communications infrastructure strategy](#), detailing some of today's announcements.

### **More money for regional tech**

The Chancellor announced several new funds for technology including £100m for 'Intelligent Mobility' (aka driverless cars), £40m for Smart Cities as part of the 'Internet of Things' programme, and £100m for 'cutting edge research projects'. Smaller amounts were also committed, with £11m pledged to 'Tech incubators' in Manchester, Leeds and Sheffield, £60m for university-based tech research and £11.8m committed to a 'Big Data' centre for agriculture in Hertfordshire.

### **Digital public services**

'GOV.UK Verify' will go ahead after successful trials. This means citizens will have one approved login to access digital services across a range of departments. One barrier to the 'Digital by Default' concept was the fact departments were not talking to one another effectively, and the Budget document estimates a £100m saving from hosting all departmental servers in one place.

Another noteworthy announcement is the introduction of 'digital tax accounts' and doing away with the Annual Tax Return. Given the issues with CARE.DATA and other Government IT projects, it will be interesting to see how this is delivered and security concerns are addressed.

### **Sharing Economy**

The Government recently published its Sharing Economy Strategy, and the Budget saw a number of measures designed to foster development. No new money has been committed, however the Government announced measures to help the sharing economy grow. These include 'urging' local authorities to use their powers to promote the sector, allowing the public sector to use sharing economy platforms and getting JobCentre advisors to sign-post claimants to sharing economy services. The Budget further announced trial projects in Leeds and Manchester to 'trial local-sharing initiatives' in healthcare, transport and shared spaces.

### **FinTech**

The FinTech sector has been championed before by Osborne and he promised new measures to create a 'regulatory sandbox' for financial innovators to ease the regulatory burden, establishing an open API standard for UK banking which would allow FinTech firms to make use of user's banking data and new schemes to promote FinTech across northern cities.



## 2.2 Health



Health and the NHS were notable for being almost completely absent from the Chancellor's statement. Indeed, the only significant reference to healthcare related to a recent favourite topic of the Liberal Democrats: mental health.

As had been widely rumoured beforehand, Osborne announced an additional £1.25 billion of spending on mental health services for young people and mothers over the next five years. The text of the budget reveals that funding will be split, with approximately £1 billion being spent on improving access to children's mental health services 'to ensure that an additional 110,000 children and young people get the support they need'. The remaining £250 million will be split between mental health services for mothers, veterans and job seekers and 'talking therapists' for children.

Additionally, the Chancellor announced that:

- £1 million will be provided to the Department of Health 'to incentivise the purchase of defibrillators for use in public places'.
- £20 million of investment over four years to fund the establishment of four pilot 'Connected Health Cities' as part of the Health North Project. The Government states that this will 'enable better care for patients, and promote innovation through analysis of data on the effectiveness of different drugs, treatments and health pathways'.
- So called 'blood bike charities' will be exempt from VAT.
- £10 million to support air ambulances nationally.

### Opposition response

The Chancellor's failure to mention the NHS during his statement featured prominently in Ed Miliband's response, with the Labour leader stating that cutting the NHS is "the secret plan that dare not speak its name". He went on to accuse the Government of betraying the elderly and also planning "massive cuts" to social care.

### Analysis

With Conservative polling showing that the more the party mentions the NHS the lower the party's trust levels on the issue fall, it is perhaps unsurprising that Osborne chose to omit the subject entirely from his speech. However, with the NHS constantly ranking amongst voters' top priorities, the issue will be a major election battleground. Additionally, Ed Miliband's new line "the secret plan that dare not speak its name" is likely to feature prominently in the coming weeks.





## 2.3 Energy

On the energy front, widely trailed tax cuts for the struggling North Sea oil industry were realised. The support package is formed of a series of tax cuts to petroleum revenue levies, supplementary charges and a tax allowance, worth a total of £1.3bn.

Osborne stressed that the new “single, simple and generous” tax allowance would stimulate investment throughout the oil and gas industry whilst the Petroleum Revenue Tax (from 50% to 35%) would support continued production in older fields. The Chancellor was quick to add that the Office of Budget Responsibility had predicted that the supporting measures would increase the industry’s production by 15% by 2020. The industry has been hit hard by the plummeting oil price and has been especially vocal about their misfortune in recent months.



Adding fuel to the climate budget versus stranded assets debate, the Chancellor further separated himself from “greenest government ever” accusations by announcing measures to help the UK exploit more of its natural fossil fuel reserves. Osborne announced investment in new seismic surveys in under-explored areas of the UK Continental Shelf. Expectation of support for energy intensive industries was

also met in the form of a compensation package that will exempt them from the Renewable Obligation and feed-in tariff renewable energy subsidies.

Alongside the “bold” support for the UK’s fossil fuel industry, there was also potentially significant support for low carbon energy R&D. Osborne announced £60m for the West Midlands’ Energy Research Accelerator (ERA), a new national energy catapult in Birmingham, that will enable the creation of a national low carbon mobility centre to support the development of enabling technologies in energy storage, machines and systems.

A strong contender for the most vague budget announcement of the year, the “opening of negotiations on the Swansea bay Tidal Lagoon” has the potential to be a turning point for the fortunes of the UK’s tidal energy sector. If forthcoming negotiations go well, the government will provide financial support for the landmark project through the Contract for Difference scheme. Such support will be dependent on the project being considered as value for money for consumers and being likely to drive down the costs of future lagoons.

On carbon taxes, the budget confirms that from 1 April 2015 the government will exclude from the carbon price support rates fossil fuels that are used by combined heat and power (CHP) plants to generate electricity that is self-supplied or supplied under exemption from the requirement to hold a supplier licence.



## 2.4 Transport



Straddling transport and energy sectors, Osborne announced £100m investment in driverless technology and further support for ultra-low emission vehicles through a lower rise in company car tax. The full budget document confirms that Network Rail has now completed improvements to over 400 stations and that improvements to the Strategic Road Network worth £3.4bn have been completed.

Regarding air travel, as announced in the Autumn Statement, Air Passenger Duty (APD) rates will increase by RPI from 1 April 2016 and the government will introduce an exemption from reduced rates of APD from 1 May 2015 for children under 12 and from 1 March 2016 for children under 16.

Confirmation of plans to progress HS3 were conspicuous by their absence whilst talk of the 'Northern Powerhouse' dominated. Perhaps talk of comprehensive transport strategies (to be unveiled this week) and further transfer of powers to the regions hints at the impending devolution of infrastructure investment decisions as well?

Whilst the forthcoming "comprehensive transport strategy for the North" dominated the Chancellor's transport announcements but the confirmation of a new rail franchise for the South West and £7bn of investment in the area's roads also figured highly.

## 3 Political Intelligence

For further information on the Budget 2015, or the forthcoming general election and how Political Intelligence can help your business, please contact our Group Managing Director [Nicholas Lansman](#).