



## The Budget

July 2015

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## 1 Overview

It was a moment the Conservative party have waited fully eighteen years for; a Conservative Chancellor delivering a Conservative Budget. And George Osborne didn't disappoint in a plethora of policy announcements, of tough talk on and cuts to benefits, a series of tax cuts, raising of the tax-free personal allowance, a new "National Living Wage" and an audacious move in to the politics of 'One Nation'.

Osborne stated from the dispatch box that the Conservatives are now "the party of working people" in what he called a Budget that "recognises the hard work and sacrifices of the British people". Not only did he reclaim the 'One Nation' mantra deployed by the then Labour leader, Ed Miliband, in 2013, but he repeatedly deployed the Trade Union Congress' slogan "Britain needs a pay rise".

Osborne delivered, as expected, a series of tough changes to make up the £12bn cuts in the welfare bill he had promised during the general election campaign. This aim will now, however, be met over four years, instead of the two originally proposed.

Elsewhere, the Budget provided mixed fortunes; a four-year 1% public sector pay rise, student loans replacing grants and cutting the benefits cap combined with a rise in the tax-free personal allowance, a rise in the minimum wage, branded the 'National Living Wage', and a surprise tax raid on buy-to-let landlords.



On fiscal plans, the Chancellor stated that public sector finances will not move into surplus until 2019-20, deficit on the public finances will be £69.5bn this year, slightly lower than the £75bn the Office for Budget Responsibility expected in March, and GDP growth was forecast at 2.4% this year – with 2.3% predicted next year.

Today's statement is Osborne's second budget in just under four months; but the first since the Conservatives gained an overall majority at May's general election, allowing them to govern free of the Liberal Democrats. The Labour response was led by its interim leader, Harriet Harman, who said the Chancellor's rhetoric was "detached from reality" and accused the government of "playing politics with this Budget".

## 2 **Headline announcements**

The key announcement today was undoubtedly the introduction of a new National Living Wage of £7.20 an hour for the over 25s next April which will rise to over £9 an hour by 2020. The Chancellor had appeared to rule out a living wage, and indeed an increase in the minimum wage during the Andrew Marr show on Sunday.

The other headline announcements were as follows:

- The Government is expected to run a surplus in 2019-20
- The tax-free Personal Allowance will be increased from £10,600 in 2015-16 to £11,000 in April 2016
- Substantial changes to the welfare system:
  - Working-age benefits, including tax credits and Local Housing Allowance will be frozen from 2016-17 for four years
  - A reduction in the household benefit cap to £20,000 (£23,000 in London)
  - Child Tax Credit will be limited to the first two children for children born from April 2017
  - Those aged 18-21 who are on Universal Credit will have to apply for an apprenticeship or traineeship, gain work-based skills or go on a 6-month placement after the start of their claim;
  - Rents for social housing will be reduced by 1% a year for four years
- Corporation Tax will be cut to 19% in 2017 and 18% by 2020
- The Ministry of Defence budget will rise by 0.5% (above inflation) each year to 2020-21. The UK will therefore meet the NATO pledge to spend 2% of national income on defence every year of this decade

### 2.1 **Economic forecast**

The Office for Budget Responsibility (OBR) forecasts growth for the economy in 2015 at 2.4% and 2.3% in 2016. Growth has been revised upwards to 2.4% for 2017 and the rest of the decade.



Meanwhile, employment is forecasted to be 31.2 million in 2015, rising each year to 32.1 million in 2020.

## 3 Sectors to watch

### 3.1 Technology

The Budget lacked any detail on tech announcements with the thrust of the focus on changes in tax, welfare and pay and on further boosting economic growth.

On tech, the government announced it will:

- Allocate up to £10 million to the broadband programme in the South West
- Invest £23 million in Next Stage Digital Economy Centres at 6 sites (UCL, Swansea, Newcastle, Nottingham, York and Bath) which have leveraged £22 million of additional funding
- Provide seed funding to the Cabinet Office to work with departments in generating innovative business cases to inform the Spending Review - the aim being to deliver redesigned, user-friendly public services fit for the digital age

### 3.2 Health

Beyond a restatement of the commitment to the spending requirements as set out in the Five Year Forward View, the big decisions on financing the NHS over the next few years are likely to come in the autumn with the departmental spending review.

Whitehall, and indeed NHS England, have subtly said that the much-repeated £8 billion and £22 billion were broad, initial estimates. A fair amount of stress-testing and re-appraisal of the numbers is now taking place. The debate on NHS finances this year is intensifying, but largely bypassed in this Budget:

- The Government reiterates its commitment to Simon Stevens' 'Five Year Forward View', pledging to provide an extra £8bn per year for the NHS by 2020-21
- The government will ensure the NHS becomes a 7-day service by 2020-21
- The government is progressing on delivering 'Health North' which will go live in autumn 2015. It is creating 'Connected Health Cities' across the North, assembling experts and technology to provide better care for patients promoting innovation through analysis of data on the effectiveness of different drugs, treatments and health pathways



### 3.3 Energy

Following on from the publication of the Competition and Market Authority's provisional findings, which set out the case for energy market reform, and an initial list of possible remedies, the Budget announced work to increase switching, including working with Ofgem to introduce 24-hour switching by the end of 2018 and working with industry to introduce a switching guarantee.

In addition, the Government will:

- Explore options to move the Green Investment Bank into the private sector
- Remove the Climate Change Levy exemption for renewably sourced electricity from 1 August 2015;
- Not extend the Coalition Government's commitment to increasing the proportion of revenue from environmental taxes to this Parliament
- Publish proposals to extend competitive tendering to onshore electricity network transmission assets
- Review the business energy efficiency tax landscape and consider ways to simplify it and improve its effectiveness
- Broaden the application of the basin-wide investment and cluster area allowances to support investment on the UK Continental Shelf

### 3.4 Transport

The eye-catching announcement in this Budget was the reform of the vehicle excise duty (VED) to create a new Roads Fund. From 2020-21, revenue raised from VED in England will be allocated to a new Roads Fund and invested directly back into the strategic road network. In addition, the Government will publish a second Roads Investment Strategy by the end of this Parliament.

The Budget document outlined the Government's continued commitment to "significant transport devolution" in all of the city regions that elect a Mayor, as well the country's counties.

The Government announced it will strengthen Transport for the North (TfN) as part of the Northern Powerhouse through various measures:

- Establishing TfN as a statutory body underpinned by £30 million of additional funding over 3 years; appointing an interim Chief Executive and executive team;
- Working with TfN to introduce Oyster-style ticketing across transport services; and
- Working with them on plans to transform east-west rail and road connections.

The Budget featured a number of announcements on Network Rail - including:

- A decision to allow Nicola Shaw, Chief Executive of High Speed 1, to advise the Government on how it should approach the longer-term future shape and financing of Network Rail;



- Continued work to devolve more power to route managers;
- Changing the way the Government channels public money so that it is directly through train operating company.

## 4 Our view

It was the first fully-fledged Conservative Budget for nearly two decades, and one that was as deeply political as it was fiscal. Although it lasted little more than an hour, its reach was designed to last the five years of this Parliament.

It was also a Budget where the Chancellor was unafraid to poach the ideas and policies of his opponents; during the last Parliament Osborne successfully claimed and then expanded upon the key Liberal Democrat policy of raising the tax allowance threshold. In this Budget, Osborne expropriated the policy from his Labour opponent of abolishing "non-dom" status, albeit a nuanced version of, for wealthy residents who have lived here for 15 of the past 20 years.

But at the heart of his Budget was the desire to bolster the Conservatives' narrative that they are a party who will help working people as much as they do the wealthy. Amid some relatively rosy forecasts in the coming years, Osborne has the economic figures - and the political good-will - to 'front end' cuts whilst planning for a surplus come the next general election.

Labour, in response, promised to behave in "a grown up and constructive opposition" and "be a different kind of Opposition". Having spent the past five years opposing almost each and every one of the coalition's proposals, this within a sentence hinted at a shift in the party's tactics.

## 5 Political Intelligence

For further information on the 2015 Budget, or if you'd like to discuss your current plans for the new Parliament and ways in which Political Intelligence could support your organisation in your public affairs activity, then please contact us on 020 3397 3300 or contact our Group Managing Director [Nicholas Lansman](#) for further information.