

## Member briefing: Budget 18 March 2015

### Introduction

On 18 March 2015 Chancellor George Osborne unveiled the final budget of this Parliament. With just seven weeks until the 2015 General Election, he highlighted positive news on the economy and deficit reduction. He said his priority was to continue to consolidate the country's economic security rather than pre-election giveaways.

### Headline messages for South East councils

- **The Budget takes South East economic success for granted.** The Chancellor highlighted that over the last year the economy in the North had grown more quickly than in the South. With the South East making the UK's greatest net contribution to the Treasury (£80bn from 2002-12) there is a need to invest in continuing South East success as well as developing the potential of other parts of the country.
- **There was no direct mention of the South East in the Chancellor's statement.** This is disappointing considering the scale of investment and devolution announced for other parts of the country. More detailed documents reveal a number of South East infrastructure and enterprise projects which are listed below.
- **Help for homebuyers will be welcome for first time buyers in the high cost South East** where average house prices are 11x average salary. Government has pledged 25% top up for those saving for a deposit.
- **A business rates review** has potential to impact on local authority income and councils' role in collection. Two pilots outside the South East will allow 100% retention of business rate growth.
- There was **no specific mention of further cuts to local government. Councillors' travel will be tax exempt.**

### Public spending

This year's Budget forecasts public spending will increase in line with economic growth in 2019-20, a year earlier than originally anticipated. Focusing on central Government, there was **no mention of further cuts to local government spending**. Key points include:

- Rising satisfaction with public services despite 40% cuts in central government administration costs.
- The need to save an extra £30bn by 2017-18 by cutting £13bn from government departments, £12bn from welfare and raising £5bn by reducing tax avoidance.
- Funding for a major expansion of mental health services for children and maternal mental illness.
- Local authorities/LEPs will be able to bid to a new £1m fund to support the growth of the forestry industry.

### Business rates review

Government is consulting on the future of business rates. This has potential for a significant impact on local authorities who administer the tax. At a time of growing support for localising business rates and allowing councils to keep 100% of the revenue (not just business rate growth) the review adds a new element of uncertainty about the future.

- Recent work by SEEC/SESL showed that **full business rate retention could allow South East local authorities to become more self-sufficient**. In 2015-16 South East business rate income is £3.79bn, compared to £2.93bn in non ring-fenced central grants.

### Economy and jobs

Office of Budget Responsibility (OBR) figures update forecasts for a number of key economic factors:

- At 2.6%, Britain's economic growth last year was faster than Germany, France and the Euro-zone. For 2015, growth is expected to be 2.5% (a 0.2% increase since last year's Budget forecast), then 2.3% in 2016, 2017 and 2018, rising to 2.4% in 2019.
- Since 2010, business investment has grown four times faster than household consumption, with growth of 5.1% predicted in 2015 and 7.5% in 2016.
- Debt as a share of GDP is forecast to fall from 80.4% in 2014-15, decreasing each year to reach 71.6% in 2019-20. This meets the target set in the Chancellor's 2010 Budget to see national debt share falling by 2015.
- Deficit has fallen from 10% of national income in 2010 to 5% this year. Further falls are forecast to reach a surplus 0.2% (£5.2bn) in 2018-19.
- Unemployment is predicted to fall to 5.3% in 2015. This is 3% lower than 2010. OBR forecasts unemployment of 5.2% in 2016 and 5.3% for the remainder of the decade. In September 2014 there were 74,000 claimants in the South East.
- Since 2010, over 1.9m jobs have been created, 80% of which are full-time and 80% in skilled occupations.
- National minimum wage will rise to £6.70 in autumn. The apprentice rate will increase by 57p an hour to £3.30.
- The OBR revise down their forecast for inflation this year to 0.2%.

### Devolution & infrastructure

The Budget included a number of devolution deals and infrastructure investment announcements, plus confirmation of plans to devolve taxes to Scotland, Wales and Northern Ireland:

## Measures including the South East:

- **Backing long term economic/infrastructure plans for every region.** This includes £100,000 for further study into reopening the Lewes-Uckfield rail line. Major investment announcements outside the South East include a £7bn South West transport investment and new rail franchise/improved rail services. **The Lewes-Uckfield line was highlighted as a strategic priority in SEEC/SESL's 2014 Mind the Gap report.**
- **Extending Enterprise Zones** - extension of 8 enterprise zones across England including Oxford Science Vale and Discovery Park (Dover), and new zones in Plymouth and Blackpool.
- **Improving flood defences** - £41m investment in South East flood defences, for 40 schemes to be delivered early and 10 new schemes added, protecting 12,000 homes and businesses. **SEEC/SESL have called on Government to ensure South East flood defences are adequately funded.**
- **Progressing garden cities/towns in the South East** – Ebbsfleet garden city Urban Development Commission Board to go live in April 2015; capacity funding to support Bicester's ambition to become a garden town.

## General measures or outside the South East:

- **Support for London's success** – new Mayoral powers over skills and planning; new transport investment; funding for London Land Commission to help address housing shortage.
- **Investment/devolution for 'Northern Powerhouse'** - including a comprehensive Transport Strategy for the North; new West Yorkshire Combined Authority city deal; Greater Manchester elected mayor with devolution of skills, transport and health budgets.
- **Business rate retention** - provisional agreement for Greater Manchester and Cambridge area to keep 100% of additional business rate *growth* (currently 50%). Government will consider other bids, but **this falls short of the SEEC/SESL call for 100% total business rate retention.**
- **Broadband investment** - £600m to improve mobile networks; satellite technology for remote communities; funding Wifi in public libraries; and national aim for near 100% coverage of ultrafast 100mbs broadband.
- **Increasing house building** – up to 28 new Housing Zones across England bringing forward 45,000 homes, backed with Government support. The Government will work with Eastleigh Leader Cllr Keith House and Natalie Elphicke to deliver a Housing Finance Institute as recommended in their national review.
- **Improving Compulsory Purchase Order (CPO) regime** - consultation to make process clearer, faster and fairer for all. **SEEC/SESL previously called for streamlining council CPO powers to help unlock stalled sites.**

## Tax changes

There are several tax breaks to help businesses, the self employed and councillors, while banks will face an increase in their annual levy. The Government also announced which charities would benefit from funding from LIBOR fines:

- From April 2015 there will be a tax exemption for councillors' travel expenses.
- Farmers will be able to average their incomes over five years for tax purposes to smooth out variations in income.
- Employers will not pay National Insurance for employees under 21 from April 2015, from 2016 the exemption will also cover those employing a young apprentice. The South East saw 60,000 apprenticeship starts in 2013-14.
- Class 2 National Insurance contributions for self employed people will be abolished.
- A new tax allowance from April 2015 to stimulate investment in North Sea Industry to counter falling oil prices. This is part of £1.3bn support for this sector, including a cut in Petroleum Revenue Tax from 50% to 35%.
- The annual bank levy will rise to 0.21%, raising an additional £900m.
- LIBOR fine receipts will go to charities eg armed forces/military memorials, church restoration and air ambulance.

## Tackling tax avoidance

- There will be new criminal offences and penalties for tax evasion.
- A review of inheritance tax to stop tax avoidance through deeds of variation will report by autumn 2015.
- Tax relief on large pension pots will be cut by reducing the Lifetime Allowance from £1.25m to £1m, saving £600m a year. From 2018 the Lifetime Allowance will be index linked.
- From April 2015, a new Diverted Profits Tax will target multi-national businesses which artificially shift their profits offshore. This along with other measures to clamp down on tax avoidance is expected to raise £3.1bn.

## Personal taxation and savings

- Paper tax returns will be abolished, to be replaced by personal digital tax accounts.
- Personal tax allowances will rise to £10,800 in April 2016 and £11,000 in April 2017.
- The threshold for higher rate income tax will rise above inflation from £42,385 in 2015-16 to £43,300 by 2017-18.
- From April 2016 the first £1,000 of personal savings income will be tax free (£500 for higher rate tax payers).
- ISAs will become more flexible from autumn 2015, with the ability to take money out and repay it later.
- Pensioners will be able to access annuities more easily and 55% tax charges abolished, and instead charged at marginal rates. This is likely to benefit the 1.6m people in the South East aged 65+.
- A new Help to Buy ISA will offer a 25% Government top up for first time buyers saving for a deposit on a home.
- Duty on beer will be cut by 1p/pint. There will be a 2% cut in duty on cider, Scotch and spirits. Wine duty is frozen.
- Petrol duty is frozen with September's planned increase cancelled. Tobacco duty and gaming duty are frozen.