

Member briefing: Budget 8 July 2015

Introduction

On 8 July 2015 Chancellor George Osborne presented the first Budget of the new Parliament. It is his second Budget this year, following the pre-election Budget in March 2015. It is the first Conservative-only Budget since 1996. The Budget aims to prioritise economic security and move towards a higher wage, lower tax and lower welfare economy.

Headline messages for South East councils

- **The Budget statement itself included no mention of the South East.** Many other areas received positive mentions – London, South West, Northern Powerhouse and West Midlands. There is a risk that the Government continues to take the South East economic success – and its high returns to the Treasury – for granted.
- **Devolution** is being extended in Manchester and a deal is close in Cornwall but potential in two-tier areas such as the South East remains undeveloped.
- **The benefit cap in the South East will be cut to £20,000 a year** (£23,000 in London). This could create challenges for South East councils in high cost areas, where the reduction may increase pressure – for example on homelessness and discretionary housing payments. In 2013-14 the total South East benefit bill was £20.7bn.
- **Infrastructure** – detailed papers promise 3 rail studies on improving South East services in Kent & Sussex.
- **A new compulsory living wage will be introduced.** It will start at £7.20 an hour in 2016, rising to £9+ by 2020.
- **Changes to car tax will fund a roads investment programme.**
- **Public sector pay rises will be capped at 1% for 4 years.** A spending review will set out spending cuts for Government departments later this year.

Public spending

MPs will vote in the autumn on a Fiscal Charter that commits Governments to maintain a budget surplus in normal times (i.e. no recession). Current plans predict a surplus by 2019-20 but this requires £37bn spending reductions. Today's Budget sets out the first £17bn savings. The remainder will come from a spending review of Government departments later in the year. In addition to the 1% cap on public sector pay rises for four years, key points include:

- **The NHS** is a priority and will receive an additional £8bn funding, giving £10bn extra in total by 2020.
- **Free TV licences** for 790,000 South East residents over 75 (£88m) will now be funded by the BBC.
- **HMRC** will receive £750m to combat tax fraud, with a target of raising £7.2bn extra in tax.
- **Welfare spending** will be reduced by £12bn. Support for elderly, disabled & vulnerable people will continue.
- **Defence spending** will rise 0.5% above inflation each year and a £1.5bn joint security fund will be established.

Economy & jobs

Office of Budget Responsibility (OBR) figures update forecasts for a number of key economic factors, alongside announcements on a Living Wage, Fiscal Charter and apprenticeships levy:

- For a second year, Britain is expected to have the strongest growth of any major advanced economy, with 2.4% **GDP growth** forecast for 2015. This falls to 2.3% in 2016 and rises back to 2.4% for the remainder of the decade.
- **Debt as a share of GDP** is forecast to fall from 80.3% this year, decreasing each year to 68.5% in 2020-21. A new Fiscal Charter will commit Government to keeping debt falling as a share of GDP every year and then to run a surplus.
- **The deficit** has more than halved as a percentage of GDP from 10.2% in 2010 to 4.9% in 2014-15. This is forecast to fall to 3.7% in 2015-16, decreasing every year until reaching a surplus of 0.4% in 2019-20.
- The OBR revises down its forecast for **inflation** this year from 0.2% to 0.1%.
- **Unemployment** is forecast to be 5.4% in 2015, falling to 5.1% in 2016. It is then forecast to rise to 5.2% in 2017, 5.3% in 2018 and 5.4% in 2019 and 2020. In March 2015 the number of unemployment benefit claimants in the South East had fallen to 66,590 (from 74,000 in September 2014).
- Nationally **2 million jobs have been created** since 2010, with 477,000 (23%) of these in the South East.
- A new compulsory **National Living Wage** will start in April 2016 at £7.20 an hour, set to reach over £9 by 2020.
- 3 million more **apprenticeships** will be created by 2020, funded by a new levy on large UK employers. Companies committed to training will be able to claim back more than they contribute.

Devolution

Through devolution deals outside the South East and London, Government aims to balance the capital's success:

- **Scotland, Wales and Northern Ireland** – continued commitment to devolve further powers.
- **Northern Powerhouse** – giving control of fire services to Manchester's new Mayor, establishing a land commission, and further collaboration on children's services and employment programmes.
- Progressing deals with the Sheffield and Liverpool City Regions, Leeds and West Yorkshire.
- **'County' deal** – progress is being made towards giving unitary council Cornwall a greater say on local decisions.

- Government will invite councils and LEPs to bid for **Enterprise Zones** in smaller towns to support job creation.
- **Sunday trading** – Government will consult on giving councils and mayors powers to set Sunday trading hours.

Improving productivity

Government is launching a Plan for Productivity, aiming to make the UK the most prosperous major economy in the world by the 2030s. Budget announcements include:

South East – detailed papers acknowledge that investment in infrastructure is ‘critical to supporting the South East and South Coast’ and commit to:

- Rail upgrade to bring Ramsgate within 1 hour of London.
- Kent Rail Route Study to include extending HS1 services to Hastings and Rye.
- Extending scope of Lewes-Uckfield study to look at improving rail links between London and the South Coast.

National and other areas:

- **Road funding** – a new ‘Roads Fund’ will be set up using Vehicle Excise Duty (VED) taxes, along with revised VED fees for cars bought from 2017. Most cars will attract a flat rate of £140 a year.
- **Rail** – fares will be capped at RPI for rest of this Parliament; bids will be invited for a £20m New Stations Fund.
- **Strategic transport funding outside the South East** - £30m for newly formed Transport for the North; £7.2bn for South West transport; and an additional £5m for Midlands Connects, alongside existing £5.2bn Midlands transport funding commitment under this Parliament.
- **Building more homes and supporting home ownership** – including a new Help to Buy ISA this autumn, right to buy for housing association tenants, and further planning reforms to be announced shortly.
- **Skills** – universities, LEPs, businesses and cities will be invited to map strengths/opportunities through new science and innovation audits.

Business taxes

There are several tax breaks to help businesses, alongside further reforms to bank taxation:

- **Corporation Tax** will be cut from 20% to 19% in 2017, and 18% in 2020. It was 28% in 2010.
- The **Annual Investment Allowance** will reach its highest ever permanent level at £200,000 a year from 2016.
- **National Insurance (NI)** bills will be cut by £1,000 from April 2016, as the Employment Allowance rises from £2,000 to £3,000. Businesses will be able to employ 4 people full time on the Living Wage and pay no NI.
- **Climate Change Levy** will be abolished, as Government now has a long term framework for renewable energy.
- **Bank taxation reforms** include: a new 8% tax on profits from January 2016; phased reduction in the Bank Levy from 0.21% to 0.1% from 2016-21; excluding UK banks’ overseas subsidiaries from the Bank Levy from 2021.

Personal taxes

- **Personal tax allowances** will rise to £11,000 in April 2016, a year earlier than previously announced.
- The threshold for **higher rate income tax** will rise to £43,000 in April 2016, a year earlier than expected.
- **Inheritance tax** will change, with an extra £175,000 allowance phased in from 2017 for those leaving homes to their children. This can be transferred to spouses, allowing children to inherit up to £1m tax free.
- Tax relief for renting a room in your home will rise to £7,500 in 2016. It is currently £4,250.
- Mortgage tax relief for buy-to-let mortgages will be restricted to 20%. Higher rate reliefs will be phased out over 4 years from April 2017.
- Pensions tax relief for those earning over £150,000 a year will be tapered away to a minimum of £10,000.
- There will be a green paper on changes to pensions for those starting to save for their retirement.
- From April 2016 there will be a £5,000 tax free allowance for **dividend income**. Above £5,000 tax rates will rise to 7.5%, 32.5% and 38.1%.
- Permanent **non-dom tax status** will be abolished in April 2017. People living in the UK for 15 of the past 20 years will pay full British taxes.
- **Fuel duty** is frozen. **Insurance premium tax** will rise from 6% to 9.5% from November 2015.

Welfare & benefits

Measures will be introduced to reduce welfare spending by £12bn and encourage people into work, including:

- The **household benefit cap** will be cut to £20,000 from £26,000 in the South East. It will be £23,000 in London.
- For ages 18-21 a **Youth Obligation** will be introduced so people have to either ‘earn or learn’. In March 2015 the South East had 14,900 unemployed aged 16-24.
- From September 2017 all working parents will receive 30 hours **free childcare** for 3-4 year olds.
- For future claimants work-related **Employment & Support Allowance (ESA)** will reduce to the same rate as Job Seekers’ Allowance (JSA). In 2013-14 total ESA in the South East cost £1bn and JSA cost £376m.
- **Working age benefits** will be frozen for 4 years from 2016. Maternity pay and disability benefits are excluded.
- **Social housing** rents will reduce by 1% a year for 4 years. Social tenants in the South East earning over £30,000 will have to pay market rate rent (£40,000 in London).
- The income threshold for receiving **tax credits** will be reduced from £6,240 to £3,850 and tax credits will reduce more quickly as households earned income increases.
- Tax credit, housing benefit and universal benefit support will only cover two children for new claimants from April 2017 or for families with a third child born after this date. Child benefit will be maintained.