

Budget 2016 Speculation and Analysis

March 2016

About the Whitehouse Consultancy

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Introduction

This briefing document has been prepared by Whitehouse to provide an overview and analysis of speculation on Budget 2016, which will be delivered to Parliament at midday on Wednesday 16th March by Chancellor George Osborne. The Budget sets out the Government's plans for the economy based on the latest forecasts from the Office for Budget Responsibility, as well as any proposals from the Government for changes to taxation.

Overview

The Chancellor has signalled that the axe will fall in Budget 2016, without giving significant indications of where. Speaking recently on the *Andrew Marr Show* he [said](#) that the Budget's general theme will be that "the world is a more difficult and uncertain place than at any time since the financial crisis, and that we should act now rather than pay later". The Chancellor also made clear his aim to make savings of 50p for every £100 of government spending by 2020, with a view to invest in "the public priorities" such as the NHS, science and innovation, infrastructure and defence.

The scope and target of these savings is constrained by the forthcoming Brexit referendum in June, which commentators have [described](#) as a "cloud hanging over the Budget" – some insiders have even discussed an emergency budget in July, should Britain chose to leave the EU. Prime Minister David Cameron has acknowledged that there could be significant public fall out from sweeping changes, and [called](#) for the Chancellor to "play it safe" and avoid announcing controversial measures and cuts as seen in previous statements. Economic forecasting group the EY Item Club has already [warned](#) the Chancellor against announcing further austerity measures at risk of denting economic growth, following predictions showing that the UK's 2016 growth forecast will fall from 2.4% to 2.2%.

Yet, Britain's worsening economic situation will mean that the pressure is on for the Chancellor to make savings. The Institute for Fiscal Studies now [estimates](#) that the Chancellor only has a "50-50 shot" of meeting the Conservative manifesto pledge to generate a surplus of £10 billion by the end of 2020 – something important for his own credibility as a potential Conservative leadership candidate. The situation had looked significantly different in November 2015, where a positive economic outlook had given the Chancellor some elbowroom to ease off significant cuts. This has now very much changed, with the Bank of England in February [downgrading](#) its inflation, growth and wage forecasts for this year meaning that the Office for Budgetary Responsibility (OBR) will follow suit. Additional pressure comes from challenging economic figures which [show](#) that Britain's national debt has risen to its highest ever amount - £1.58 trillion - with public sector borrowing reaching £66.5 billion for this year already. The [expected](#) sale of the Government's remaining shares in Lloyds Banking Group should bring a £2 billion respite.

With many of the unprotected departments struggling to carry out the reductions outlined in existing spending plans, the Institute for Government has [indicated](#) that the Chancellor will outline small, roughly uniform cuts to each department without regard for what this means for that department's business. This is an avenue that the Chancellor had taken in 2012 and 2013.

In brief

What has been discussed

The vast majority of speculation so far has focused around changes to **taxation and welfare** – something not surprising given the proportion of government expenditure in these areas. The general theme will be a tightening of support for those out of work or with disabilities, with greater relief for middle class voters.

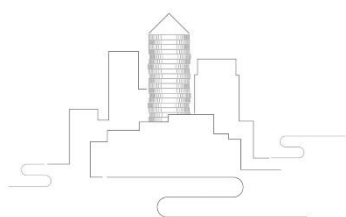
The Chancellor is likely to reveal further information on the Government's **energy** policy, with greater detail on the Levy Control Framework and the Carbon Price Floor. Also expected are announcements on fuel duties, as well as **transport and infrastructure** developments on the introduction of driverless lorries and possible selling of rail lines.

What has not been discussed

There has been a dearth of speculation on **health and social care**, most likely due to major announcements such as the frontloading of the £8 billion of NHS funding by 2020 already being made in November's Spending Review. Similarly, there has been a sparse discussion on **education** policy, with little now expected.

Further details on the speculation so far can be found below, broken down by sector.

- [Taxation and financial services](#)
- [Welfare and Pension](#)
- [Energy and Environment](#)
- [Transport, Insurance and Infrastructure](#)
- [Other areas of speculation](#)



Taxation and financial services

There are likely to be changes to the rate of income tax, as well as the abolition of Class 2 National Insurance contributions and further information on the Business Tax Roadmap

Chancellor George Osborne is [likely](#) to “accelerate progress” towards his plans to increase the threshold for the 40% income tax rate to £50,000 by the end of this Parliament, to placate middle class voters who felt harshly treated in past Budget statements. This move may be married with further tinkering with personal allowance for both 20% and 40% rates of income tax.

There are also rumours that Conservative MPs have [pressured](#) the Chancellor into cutting the top rate of tax from 45% to 40%, in line with a similar move in Budget 2012 that saw a cut from 50% to 45% resulting in £8 billion of additional revenue for the Treasury. This move is speculated to be less popular amongst senior Conservatives, who recall a huge dip in government popularity when the changes were made in 2012.

The Chancellor is almost certain to provide more detail and guidance on implementing the new rules on total inheritance tax (IHT), which come into effect in 2017. The Chancellor announced an increase to the IHT threshold to £1million for couples in the 2015 Budget.

The Chancellor is [expected](#) to abolish Class 2 National Insurance contributions as part of the Government’s plans to align the National Insurance system more closely with income tax as recommended by the Office of Tax Simplification. This abolition could affect performers, stage managers and freelance theatre staff, leading to a possible 500 percent rise in National Insurance payments.

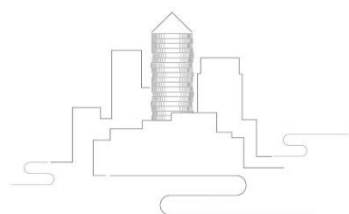
Further details on the Business Tax Roadmap is also [expected](#) to be revealed, which will include next steps on implementing the OECD’s Base Erosion and Profit Shifting (BEPS) recommendations,

to business rates, as well as the next steps on the digital initiative announced in the last Autumn Statement. The Chancellor is also likely to announce the results of the review of the business rates system and may announce changes to business tax reliefs and support for local authorities to help prevent empty rate avoidance.

Also [expected](#) is a clamp down on a tax loophole which is commonly used by public sector workers, including celebrities, as well as highly paid state school teachers and hospital chiefs. Government sources called these arrangements “completely unfair”, as they were only set up to help freelance workers.

Whitehouse analysis

The mooted tinkering to taxation is relatively unsurprising and generally in keeping with the Chancellor's way of working over the last six years – which have been to gradually reduce the burden of tax paid by lower and middle earners. Closing tax loopholes will also appeal to the public, especially given pressure from the media for the Government to tackle corporate tax avoidance.



Welfare and pensions

There will be no significant changes to the pensions system this year, owing to significant pressure on the Chancellor. However, there is likely to be further changes to welfare, which may prove controversial.

The Chancellor has ruled out much [rumoured](#) plans to end or alter tax relief on pension contributions amid criticisms of the plans from Pensions Minister Baroness Altmann, former Pensions Minister Steve Webb and vast swathes of the pensions industry. The changes would have included the potential abolition of the 25 per cent tax-free lump sum on retirement incomes to be replaced either by a pension ISA or a flat-rate relief for all taxpayers, which although would have benefited lower-paid workers, would have led to significant reductions in high-earners' pension incomes.

The Treasury confirmed that the decision had been made mainly based on concerns from business and tax experts and that it was simply “not the right time” to introduce new measures as earlier reforms on the pensions landscape are still bedding in. Sources also confirmed that there was no prospect of the proposed changes being re-examined in the near future. That the U-turn was made for political reasons (upsetting the “grey voters” in the EU referendum and his 2020 leadership bid)

has not gone unnoticed, with Shadow Chancellor John McDonnell [accusing](#) him of putting his political interests ahead of those of the country.

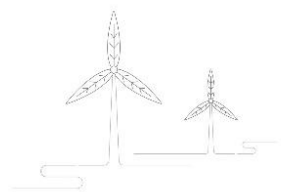
One expected sweetener [announced](#) only recently is a scheme whereby employees on in-work benefits who put aside £50 a month receive a bonus of 50% after two years – worth up to £600. This could then be continued for another two years with account holders receiving another £600 pounds. Shadow Work and Pensions Secretary Owen Smith commented that these proposals are “almost identical” to the ‘Saving Gateway’ scheme that was drawn up by Labour when it was last in power, only to be dropped by Chancellor George Osborne on the basis that it was something that the Treasury “simply cannot afford”.

Also expected is a new iteration of the Department for Work and Pensions Work Programme, now called the Work and Health Programme, which will focus less on "mainstream" unemployed and more on people with disabilities/health problems. Merging a number of initiatives in one programme will likely mean reductions in expenditure.

Whitehouse analysis

The Chancellor has made it quite clear that he wishes to make changes to pensions, but has been warned off making these right now. Such changes look more likely next year, giving additional time for the previous pension reforms to bed in, and without the cloud of Brexit looming over.

Energy and Environment



There is likely to be information on the next Contract for Difference (CfD) auction for “less established technologies”, perhaps coupled with setting out the level of support under the levy control framework (LCF) post-2020. Further measures will be announced regarding the carbon price floor, and the potential for energy saving in the business sector.

Wednesday's budget is expected to feature a number of announcements for the energy sector. After his fellow MPs suggested that recent policy changes have [dented](#) investor confidence, the Chancellor is likely to use the set piece event to provide details on the Levy Control Framework (LCF), effectively charting the course for renewable energy in the UK post 2020. As concerns mount

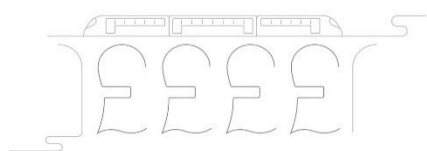
over the future of nuclear, the Chancellor may also take reveal the timeframe for the next CfD round for offshore and the remote Scottish islands, which an auction expected to take place this winter.

A decision will likely be [made](#) on whether to continue to freeze, or scrap the Carbon Price Floor – thoughts of an increase appear fanciful. What is certain to be announced, as mentioned in the Department of Energy and Climate Change's single [departmental plan](#) for 2015-2020, is the outcome of the Government's Business Energy Tax Review into reducing administrative burdens while improving the effectiveness of policy in driving cost-effective energy and carbon savings. The Chancellor is expected to announce measures to address the untapped potential for energy saving in the business sector and simplify the business energy and policy framework. This follows calls from the Confederation of British Industry's (CBI) [call](#) to simplify energy efficiency taxes by setting out the future of the Carbon Price Floor and providing clarity on the Levy Control Framework to support investment in low-carbon energy.

Whitehouse analysis

Environmental think-tank the Green Alliance drew on the Treasury spin book when they [issued](#) a report calling for the budget to outline a "least cost deployment strategy" for decarbonisation post 2020. Yet such an approach would involve a return for onshore wind (in Scotland) and large scale solar – two technologies that have fared worst from the recent "bonfire" of policies.

While a final deal on Hinkley Point remains in the balance, the Conservative's energy strategy is in the spotlight. The Chancellor must grasp the opportunity to provide badly needed clarity. Determining the scope of the LCF should be the first step, and may go some way to boosting industry confidence in the government's ability to decarbonise and keep the lights on.



Transport and infrastructure

Changes could be made to fuel tax duty and the Insurance Premium Tax, with the implementation of driverless lorries likely. There is also a possibility of parts of the railway being sold off.

The IFS has speculated in its "[annual green budget](#)" that the Chancellor could raise fuel duty in line with inflation to boost revenues by an estimated £3 billion, putting an end to a four-year freeze on duty and breaking a key manifesto pledge. While the same rumours circulated last year ahead of the

2015 Summer Budget, a rise now seems more likely as the Treasury believes customers will not feel the full effect of a rise due to continuing fall in oil prices. The Treasury has [refused](#) to rule out an increase in this area, noting that fuel duty freeze was the longest in two decades and will be kept under review like all taxes. However, given the [demands](#) from 150 MPs for the Chancellor to abandon his plans, he is likely to leave out this measure to avoid political unrest.

The Chancellor is expected to [announce](#) funding for the trialling of driverless lorries on the M6 in Cumbria in late 2016, as part of the UK's ongoing drive to be the centre of the fast-growing intelligent mobility market, estimated to be worth £900bn per year globally by 2025. This announcement is part of a wider funding boost for research into driverless and connected vehicles, with £20 million already [allocated](#) for development and research into driverless cars in Bristol, Coventry, Milton Keynes and Greenwich. These existing trials are also expected to receive further funding alongside funding for trials of wireless technology at the roadside to relay traffic information directly to cars.

The Chancellor is also expected to announce that the UK will “lead the way” in testing “HGV platoons”, in line with the Department for Transport's [publication](#) of a road safety plan in December outlining the Government's support for automated lorries.

Another headline announcement is likely to be a new fund to help finance new roads, rail and power schemes. High Speed 1 Chief Executive Nicola Shaw's report on Network Rail's future is also expected to be published alongside the Budget recommending that the Government sell several rail lines such as Greater Anglia and Wessex to reduce Network Rail's £38bn debt. Mark Carne, the Chief Executive of Network Rail, has since [revealed](#) that 18 of Britain's railway stations, including London Waterloo, Paddington and Birmingham New Street could be sold along with 7,500 Network Rail properties, telecoms network and 123 electrical substations to reduce debt. Transport Secretary Patrick McLoughlin has [reportedly](#) endorsed the sale of Network Rail's assets.

Following a report by Lord Adonis's National Infrastructure Commission (NIC) calling for “immediate and very significant investment” in transport in the north of England, the Chancellor is almost certain to confirm [funding](#) for the High Speed 3 link between Manchester and Leeds. This will be bundled into a package of £300 million under the Chancellor's broader “Northern Powerhouse” project. The Chancellor is also expected to announce £80 million for the Crossrail 2 to continue to the next stage of planning, with Londoners expected to fund the second half through fare increases. Other expected headline announcements in this area include the proposed Trans-Pennine Tunnel, an 18-mile road bored through the Peak District to slash journey times between Sheffield and Manchester.

The insurance sector is likely to endure most of the Chancellor's austerity measures, with [rumours](#) of plans to announce a further rise in Insurance Premium Tax (IPT). Seen as an easy revenue

stream, the rise in the rate of IPT from 6 per cent to 9.5 per cent announced in the 2015 Summer Budget allegedly raised £1.58 billion a year for the Treasury, the Chancellor's biggest revenue raiser.

Whitehouse analysis

The proposed plan to increase the IPT has received widespread opposition, both from the insurance industry and fellow Conservative MPs. The Chancellor may make a U-turn to avoid “rocking the boat”, especially as the last increase, which only came into force in November 2015, led to a 4% increase in the average insurance premium. Instead, we anticipate the Chancellor pushing forward with a rise in fuel duty, whilst ensuring that attention is drawn to ongoing investments in autonomous vehicles and connected technology.

Elsewhere, there is a nod to Groundhog Day in Chancellor's transport plans, with investment for both HS3 and Crossrail 2 having been previously announced. The Chancellor will want to highlight that Londoners will pay half of Crossrail 2 project to deflect criticism that the Capital receives disproportionate infrastructure investment. However, with the mayoral election looming, Londoners' resentment for yet another fare increase may hamper Conservatives' Zac Goldsmith's mayoral bid.

Other areas of speculation

The Chancellor is [expected](#) to set out details of the Government's plan to launch a new “help to save” scheme to help families on low incomes to save for a rainy day. Prime Minister David Cameron first unveiled the new scheme in a speech in early March, noting the Government's ambition to help build families financial resilience.

If you would like to find out more information about Whitehouse or require public affairs support, please do not hesitate to get in touch with Helen Munro at helen.munro@whitehouseconsulting.co.uk or on 020 7014 3204.

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