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Budget 2016

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Summary: ***Billed as a Budget 'for the next generation', the Chancellor used the limited room he had for manoeuvre given economic trends and the Government's commitment to its deficit-reduction plans to set out a Budget with a focus on business tax reform, devolution, infrastructure, education and savings. The Government reaffirmed its commitment to the Northern Powerhouse with a number of investments announced on improving transport in the North and the development of a new schools strategy for the Northern Powerhouse. For Greater Manchester a raft of measures were agreed as part of its fourth devolution deal, including Greater Manchester becoming a pilot for the approach to 100% business rates retention, the creation of a Life Chances Investment Fund to increase investment in innovative approaches to delivering public resources, the creation of a Single Pot for investment in economic growth, and a greater role in the delivery of criminal justice services.***

Economic context

The context for the Budget was set by a new economic forecasts produced by the Office for Budget Responsibility (OBR), which cited recent falls in global stock markets and commodity prices and a weakening of international GDP growth as reasons for a downgrade of UK growth forecasts. The OBR now estimate that GDP will grow by an average of 2.1% a year over the rest of the decade, a 0.3 percentage point reduction on previous estimates. The Chancellor responded to the knock-on effects that a reduction in GDP growth is expected to have on public finances by adjusting the Government's plans for achieving a budget surplus by 2019-20. The net effect is to reduce the deficit at a slower rate than was predicted in the 2015 Spending Review and to achieve a net surplus during the current Parliamentary term only if a further £3.5 billion worth of spending reductions, over and above previous plans and not yet allocated to specific departments, can be achieved in 2019-20. In addition to these savings, which are the equivalent to 0.5% of total government spending, analysis by the Institute of Fiscal Studies shows that there could be a further £9.9bn of cuts in revenue spending in 2020-21. Local authorities could, given previous experience, disproportionately feel the brunt of these cuts, although this is now made more complicated by the fact that by 2020 local government is expected to be funded out of business rates revenue. Cuts would therefore have to be passed on by giving additional responsibilities to local government, without passing on any additional funding. At this point how (or indeed whether) the net surplus target will be met is highly uncertain.

Devolution to Greater Manchester

Government announced the fourth devolution package with Greater Manchester, with key agreements on business rates retention, criminal justice, investment funding for both growth and reform activity, adult skills, and housing, amongst other measures. The main announcements were that GM will be:

- piloting, along with the Liverpool City Region, 100% business rates retention from 2017 – 3 years ahead of schedule. This will ensure that GM local authorities will be able to retain any growth in business rates income to invest in projects designed to secure further economic growth. This comes as part of the Government's commitment to delivering 100% Business Rates retention for local authorities in England by the end of this Parliament;
- jointly establishing with Government a Life Chances Investment Fund from April 2017, aligning

funding from the Troubled Families Programme, the Working Well pilot and the Cabinet Office Life Chances Fund with local resources to increase investment in innovative approaches to delivering public resources;
- given the power to establish a Single Pot for investment in economic growth, pooling transport funding with Local Growth Funding and GM "Earnback" investment funding;
- taking on a greater role in the delivery of criminal justice services, including greater involvement in the commissioning of offender management services, greater influence over education provision in prisons, and joint work with Government to better align services for youth offenders;
- securing more influence over funding to support the victims of crime, and working with Government to explore how other budgets could be devolved, including the custody budgets for female offenders, young offenders and those sentenced to less than 2 years in prison;
- working with Government on the national policy agenda to create a modern new prison estate by exploring options for a Resettlement Prison in Greater Manchester and having greater involvement in future plans for the local courts estate;
- building on previous agreements, from 2016/17 working with Government to ensure that adult skills provision better achieves the outcomes needed locally and from 2018/19 the 19+ adult skills budget will be devolved in full to the GMCA; and
- working with Government to develop a strategic approach to regulatory delivery, building on the Better Business for All national programme.

In addition, Government has committed to consider GM's business case for a Land Programme to bring forward development on brownfield sites following the production of the draft GM Spatial Framework in Autumn 2016 and to work with GM to pursue innovative approaches to delivering social housing. This will include a review of the way that national housing programmes are structured and delivered and a discussion of the level of resources required to deliver local housing objectives.

Separately to the devolution deal, funding of £1.1m was allocated to Central Manchester University Hospitals NHS Foundation Trust to contribute to a dedicated helicopter landing pad and £375,000 was allocated to the Greater Manchester Women Offender Alliance to develop their approach to working with women offenders and those at risk of offending.

Wider devolution announcements

In addition to the Greater Manchester deal, the Budget outlined a continuation of the Government's devolution policy to other parts of the UK. A City Deal for Cardiff was announced, along with the start of negotiations on deals for Swansea and Edinburgh. Within England, devolution deals were announced with the West of England, East Anglia and Greater Lincolnshire and each of these areas will be covered by new Combined Authorities.

There will also be a further round of Growth Deals, with up to £1.8 billion to be allocated through Local Enterprise Partnerships later this year. More details are expected soon. A further £2 billion of the Local Growth Fund is being allocated through the Home Building Fund, providing finance to developers to unlock large housing sites and bring forward the necessary infrastructure that housing sites require.

As part of the Government's drive to move civil servants out of Whitehall, the Budget also announced that the Ministry of Justice "will have a major programme to create substantial centres of expertise outside the capital. This will reduce costs, access highly skilled labour markets in the regions and contribute to the Northern Powerhouse". No detail on the likely locations of these centres was provided.

Running against the devolution trend somewhat, the Budget announced that Government will consult on new rules requiring local authorities to be transparent about the cost of the in-house services they provide and whether there could be savings from using competitive external providers. No further detail is available at present.

Northern Powerhouse

The Budget reaffirmed the Government's commitment to the Northern Powerhouse by announcing a number of transport investments and plans for a Northern Powerhouse Schools Strategy.

The government has accepted recommendations on improving northern connectivity made by the National Infrastructure Commission, bringing forward planned improvement to the strategic road network and giving the green light for high speed rail between Manchester and Leeds. Announcements affecting Greater Manchester include:

- high level approval for High Speed 3 between Manchester and Leeds, with the aim to reduce rail journey times to around 30 minutes. £60m has been provided to develop plans and improve connections between the two cities;
- £4 million to support the development of High Speed 2 Growth Strategies for Manchester Piccadilly and Manchester Airport;
- £161 million to accelerate the upgrade of the M62 to a four-lane smart motorway. Bringing forward upgrades between junction 10-12 Warrington to Eccles and junctions 20-25 Rochdale to Brighouse;
- £75 million to develop a business case for a Trans-Pennine tunnel under the Peak District between Manchester and Sheffield and to accelerate the development of major new road schemes across the North, including on the M60, A66 and A69;
- accelerating the development of the Simister Island junction, and to begin upgrades to the M56 at junctions 6-8 south of Manchester;
- an additional £130m was allocated to repair roads and bridges damaged by flooding in Cumbria, West Yorkshire, Northumberland, Greater Manchester, Durham and North Yorkshire.

The Government also announced £20m a year of new funding for a Northern Powerhouse Schools Strategy designed to improve performance in failing schools with a focus on sharing best practice. Sir Nick Weller will lead a report into transforming education across the North, which is expected to report within six months.

Measures to support the North's creative and cultural offer were announced, including a commitment to consider the case to support the creation of 'International Screen School Manchester' and an invitation for northern cities and towns to bid to host the Great Exhibition of the North in 2018.

Taxation

In addition to the devolution of business rates to GM cited above, the Budget also announced the modernisation of the business rates system with more frequent business rates revaluations (at least every 3 years), the linking of local authority business rates systems to HMRC digital accounts by 2022, and consideration of the feasibility of replacing Small Business Rates Relief with a business rates allowance.

There were also reductions in business rates with the permanent doubling of Small Business Rates Relief from 50% to 100% for properties with a rateable value of £12,000 and below, and then tapered relief for valuations between £12,000 and £15,000; increasing the threshold for the standard business rates multiplier to a rateable value of £51,000; and the indexation of business rates being switched from RPI to the lower CPI from April 2020. The overall impact is a reduction in business rates in England of £6.7bn over the next five years, with local government compensated for the loss of revenue over that period.

In other announcements, the Income Tax Personal Allowance is being increased from £11,000 in 2016-17 to £11,500 in 2017-18. While around one-in-five workers (part and full time) in Greater Manchester already earn below the threshold, so will not benefit from this change directly, it may relieve pressure for some low income workers, or enable them to increase their hours without punitive tax penalties. An employee who works 30 hours on the new national living wage will now avoid income tax. In addition, the higher rate threshold (the point at which people start paying the 40% rate of Income Tax) is being increased to £45,000 in 2017-18 in line with the Conservative Manifesto pledge to raise it to £50,000 by the end of this Parliament.

Tax incentives for saving were extended, with any adult under 40 in April 2017 able to open a new Lifetime ISA, in which up to £4,000 can be saved tax-free every year and receiving a 25% bonus from the Government. These savings can either be withdrawn to purchase a first home or withdrawn tax free at aged 60 for retirement. The general ISA allowance will increase from £15,240 to £20,000 in April 2017.

A new Help to Save scheme for people on low incomes was also announced, with account holders able to save up to £50 a month and receive a 50% government bonus after two years. Account holders can then choose to continue saving under the scheme for a further two years. The scheme will be open to all adults in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage or those in receipt of Working Tax Credits. It could benefit up to 3.5 million people nationally.

In a boost to business, the rate of Corporation Tax is being cut again, falling to 17% in 2020 from the current rate of 20%. For some companies this will be (partially) offset by restrictions on tax relief for losses and interest payments. The higher rate of Capital Gains Tax is being reduced from 28% to 20%, and the basic rate from 18 per cent to 10 per cent, from April 2016. This will not apply to gains on residential property, although main homes are already exempt.

A new Soft Drinks Industry Levy – or 'Sugar Tax' – will be introduced, levied on producers (not retailers) of soft drinks that contain added sugar. Rates will depend on the quantity of sugar and there will be exemptions for small operators, as well as for pure fruit juice and milk-based drinks. The revenue of around £520m will be spent on encouraging more sport in schools, extending the school day in 25% of secondary schools, and expanding breakfast clubs. This could have a long term positive impact on GM's health and social care budget, although further work is required to quantify this. Details will be consulted on over the summer.

Other key announcements included:

- National Insurance was cut for the self-employed from April 2018, with the abolition of Class 2 NICs, although the self-employed will still need to pay Class 4 NICs.
- Stamp Duty on commercial property is being reformed with lower rates on lower value properties offset by higher rates on higher value properties.
- Insurance Premium Tax is being increased from 9.5 to 10 per cent.
- Measures to tackle tax avoidance and evasion are forecast to raise £12bn.
- Fuel duty was frozen for the 6th successive year, as was duty on beer, whisky and most ciders.

Education and skills
Alongside the devolution announcements on adult skills, major decisions about schools were outlined in the budget. Chief among them the plan to 'expect' all schools to become academies by 2022 (or to have an 'academy order' in place). In theory, and if enacted, this would remove education entirely from local authority influence. Elsewhere, £285 million will be provided to enable a longer school day and breakfast clubs are to be expanded. Academic education also received a potential fillip with the offer of loan funding (up to £25,000) for PhD students. However, compared with previous budgets and autumn statements there were few notable items about vocational skills. The exception was a missing piece of the apprenticeship levy jigsaw. Previously, the government had not provided details about how payers of the apprenticeship levy from April 2017 will 'get out more out of the system than they put in'. The budget pledged that a 10% government top-up to the digital accounts of levy payers will be made. Further announcements on the levy are expected in April and June.

As was already known, the new 'national living wage' will be introduced at £7.20 for workers over 25 years old from the 1st April 2016. This budget also confirms the situation for younger workers aged between 21 and 24: they will receive a new rate of £6.95 from October 2016. This is an increase of 25p an hour (3.7%), compared with the jump of 50p (7.5%) an hour for 25+ year olds. 18-20 year olds also receive an increase of 25p (4.7%) to £5.55 an hour from £5.30 today. 16-17 year olds receive a smaller rise of 3.4% to £4.00 an hour. The minimum wage for apprentices will also rise – up to £3.40 an hour from the current £3.30 (3%).

Business and Science
The Budget set out measures for low-earning self-employed people to grow their businesses. Self-employed Working Tax Credit claimants will be provided with access to business support services. Mentoring support offered on the New Enterprise Allowance scheme to self-employed Universal Credit claimants will be extended. The Government will also trial face-to-face support from Jobcentre advisors for self-employed Working Tax Credit claimants. This is a welcome measure, given that forthcoming changes to Tax Credits and Universal Credit will make it more difficult for individuals to sustain self-employment. However, given the Department for Work and Pensions' very tight Spending Review settlement, it is not yet clear whether there will be sufficient resource to provide the level of resource needed by these individuals.

The Budget also announced a number of measures designed to provide new ways of delivering financial services and improve access to finance for small and medium enterprises. This includes a new £1 billion package to support SMEs through the British Business Bank and an announcement that small firms that are rejected for finance by high-street banks will be able to access alternative sources through new platforms (Bizfitech, Funding Options and Funding Xchange), which will match borrowers and alternative lenders.

Greater Manchester and East Cheshire (along with Edinburgh and the Lothians, South West England and South East Wales, Sheffield City Region and Lancashire LEP, and the Midlands) will benefit from being in the first wave of science and innovation audits. This will map research and innovation strengths in GM and East Cheshire and confirm areas of potential global competitive advantage.

Housing and Planning

The Budget included several measures aimed at increasing home ownership, most notably through providing further details on the previously announced Starter Homes Land Fund. This will be a £1.2 billion fund to remediate brownfield land for 30,000 Starter Homes (defined as homes for first time buyers under 40 valued to £250,000 with a 20% discount outside London). The Government also intends to accelerate delivery of 13,000 affordable homes with a £250m fund to be spent between 2018 and 2019. A package of support to tackle homelessness was also announced.

Plans to encourage more land to be brought forward for development were announced, including that:

- the Homes and Communities Agency will work with Network Rail and local authorities to bring forward land around rail stations for housing and commercial development;
- the Government will legislate on making it easier to create new garden towns and cities and will consult on a second wave of Compulsory Purchase Orders to make the process quicker and fairer;
- for smaller settlements of 1,000 to 10,000 homes, which are garden villages and market towns, the Government will announce financial and planning flexibilities for local authorities who wish to submit proposals;
- £2 billion of the Local Growth Fund is being allocated through the Home Building Fund, as outlined above; and
- a consultation will be launched on making information around land options more transparent and visible. This will help in understanding land interest and potential barriers to development of sites.

Transport

In addition to the transport announcements outlined as part of the Northern Powerhouse related announcements the Budget also gave the green light for Crossrail 2 to proceed. The government will provide £80 million to develop the project with the aim of bringing forward a Hybrid Bill this Parliament. Other transport related announcements included plans for Highways England to carry out trials of driverless cars and truck-platooning. In addition, it is expected that the transport spending programmes confirmed in the Autumn statement will be mobilised shortly by the Department for Transport following the Budget.

Low Carbon, Energy and Environment:

The Budget included some significant announcements regarding the taxation and reporting of climate change emissions and energy, including:

- The abolition of the Carbon Reduction Commitment with an increase in the Climate Change Levy (CCL) paid on gas and electricity on all non-domestic bills to compensate from 2019;
- The Climate Change Levy will increase but CCA Energy Intensive Industries covered by Climate Change Agreements (CCAs) will be compensated, and eligibility for CCA will be the same until 2023;
- A new reporting framework will be introduced in April 2019 applying to all medium and large organisations. Further consultation will be happening to shape what this should look like.

The proposed measures will spread taxes and reporting obligations over a larger number of organisations than previously covered, and may require all organisations with over 250 employees (including local authorities, charities etc.) to introduce carbon and energy accounting and reporting systems. However at this stage there is no shift away from deploying carbon tax revenues through the major energy companies.