

Budget Analysis 2015



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Introduction

Following the publication of the Budget by HM Treasury and the Economic and Fiscal Outlook by OBR, this document looks in more detail at the measures announced and provides some feedback in light of ACE's experiences within the infrastructure sector. Within this, the report will explore the potential impact of the measures announced and will look at their significance both nationally and regionally.

ACE has been actively involved in campaigning on the importance of infrastructure as a driver for economic growth.

As part of this lobbying, ACE has developed its research series to help government drive growth and increase investment into infrastructure. This series of papers includes reports on:

- Performance of PFI
- Public Private Finance Models (PPFM)
- Procurement in PPFM
- Pensions and Infrastructure
- Green Investment Bank
- State Investment Bank
- The Housing Gap
- Revolutionising Housing
- Funding Roads
- Electricity Market Reform: Generating Results
- Department for Infrastructure

With the impending election and the shift to focusing on infrastructure investment in the National Infrastructure Plan (NIP) alongside the Autumn Statement, there is little in the way of new announcements that relate directly to new infrastructure expenditure.

There were, however, a few announcements regarding Help to Buy ISAs and devolution which, whilst not being significant in scale at this time, form part of a growing trend to devolve spending and investment decisions. As such, continuing to follow this debate will be important for the industry in the future.

The Budget - measures announced

Housing

- The government is designating the first 20 Housing Zones outside London, and continuing to work with the other 8 shortlisted areas.
- The Budget 2015 announces the Help to Buy: ISA. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings.
- Budget 2015 also announces £97 million of funding and ring fencing of the local 50% share of business rate growth to support the London Borough of Barnet and the Greater London Authority's (GLA) plans for the regeneration of Brent Cross.
- DCLG will announce the Board members for the Urban Development Corporation (UDC) for the garden city at Ebbsfleet, who will lead the Corporation alongside the Chairman Designate, Michael Cassidy. The Chancellor has asked the UDC to work with the government to produce a prioritised, realistic and costed plan for infrastructure needs at Ebbsfleet.
- The launch of a consultation into the compulsory purchase regime to make it clearer, faster and fairer for all parties.

Devolution and regional measures

- The government is opening negotiations with local partners and the Scottish and Welsh Governments for City Deals for Cardiff, Aberdeen and Inverness. In Inverness the government is making funding available in 2015-16 to help progress the deal.
- Transport for the North (TfN), which will draw up a comprehensive Northern Transport Strategy. TfN will shortly publish an interim report, committing to build on the concept of HS3 to develop a network of high quality rail connections across the north.
- The government is also committing £14 million over two years to invest in an Advanced Wellbeing Research Centre (AWRC) in Sheffield.
- The government will support:
 - Sheffield 'Maker Hub' – £3.5 million government investment to renovate a former Co-Op department store in the Castlegate area.
 - Leeds 'Future Labs' – £3.7 million government investment to renovate a derelict police headquarters in the heart of Leeds, creating a 6 floor incubator

- Manchester 'Forward Plan' – £4 million government investment towards an 8 floor incubator in Federation House, located in Manchester's Northern Quarter
- The government will provide £1 million to the Centre for Process Innovation to support innovation and knowledge transfer in the North East's chemicals sector.
- Budget 2015 provides £1 million to allow the London Land Commission (LLC) to create a comprehensive database of public sector and brownfield land.
- The government will also provide £7 million to the Greater London Authority to support the development of the Croydon Growth Zone.
- The government will provide £138 million of funding towards the UK Collaboratorium for Research in Infrastructure and Cities (UKCRIC)

Energy

- The government will bring forward the FITs component of the compensation to the earliest point at which State Aid approval is received in 2015-16. This is expected to save energy intensive industries a further £25 million in 2015-16.
- The government will enter in to the first phase of negotiations on a Contract for Difference for Swansea Bay Tidal Lagoon.
- To support the oil and gas sector the government announced:
 - A reduction in the Supplementary Charge from 30% to 20%,
 - A reduction in Petroleum Revenue Tax from 50% to 35%
 - £20 million of funding for a programme of seismic surveys
 - Give the Oil and Gas Authority the powers it needs to scrutinise companies' plans for decommissioning programmes

Research and development

- The government will implement a package of measures to improve the accessibility of R&D tax credits for smaller businesses, including producing new guidance aimed at smaller firms and setting out a roadmap for further improvements over the next two years.
- The government will invest a further £100 million in cutting-edge research projects through the current UK Research Partnership Investment Fund round.
- The government will commit £400 million to 2020-21 for the next round of funding for cutting-edge scientific infrastructure.

Broadband

- The government is announcing a new ambition that ultrafast broadband of at least 100Mbps should be available to nearly all UK premises. No time frame for the rollout of this measure is mentioned, however.
- The government will explore raising the Universal Service Obligation from dial-up speeds to 5 Mbps broadband and subsidising the costs of installing superfast capable satellite services.
- The government will provide up to £600 million to support the delivery of the change of use of 700MHz spectrum.
- The broadband connection voucher scheme, extended at Autumn Statement 2014 to March 2016, will be available in a total of 50 cities by 1 April 2015.

International

- The Budget announces a near doubling of funding for UK Trade and Investment (UKTI) activities in China, including a focus on the advanced manufacturing, transport, financial services, healthcare and life sciences sectors, to ensure that opportunities for British businesses to trade with China are maximised.
- Funding is to be made available for an ambitious series of trade missions focused on regional strengths, and to ensure that the UK makes the most of the International Festival for Business in Liverpool.

Asset sales

- The government's plan to sell £9 billion of Lloyds shares over the next year, continuing the progress of the last year.
- UK Asset Resolution (UKAR), which manages the government's ownership of NRAM plc and Bradford & Bingley plc, is announcing a major sale of assets held from the forced nationalisation of Northern Rock and Bradford & Bingley plc

Taxation

- The main rate of corporation tax has been cut from 28% to 21%, and will reach 20% in April 2015.
- The personal allowance will increase to £10,600 from April 2015.
- The abolition of Employer NICs for under 21 year olds from April 2015 will benefit employers of almost 1.5m young people, by £332 per employee on average.
- Fuel duty will continue to be frozen.
- There will be a broad review of business rates to ensure that they are fit for purpose.

- The personal allowance will be increased to £10,800 in 2016-17 and to £11,000 in 2017-18.
- The higher-rate threshold will rise in line with the personal allowance, taking it to £42,700 in 2016-17 and £43,000 in 2017-18.

Inflation target

- The Bank of England's inflation target of 2% will remain in place.

Government departments

- Budget 2015 confirms that proposals have been agreed with all departments to abolish progression pay across the Civil Service.

Government services delivered online

- Following a successful trial, the government will implement 'GOV.UK Verify' which is a new way for people to prove their identity online when using government services.
- The government will transform the tax system over the next Parliament by introducing digital tax accounts, removing the need for annual tax returns.

Public asset management

- Budget 2015 announces that the government will implement a new commercially-driven approach to land and property asset management across the central government estate, based on departments paying market-level rents for the freehold assets they own.

A new pound coin

- Budget 2015 confirms the specification of the new coin, with its introduction expected in early 2017.

Savings

- A new Personal Savings Allowance will be created from April 2016, exempting the first £1,000 of savings income from any tax for basic rate taxpayers and the first £500 for higher rate taxpayers.
- Budget 2015 announces that the automatic deduction of 20% income tax by banks and building societies on non-ISA savings will cease from April 2016.
- The government will allow ISA savers to withdraw and replace money from their cash ISA without counting towards their annual ISA subscription limit for that year, as long as the repayment is made in the same tax year as the withdrawal.

- The government will extend the range of ISA eligible investments in 2015-16 to include listed bonds issued by a co-operative society and community benefit society and SME securities issued by companies trading on a recognised stock exchange.

Pensions

- From April 2016, the government will change the tax rules to allow people who are already receiving income from an annuity to sell that income to a third party, subject to agreement from their annuity provider.
- The government will reduce the lifetime allowance for pension contributions that benefit from tax relief from £1.25 million to £1 million. This will be effective from 6 April 2016.
- The lifetime allowance will be indexed to increase annually by CPI from 6 April 2018.

Bank levy

- The government will increase the Bank Levy from 0.156% to 0.210% from 1 April 2015.

The Budget – debt and the deficit

Reducing debt as a percentage of GDP

Over the past five years much debate has taken place over the continued deficit and the scale of public sector debt. As such, one of the most interesting announcements in the Budget concerned UK debt as a percentage of GDP. This is now forecast to start falling in 2015-16, thus giving the government a boost as it would mean meeting the debt target they set out in 2010.

This was, however, not the case at the Autumn Statement, so what has changed?

Firstly, the deficit as forecast going forward by the Office for Budget Responsibility (OBR) has been revised down. The current forecast has the deficit at its post-war peak of 10.2% of GDP in 2009-10 falling to 4.0% of GDP in 2015-16 reaching a surplus of 0.2% of GDP in 2018-19.

This is the final year for which the government has set departmental spending plans, something which the next government will have to outline going forward in the next Comprehensive Spending Review, expected towards the end of 2015.

So what does this mean for public sector debt? One would generally assume that if government were still borrowing, debt as a percentage of GDP must still be rising.

One of the reasons this is not the case in the government's forecasts released today is because the rate at which GDP is expected to grow going forward has been revised up. This has the effect of relieving pressure on the debt as a percentage of measure.

In theory, if GDP growth rises at a faster rate than the growth in national debt, we will see a fall in the measure of debt as a percentage of GDP, despite debt continuing to rise.

A further aspect in this calculation is that borrowing costs for government are lower than previously expected. As such, this saving feeds through into future years.

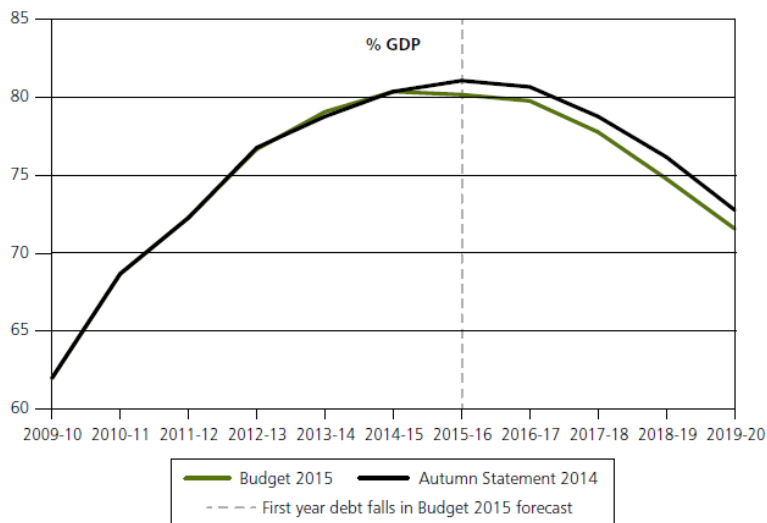
The actions taken as part of the Budget to reduce the deficit have also played a part. The government sets out the following assumptions going forward:

- Continuing the state's exit from ownership of banks, selling a further £9 billion of the taxpayer's remaining shareholding in Lloyds Banking Group over the next year.
- UK Asset Resolution (UKAR), which manages the government's ownership of NRAM plc and Bradford & Bingley plc, is announcing a major sale of £13 billion assets held from the forced nationalisation of Northern Rock and Bradford & Bingley.
- Continuing to reduce the deficit with around £30 billion of consolidation in 2016-17 and 2017-18.

- By outlining a neutral fiscal assumption that Total Managed Expenditure will be held flat in real terms in 2018-19 and rise in line with GDP in 2019-20.
- Setting out further detail on the government's aspiration to find £10 billion in further efficiency savings by 2017-18.

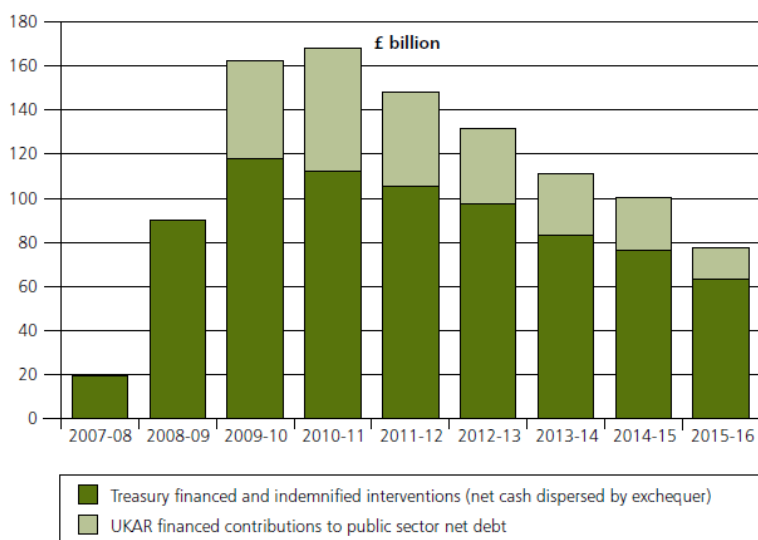
These measures result in the government being able to reduce spending at a pace that is significant enough alongside GDP growth to result in debt falling as a percentage of GDP a year earlier. The profile of Public sector net debt as forecast within the Budget by the OBR is shown below:

Chart 1.7: Public sector net debt



What is interesting, and is less often discussed is the scale of the effect UKAR contributions have on public sector net debt which is shown below. This demonstrates the significance of removing this contribution going forward within the public debt calculation.

Chart 1.5: Calculated impact of financial sector interventions on net debt



Source: HMT calculations based on HMT accounts, Office for National Statistics and Office for Budget Responsibility.
 Figures for 2015-16 include OBR-certified costings of the sale of financial sector assets in 2015-16, comprising Lloyds Banking Group and UKAR.

The budget – new measures within the sector

Below is a summary of the policy decisions (table 2.1) in Budget 2015 which together constitute a rise in public expenditure. Greater detail around these measures can be found in the original Budget 2015 documents.

As anticipated following the Autumn Statement which coincides with an update of the NIP there is little change in the infrastructure picture with most measures being around oil and gas sector or the new help to buy ISA, which may help to boost house building.

Policy measure	2015-16	2016-17	2017-18	2018-19	2019-20
Oil and gas: 15% cut to Petroleum Revenue Tax		125	115	85	10
Oil and gas: support for seismic surveys spend	20				
Energy intensive industries: bring forward compensation for Feed-in Tariffs	25				
Exports and investment: UKTI China and trade missions	15				
Regional growth spend	15				
Support for technological innovation spend	20				
Telecommunications spend	15				
Help to Buy: ISA	45	230	415	640	835
Totals	155	355	530	725	845

How does the UK compare internationally

The latest World Economic Forum [Global Competitiveness Report 2014-15](#) reveals the UK is ranked 27th for the quality of its overall infrastructure out of 144 countries. This continues to raise questions not only about the quality of the UK's infrastructure but also about how attractive the UK is, and will be to international companies.

The results reveal that the UK ranks in the top ten for only two categories (availability of airline seats and fixed telephone lines) with modes of transport rating poorly (rail 16th, roads 30th, ports 16th and air transport 28th).

The 2014-15 numbers show that the UK's performance has deteriorated slightly across categories compared to the previous year, reinforcing the need for further investment into infrastructure.

Looking at activities that relate to business operations, the UK achieved top ten rankings in property rights (4th) intellectual property protection (8th) Judicial independence (7th) and the efficiency of the legal framework in settling disputes and in challenging regulations (5th and 7th).

The UK also ranks 14th globally in terms of its ethical behaviour, 16th for the strength of its auditing and reporting standards and 17th for the efficacy of corporate boards.

Whilst such ratings could be improved they show that the UK has a lot to offer in terms of its position as a global service provider.

The financial crisis, recession and continuing economic challenges, however, continue to show through in the data. For example, the UK is now ranked as being 82th for the ease of access to loans and 89th for the soundness of its banks, this is, however, a significant improvement on the previous year when the soundness of UK banks was rated as 105th.

It is important to note though that there are a number of encouraging signs as well for the UK. The UK is ranked as 4th for university-industry collaboration in R&D, 2nd for the quality of its scientific research institutions and 1st in the legal rights index.

What level of investment is required?

There are a number of estimates as to the scale of investment in infrastructure that the UK is planning to undertake, and its actual need to become internationally competitive. For example, the Government's National Infrastructure Plan¹ states that currently an investment pipeline of £466 billion.

¹ HMT, National Infrastructure Plan, 2014

The reports

- The Budget (document)
<https://www.gov.uk/government/publications/budget-2015-documents>
- Chancellor's Statement
<https://www.gov.uk/government/speeches/chancellor-george-osbornes-budget-2015-speech>

ACE economic and policy papers

This paper forms part of a growing portfolio of research by ACE into the effects of infrastructure on the wider economy. The papers below outline the case for funding, a variety of funding methods including traditional and new forms of infrastructure spending stimuli, and more detailed sector specific issues such as retrofitting and microgeneration.

To access go to: www.acenet.co.uk/economic

Department for infrastructure

This paper examines the case for establishing a fully-fledged Department of Infrastructure which gathers together the planning and strategic policy development functions of other departments.

Electricity Market Reform: Generating Results

This paper explores the role of the current energy companies in the retail and generation sectors, and suggests reforms to EMR.

Funding roads

This report takes a macroeconomic approach to explore the potential inefficiency and loss of economic productivity as a result of the current condition of the road network. The report then suggests a new model for road development going forward.

Revolutionising housing

This paper is the second in ACE's housing paper series and explores in detail a new model to rebalance the incentives for development

The housing gap

This paper is the first in ACE's housing paper series and explores in detail the conditions within the UK housing market.

State Investment Bank

This paper is the final paper in ACE's infrastructure investment series and explores in more detail the rational and practicalities of establishing a State Investment Bank.

Green Investment Bank

This paper is the fifth in ACE's infrastructure investment series and explores in more detail the rationale behind the Green Investment Bank and the challenges it faces going forward given market conditions in 2012.

Pensions and infrastructure

This paper is the fourth in ACE's infrastructure investment series and explores in more detail the current conditions within the market, and the implications they have on pension funds' investment potential into infrastructure.

Procurement in PPFM

This paper is the third in ACE's infrastructure series and examines how to improve procurement in Public Private Finance Models (PPFM).

Public Private Finance Models

This is the second in ACE's infrastructure series and explores in more detail the rationale, performance and conditions that surround Public Private Finance Models (PPFM).

Performance of PFI

This paper is the first in ACE's latest infrastructure series and reviews the performance of historical PFI data to learn lessons for the development of new financing models.

About ACE

As the leading business association in the sector, ACE represents the interests of professional consultancy and engineering companies large and small in the UK. Many of our member companies have gained international recognition and acclaim and employ over 250,000 staff worldwide

ACE members are at the heart of delivering, maintaining and upgrading our buildings, structures and infrastructure. They provide specialist services to a diverse range of sectors including water, transportation, housing and energy.

The ACE membership acts as the bridge between consultants, engineers and the wider construction sector who make an estimated contribution of £15bn to the nation's economy and the wider construction market contributing a further £90bn

ACE's powerful representation and lobbying to government, major clients, the media and other key stakeholders, enables it to promote the critical contribution that engineers and consultants make to the nation's developing infrastructure.

ACE's publications, market intelligence, events and networking, business guidance and personal contact, we provide a cohesive approach and direction for our members and the wider industry. In recognising the dynamics of our industry, we support and encourage our members in all aspects of their business, helping them to optimise performance and embrace opportunity.

Our fundamental purposes are to promote the worth of our industry and to give voice to our members. We do so with passion and vision, support and commitment, integrity and professionalism.

Disclaimer

This document was produced by ACE and is provided for informative purposes only.

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