

Briefing for Members

Budget: March 2016

1. Headlines

- Growth forecast cut for the next five years and £3.5bn in extra public spending cuts by 2020
- Upgrading of the A66 and A69 routes in the North East
- A further cut to corporation tax, with the rate falling to 17% by 2020 and a reduction in Capital Gains Tax from 28% to 20%, and from 18% to 10% for the basic rate.
- Small Business rate relief is to be doubled
- Fuel duty frozen for the sixth consecutive year
- Sugar Levy on soft drinks to be introduced, with the proceeds to be spent on school sport
- 2% increase in tax on cigarettes, with 3% on rolling tobacco, but beer and cider duty will be frozen as will the levy on whisky and other spirits
- The rate at which workers start paying top rate tax is to be raised from £42,385 to £45,000, with the tax-free personal raised to £11,500 and corporation tax to be cut to 17% by April 2020
- An extra £700m for flood defences - to be paid for with a 0.5% increase in the tax on insurance premiums

2. UK economy

The independent Office for Budget Responsibility (OBR) figures for projected UK GDP growth has been reduced slightly. The OBR expects the output gap to narrow slowly and to close during 2018. Increases in UK employment, coupled with decreases in both unemployment and the claimant count figure have boosted the Chancellor's economic plans, as well as projections that CPI inflation will meet the 2.0% inflation target in 2019. The Chancellor and OBR remain confident that the country will run a surplus by the end of the Parliament if current projections hold true.

Growth and inflation and forecasts:

	2015	2016	2017	2018	2019	2020
GDP growth (%)	2.2	2	2.2	2.1	2.1	2.1

Deficit Forecast:

	2016-7	2017-8	2018-9	2019-20
Deficit forecast (£)	-£72.2bn	-£55.5bn	-£21.4bn	+£10.4bn

3. Taxation

The Chancellor confirmed that the Government will continue to cut corporation tax further, with the rate falling to 17% in 2020, the lowest tax rate in the G20.

Business rates also saw significant changes with the doubling of Small Business Rate Relief (SBRR). Businesses with a property with a rateable value of £12,000 and below will receive 100%, whilst those with a rateable value of between £12,000 and £15,000 will receive tapered relief.

Furthermore, there have been increases for the standard business rates multiplier to a rateable value of £51,000. From April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI to be consistent with the main measure of inflation, currently CPI.

The Government will also work with local authorities in England to standardise business rate bills and ensure ratepayers have the option to receive and pay bills online by April 2017, with an

ultimate goal of the business rate system being linked to HMRC digital tax accounts by 2022. Local Government will also be compensated for the loss of income as a result of the business rates measure change and the impact will be considered in the forthcoming consultation on the implementation of 100% business rate retention in summer 2016.

For the self-employed, Class 2 National Insurance Contributions (NICs) will be abolished, saving on average £134 per year. Class 4 NICs will be reformed so that self-employed individuals build entitlement to State pension and other contributory benefits, following abolition of Class 2 NICs.

Capital Gains tax will be cut from the current 28% to 20% and the basic rate will be reduced from 18% to 10%. Entrepreneur's relief will be extended to long term investors in unlisted companies.

The CRC Energy Efficiency Scheme will be abolished following 2018-19 compliance. Income will be recovered from an increase in the Climate Change Levy (CCL) from 2019. CCL will be rebalanced for different fuel types to reflect recent data on fuel mix used in electricity generation. The existing Climate Change Agreement (CCA) scheme eligibility criteria will be in place until at least 2023.

The standard rate of Insurance Premium Tax (IPT) will also be increased slightly to 10% from the current 9.5% rate.

The lack of an announcement on Air Passenger Duty (APD) is hugely disappointing. Following recent statements from the Scottish Government, we will continue to challenge the Chancellor to implement an APD system that encourages, rather than hinders, regional economic growth.

NECC has long campaigned for an overhaul of business rates and contributed to the review of the system in conjunction with the British Chambers of Commerce. The doubling of Small Business Rate Relief will be a boost to small businesses in the region. We'd hope that digitising business tax account will also lead to less bureaucracy.

The further reductions in Corporation Tax and Capital Gains Tax should provide more encouragement for entrepreneurs and investors, while the abolition of Class 2 and reform of Class 4 NICs will help support the often overlooked self-employed sector in the North East.

We also welcome the ongoing fuel duty freeze as it continues to be good news for the region's highly successful haulage and logistics sector.

4. Energy Sector

In response to the business energy efficiency review, the Government announced that they will attempt to streamline business energy taxes by abolishing the CRC energy efficiency scheme by 2019, and recovering the loss in revenue by increasing the Climate Change Levy from 2019.

Several changes were announced to tax rates for the oil and gas industry. The Petroleum Revenue tax will be abolished and the Supplementary Charge will be halved from 20% to 10%, taking effect from 1 January 2016. Companies will be able to access tax relief on their costs when they retain decommissioning liabilities for an asset after a sale.

The government will allocate at least £50 million for innovation in energy storage, demand-side response and other smart technologies over the next five years to help new technologies and business models access the market.

The reduction in tax rates for the oil and gas industry will be welcomed by NECC members in the industry's supply chain who have been hit by falling oil prices. Opportunities for North East engineering firms to get involved with the decommissioning of ageing North Sea platforms will be boosted by the announcement of new tax relief.

5. Infrastructure & Transport

A major announcement for the North East is the upgrading of the A66 and A69. The Budget marked the launch of the second Roads Investment Strategy, which will determine the investment plans for the period from 2020-21 to 2024-2025.

The government will invest £15 million in the National Institute for Smart Data Innovation in Newcastle, which follows on from the original commitment in the devolution agreement. The new facility will bring together industry, the public sector and universities to create the skills, ideas and resources needed to exploit the opportunities offered by Smart Data.

The government is providing £300 million of funding to improve northern transport connectivity and is giving the green light to High Speed 3 between Leeds and Manchester to reduce journey times to around 30 minutes in response to commission's report 'High Speed North'.

There are plans to deliver a 5G strategy in 2017, based on an assessment by the National Infrastructure Commission of how the UK can become a world leader in 5G. There will be an introduction of a new Broadband Investment Fund in partnership with private sector investors to support the growth of alternative broadband networks.

To help encourage museums and galleries to develop creative new exhibitions to display their collections across the country, the government will introduce a new tax relief from April 2017 and broaden the eligibility criteria for the VAT refund scheme for both.

To combat flooding, £150 million will be invested in flood defence schemes across the north, with a further £130m to be spent on repairing roads and bridges in Northumberland.

The upgrading of the A66 and A69 is hugely significant. We accept that there will be a process to go through before we see spades in the ground, but we will be calling on the Government to expedite this as much as possible.

The further commitment to the National Institute for Smart Data Innovation in Newcastle, contained in the North East Combined Authority Devolution deal is also welcome. This centre will help support a growing, innovative sector in the region.

6. Education and Skills

The Government announced new funding of £20 million per year for a Northern Powerhouse Schools Strategy. This will aim to reduce gaps in education attainment between the North and the rest of the country. As part of this strategy, the Government will increase investment in the areas with the poorest performance, provide more funding for the best academy chains to expand and create more new sponsors in the North, and ask Sir Nick Weller to produce an in-depth report into transforming education in the North of England. The Chancellor reaffirmed the Government's ambition for all schools in England to convert to academies by 2022, and the introduction of a national funding formula for schools.

From April 2017, large employers subject to the Apprenticeships Levy will receive a 10% top-up to their monthly levy contributions, which they will be able to spend on apprenticeship training through their digital account. The government will announce further details on the levy in April and draft funding rates will be published in June.

During this parliament, loans will be introduced for training at level 3 to level 6 in further education, part-time second degrees in STEM, and postgraduate taught master's courses. For the first time, direct government support will be available to adults wishing to study at all qualification levels. The government also announced £14 million in funding over the Spending Review period to deliver a mentoring scheme for disadvantaged young teenagers.

To better enable young people to make informed career choices, the government will bring together information about the wages of graduates of different courses and the financial support available for further and higher education.

NECC members are keen for the Government to provide more clarity on the Apprenticeship Levy, and particularly the support that will be available for smaller businesses and the construction sector. The Chancellor has not provided this today, and we hope that more detail will be forthcoming in the very near future.

We welcome the announcement of additional support for adult learning. Enabling older workers to retrain and upskill will help to reduce the skills shortages reported by our members, and create a more flexible and future-ready workforce. Additional funding for mentoring is also welcome, as employers recognised this can help to prepare young people for work in our 2015 Business & Education Survey.

7. Other Announcements

Other announcements from the Chancellor include:

- Alignment of the National Minimum Wage and National Living Wage cycles – The Government will align the National Minimum Wage and National Living Wage cycles so that both rates are amended in April each year. This will take effect from April 2017.
- The introduction of a new soft drinks industry levy to help tackle childhood obesity, to fund a doubling of the primary schools sports premium to £320 million per year from September 2017
- Increasing the ISA limit to £20,000 and launching a new flexible Lifetime ISA for under 40s in which people can save up to £4,000 each year and receive an additional 25% bonus from the government.

8. NECC action

Action being taken by NECC to address these issues includes:

- Briefing all North East MPs on our reaction to the Budget;
- Representing the views of NECC's local members, committees and regional council to push for the North East's place in the Northern Powerhouse and a strong business voice in devolution;
- Influencing policy via the NECC's policy forums; and
- Campaigning to improve the understanding of North East businesses' skills needs and raising awareness of vocational opportunities for young people.

Contact

For further details on any of these issues, please contact NECC Head of Policy and Campaigns Jonathan Walker on 0191 374 6465, or jonathan.walker@necc.co.uk.

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