Dods Monitoring

Speculation on Budget 2015 announcements

March 2015
Introduction

Amid speculation that there is no prospect of anything matching the ambition of the pension reforms “rabbit” we witnessed in George Osborne’s last Budget, there remains a degree of anticipation ahead of the final (and Osborne’s sixth) Budget of this Parliamentary session.

With the election date fast approaching and ever-changing poll updates arriving in MPs inboxes as they crowd into the chamber next Wednesday, it is unlikely we will see anything too radical emerge from Osborne’s red box.

That said, it is an excellent platform for pre-election hooks and one can expect the Chancellor to use this to his full advantage. However, he will no doubt be keen to drum home the key Conservative message of continued economic performance and deficit reduction, as both he and shadow chancellor Ed Balls continue their battle to secure the country’s faith in their economic competence for the next Parliament.

Budget: Timings, significance and next steps

Timings

The final Budget of this Parliament will take place on 18 March 2015, less than two weeks before Parliament is dissolved and less than two months before the General Election takes place.

Chancellor George Osborne will deliver the Budget after Prime Minister’s Questions, at roughly around 12:30pm.

Significance

The Budget will be delivered, discussed, debated and eventually voted on in the form of the Finance Bill, the draft clauses of which were published in December 2014. Once agreed it will be fixed (in theory) for the financial year (2015 / 2016).

However, it is likely that any new chancellor would announce an emergency Budget to be delivered soon after the election. It is for this reason that this will be Osborne’s sixth Budget. He announced new Budget changes soon after the coalition was formed in June 2010, despite former chancellor Alastair Darling having only delivered his own on 24 March 2010.

So the significance this year’s Budget will not be known until the election results are delivered. Even then it may be that if the current coalition is not replicated and one of the current partners remains in Government (as a majority or in coalition), they might decide a new Budget is still legitimate.
What is in a Budget speech?

The Budget can be unofficially split into two sections, the first focusing on the nation’s finances and the second on proposals for taxation. It is likely that this final Budget will have more reference to the last five years and how the economy has been affected by the policies of the Government.

The ‘Provisional Collection of Taxes’ is usually issued immediately and may include taxes such as rates of duty on alcohol and tobacco. These then become enacted and come into effect from 6pm on Budget day.

Other more contentious taxes and policies are debated in greater detail when the shadow chancellor and others can voice their opinions. The Bill is then treated as it would normally (though on a strict time schedule) entering both Houses, though the Lords give it minimal scrutiny and do not table amendments.

Finance Bill

The statutory provisions to affect these tax measures are set out in a single Bill: the annual Finance Bill. It has been confirmed the Finance Bill will be published on Tuesday 24 March. The draft Bill was issued for consultation in December 2014 and the technical consultation ended in February. This covered the majority of Finance Bill measures and the intention is to ensure the legislation works as intended.

In 2011, provision was made to allow for the Finance Bill to be carried over from one session to the next to ensure that this reform did not substantially reduce the amount of time available for the Bill’s scrutiny. However, following the election one can expect an emergency Budget to be presented shortly after the new Government takes office.

Emergency Budget 2015

Whilst many will be keeping an eye on the announcements from the dispatch box next Wednesday, another eye should also be looking ahead to the emergency Budget that most are expecting to follow the General Election.

Whilst a lot of work is being done to restore balance to the public finances, it seems inevitable that given the difficulty in predicting an outcome on the make up of Government post-May, the only thing known for certain is that the current plans will no doubt change in some form. Whichever party/parties take office in May, an emergency Budget can be expected which may well see these plans rewritten.
Key dates

As the Dods Monitoring election timeline outlines, after the Budget there remains many key dates ahead, both before and post-election.

Our Politics Home editor Paul Waugh has also recently suggested that Buckingham Palace have been told the State Opening of Parliament will be quite a way off, with the week beginning June 8 2015 having been pencilled in.

Writing in March, he suggested this was partly because the Whitsun break falls later this year than usual, but it was also because Whitehall wants “as much wriggle room as possible to allow any Coalition talks to play out”.

Speculation: Finance and tax

Tax personal allowance rise

Media reports suggest that the personal tax allowance is set to rise higher than expected in the Budget 2015.

It was due to rise to £10,600 but this is now reported to be between £10,800 and £11,000. This is possibly due to commitments made by both the Conservative Party and Liberal Democrats to raise the allowance if they are elected in May.

Tax simplification

This Coalition Government has taken great pride in its tax simplification. This is likely to continue with measures that cut red tape further for those most bogged down by bureaucracy: small businesses. This could take the form of a single tax account as has been suggested by the Office for Tax Simplification (OTS).

Trade missions

The Chancellor looks set to lay out some clearer plans on how to attract foreign investment into the North of England. This will be focused towards increasing the potential for exports overseas by existing export businesses and those that are looking ready to expand.

Permanent increase in tax-free investment

The Annual Investment Allowance (AIA) could be given a permanent position at £250,000. It is scheduled to drop back to £25,000 following its temporary increase to £500,000 last March.

This was the first point called for by CBI in their submission to the Chancellor.
Tax avoidance and HMRC

After several weeks of fallout following the HSBC scandal, there has been significant protestation from both politicians and the wider public on what went on inside HSBC’s Swiss bank.

While frustrations have targeted HMRC for their failure to prosecute those guilty of avoidance and evasion, it is likely that measures will be announced by the Government on how to strengthen their ability to investigate tax avoidance.

This could take the form of announcements focused on future cooperation with foreign countries and tax enforcement agencies.

Strengthening of diverted profits tax

Broadly speaking, tax avoidance is an issue that simply will not go away and as a consequence the Government are likely to announce further steps. On 9 March 2015 the Chancellor responded to a written question on the subject by stating: “Where multinational businesses are going to extraordinary lengths to pay little or no tax in the UK through the use of aggressive tax planning techniques, we will act to stop this.”

The proposed figure currently stands at a 25 per cent levy.

Compensation for pension holders

There is speculation that there may be some announcements for pension policy holders that have lost out under compensation schemes after the pension funds fold.

It may be that extra provisions are announced to fund the Financial Services Compensation Scheme, which is currently funded through the levy on financial services firms. The Equitable Life scheme is one that is still unresolved for policy holders.
Speculation: Finance and tax continued...

A single pension regulator?

Following a strong and clear message from the Work and Pensions Committee, the Chancellor could commit to reviewing this area to simplify the upcoming pensions reforms which come into force on April 6.

This would answer calls to ensure that pension savers are protected further, as at the moment they are forced to rely on the guidance service Pensions Wise.

Speculation: Energy

Reform of North Sea oil and gas fiscal regime

In the 2014 Autumn Statement the Government announced new government support for the oil and gas industry operating in the North Sea, including an investment allowance and an immediate reduction of two percentage points in the industry’s tax rate.

Since then, various stakeholders including the Scottish National Party and CBI have urged the Government to go further in their support for the industry, struggling with the impacts of the low oil price and falls in production.

Speaking before the Treasury Select Committee in January 2015, Chancellor George Osborne gave a strong indication that further reform was expected in Budget 2015: “I took decisions in the autumn statement to reduce taxes on North sea oil, anticipating the pressures that the fall in oil price would have on the industry. I am sure we are going to have to take further steps in the Budget.”

Support for energy intensive industries

At the 2014 Budget, the Government announced plans to compensate Energy Intensive Industries (EIIs) for the indirect costs of the Renewables Obligation (RO) and small scale feed-in-tariffs (FiTs). Osborne also confirmed that the UK Government would freeze the carbon price floor from 2016.

Compensation for the costs of the RO and FiTs is due be introduced in April 2016. However, manufacturers’ organisation EEF has urged the Government to use Budget 2015 to speed up the full introduction of this compensation package, pointing out that state aid approval for the compensation at the EU level was expected in early autumn.
Speculation: Transport

Fuel duty

Although frozen until May 2015, the Chancellor may take the opportunity to extend the fuel duty freeze, with the next planned rise due to occur in September.

The Freight Transport Association are among those who have called for a three pence per litre cut in fuel duty to aid economic growth.

Air Passenger Duty (APD)

Following the announcement that APD would be devolved to Scotland, and the possibility that power could be extended to Wales, there will be calls for the Government to go further.

They announced in the Autumn statement that under 12s would no longer have to pay APD, but the scrapping of the duty, would be welcomed by many, including a campaign by The Telegraph.

Speculation: Defence

Defence spending

In light of rising diplomatic tensions between Russia and the West, there has been increased pressure on the Government to meet the NATO target of spending two per cent of GDP on defence, with a back-bench parliamentary debate on defence spending taking place on Thursday 12 March.

However, senior Conservatives, such as Foreign Secretary Philip Hammond, have refused to rule out cutting defence spending after May 2015.

This increases speculation that the Chancellor might be prepared to cut the defence budget to balance the books. However, Cameron also faces growing external pressure from international allies to meet the NATO target and he may be clashing with George Osborne on this issue.

More broadly, the Conservatives are said to be at logger heads behind the scenes as to whether or not to include the pledge in their manifesto.
Speculation: Home Affairs

Policing cuts

The BBC have reported that every police force in England and Wales is preparing for major budget cuts over the next five years, with a five per cent cut to Government funding expected in 2015/16, and further cuts thereafter.

The precise extent of the savings required will depend on the outcome of the General Election but it is likely Osborne may at least prepare the ground for such a move in this Budget.

At the end of 2014, policing minister Mike Penning foreshadowed the announcement when he said there would be a cash reduction of £299m in the overall 2015-16 police funding budget, compared with 2014-15. Shadow home secretary Yvette Cooper has argued that the plans are a "serious risk to policing and community safety".

Speculation: Health and Local Government

Health and care/local government

Although unlikely – though not impossible - to make formal commitments to overall health spending, the Chancellor may use his final Budget to reaffirm the promise of devolved health and care funding to Greater Manchester, as announced last month.

Describing it as a "really exciting development" at the time, the Budget may provide Osborne the opportunity to revel in a largely welcomed policy move once more, and confirm the funding allocated.

The Local Government Association has submitted a number of asks, including greater financial freedoms for local Government whilst providing long term security to welfare support provisions. Ahead of the General Election, the Discretionary Fund for local authorities to minimise the impact of the controversial changes to Housing Benefit could see its existence reaffirmed.
Housing

With only a few weeks until purdah, stakeholders including the Trade Unions Congress and National Housing Federation are calling on the Government to take the opportunity to reaffirm both coalition parties established commitments to house building ahead of the General Election with further financial support.

There have been calls by some key stakeholders in the housing sector for an independent body to be established to ensure that the issue of housing is appropriately addressed and not used as a political football.

The Government commissioned the Elphicke-House Report published in January 2015, which set out how a Housing and Finance Institute should be established to draw together private finance and local authorities to ensure long term solutions can be found for local housing needs. The report, sent directly to Chief Secretary of the Treasury Danny Alexander, has been welcomed by both Alexander and Housing Minister Brandon Lewis.

Stakeholder submissions

Please find below some stakeholders submissions to the Chancellor ahead of the Budget:

Federation of Small Businesses
CBI
British Chambers of Commerce
EEF
Forum of Private Business
Christian Aid
Local Government Association
National Housing Federation
Home Builders Federation
Freight Transport Association
London First
Building Societies Association
Wine and Sprit Trade Association
This briefing document has been compiled by the UK Client Manager for the Dods Monitoring team, whose political consultants focus on an array of policy areas.

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