class Briefing

Budget 2016

Welcome to our briefing on the 2016 Budget; a detailed summary of the most important aspects of the Chancellor's plan for government finances over the next year.

This briefing focuses upon the announcements in the Chancellor's speech and accompanying Budget documents, including the news that the Chancellor has failed to meet his debt and welfare targets and will struggle to meet his third 'surplus' rule. We look at the overall impact of the Budget on ordinary people and analyse what specific measures- such as changes to the Personal Tax Allowance- will mean in reality. This summary also covers the announcement of further cuts– from disability benefit to key public services– and what the impact is likely to be both for working people and for the country's economy.

Take a look below, and please contact us with feedback via Twitter, Facebook or through our website.

What is the Budget?

Every year, the Government sets out its economic plans for the year ahead in the Budget, usually in March, and in an Autumn Statement, usually in November. The Budget is a speech in Parliament by the Chancellor, accompanied by documents by the Office for Budget Responsibility (OBR) outlining further details. This year's Budget was the Chancellor George Osborne's 8th Budget.

The Budget is an opportunity for the Government to set out its fiscal and economic agenda and contains details of the state of the economy for every year and cumulatively over the next few years. Not everything in the Budget will happen, particularly as a lot is dependent on the state of the economy over the next few years and this is highly likely to change.

Similarly, it is likely there will be many policies and decisions made in the next year that were not mentioned in the Budget.

Background to the Budget

In November 2015, the Chancellor set out his plans for the UK economy in the Autumn Statement. Despite this only being 4 months ago, a lot has changed and many of the forecasts have been proved wrong. Britain's economy is much weaker than at November's Autumn Statement- the OBR has cut growth estimates for every year between now and 2020, with even the new forecast of 2% growth this year looking optimistic. Borrowing will rise again despite the Chancellor's promise to reduce it, with £34bn more than expected between now and 2019.

Public spending on infrastructure is set to be less than half what it was in the last year of the Labour government, despite some basic infrastructure projects being brought forward. Trade is still in substantial deficit and while business investment improved briefly, it went negative again at the end of 2015.

Productivity growth is poorer than expected (and unlikely to increase while the focus is on creating low-paid, precarious jobs). Significantly, the Government has scaled down the Distributional Impact Assessment of the Budget, meaning the impact on the poorest is harder than ever to quantify.

Read more

- Budget 2016
- Distributional Analysis 2016
- IFS Budget analysis 2016
- OBR Budget analysis
- Class briefing: Productivity

The main announcements

The main announcements in this year's Budget were £3.5bn of new– still largely unallocated- cuts, with dramatic cuts to disability benefits the main source, an additional £2bn raid on public services, changes to savings that will benefit those already able to save, forced acadamisation of secondary schools, a further slashing of corporation tax paid by large multinationals, a reduction in business rates for small businesses, a reduction in the number of those paying the 40p tax rate and a new tax on sugary drinks.

Tax cuts for the rich are being paid for by those who can least afford it. Cutting benefits for hundreds of thousands of disabled people gives the Government £1.3bn which, coincidentally, is the same as the cost of the Chancellor's cuts to capital gains tax and rise of the 40% tax threshold. While half a million people with disabilities are losing vital personal independence payments, corporation tax is being cut and the most well off in the country are benefiting from tax reductions.

This Budget was also significant for what was not included. It contained no plans to tackle the growing housing crisis, instead scaling down the much-publicised proposed Garden Cities and introducing tax benefits for those with second homes and additional assets. It also completely failed to address deficits in the NHS, worsening under this Government, and offered no solutions to low productivity, faltering economic growth and pay-growth which is still below pre-crisis levels.

Over the coming days, expect more of the Chancellor's announcements to unravel as the scale and effect of hidden cuts and small print become clear.

Brief summary

- Growth revised down for every year of this Parliament
- Borrowing rises again, with an additional £34bn from now until 2019-20
- Budget surplus target to be missed every year until 2019-20, with a likelihood of just 50% in that year
- Public sector pensions contributions to rise, amounting to stealth cuts of £2bn
- The OBR judge that the Government is going to breach its own welfare cap in every remaining year of this Parliament.
- New cuts to personal independence payments with over 600,000 disabled people losing out
- A new Lifetime ISA for those under 40

- Use 'savings' from disability cuts to increase the threshold at which people pay the higher rate of income tax to £45,000 by 2017
- Increase in Personal Allowance to £11,500 from 2017
- Cuts to Corporation Tax to 17% by 2020 to the benefit of large multi-national corporations
- Cut the rate of capital gains tax helping those with assets such as second homes
- Exempt small businesses with a rateable value of under £12,000 from business rates
- Local government to keep revenue from business rates by the end of the Parliament
- Introduce a sugar tax, on drinks from 2018
- Retain the tampon tax

'Budget Surplus' Rule Backfires

The Chancellor's Budget was largely based around the current government's ideological aim to shrink the state and their arbitrary target of generating a budget surplus by 2020, a target with no basis in necessity, and one which is being used as justification for further cuts.

There is no reason to think that a long term budget surplus is appropriate for the economy, desirable or even achievable, yet the Budget was almost entirely focused on achieving this aim, resulting in £3.5bn of additional cuts, largely from disability benefits, a further cut of £2bn from public services, as well as limiting the government's ability to react to economic developments and borrow funds in order to invest in the future.

Despite this, the Institute of Fiscal Studies (IFS) state that the Government has only a 50% chance of meeting the surplus rule by 2019/20.

Read more

- Malcolm Sawyer *The Budget Surplus Rule Scam*
- Economists denounce Osborne's budget surplus plan

Growth and wages

The Office of Budget Responsibility (OBR)'s discovery of a hypothetical "£27 billion improvement in the underlying forecast" for the UK economy in the Autumn Statement in December 2015 has not materialised, leaving a massive hole in the country's finances. The Chancellor's poor judgement has resulted in additional cuts to public services, local government and reductions in the amount being spent on vital infrastructure vital for a strong economy in the long term.

Real earnings next year are set to grow even more slowly than previously announced adding to what has already been the longest wage squeeze in UK recorded history. Median hourly pay is not set to return to pre-crisis level until 2021- set to trend at just 1% for the rest of the decade and this Budget offered no solutions.

Read more

- Class Director Faiza Shaheen, *Nobel prize winning economists think Osborne's budget plans are bad but what to do they know?*
- Frances O'Grady *Budget 2016 signals a more uncertain future*

Cuts to Personal Independence Payments

Perhaps the biggest story from the 2016 Budget was the Chancellor's plans to cut Personal Independence Payments (PIP) for hundreds of thousands of disabled people as a way of making the additional 'savings' needed to cover the costs of the Government's own economic failure. The Budget stated that £1.3bn of £3.5bn extra cuts needed by 2020 would come from reductions in PIP for disabled people.

PIP payments help people cope with the extra cost of living with a disability or long-term health problem. Cutting the benefit will give the Treasury £15million in 2016/17, £590million in 2017/18 and £1.19billion in 2018/19. The cut is aimed at new claimants so the 'savings' will grow to £1.28billion in 2020/21 with an estimated value of £4.4 billion at the expense of more than 640,000 disabled people.

Significant tax breaks for high earners and the richest in society were handed out in the same speech (see **Tax section** below).

Read more

- Independent *Public overwhelmingly think PIP cuts are wrong*
- Labour Party response to PIP cuts
- Disability charities respond- Sense, MS Society

New ideological cuts

- £3.5 billion additional cuts to Departments

The Budget outlined £3.5 billion of additional cuts to departmental budgets by 2020 (excluding 'protected' areas such as education, health, international aid and defence). This is on top of cuts since 2010 that have already pushed down departmental budgets by a third in real terms.

More than a third of this £3.5 billion will come from cuts to PIP (see **left**) but the rest will be found via a Departmental Efficiency Review. This is on top of the cuts averaging 18% to departments' day-to-day spending announced in the Spending Review.

- Public sector pensions raid

Despite the Chancellor promising to protect the amount of funding set aside for protected areas such as schools and health, the Budget contained a plan for £2bn worth of 'savings' that will come from hiking contributions to public sector pensions.

These pension changes will fall on all public sector employers and come out of departmental budgets including areas which are meant to be 'protected' from spending cuts such as hospitals and schools. Raising employer contributions for public sector pensions will squeeze department spending and is a stealth cut - meaning money is diverted from services back to the Treasury by the 'back door'.

The £2 billion from the public sector is in addition to the extra £3.5 billion of cuts outlined above. The cuts are entirely ideological and come back to the Chancellor's desperate attempts to meet his own unnecessary 'budget surplus' rule.

Read more

- IPPR *Where the cuts could fall*
- Guardian *Public Sector left guessing until 2018*

Taxation

- Personal Tax Allowance

The Budget announced a raise in the personal allowance (the amount of pay workers are entitled too without income tax being deducted) by £300 to £11,500. However raising tax thresholds does not help those on the lowest pay- over 80% of the gains will go to the richest 50%, an increase of almost £200 per year, while the poorest 10% will see no change in their incomes, according to the IPPR. The poorest already pay more than richest in tax, with the poorest fifth paying nearly 38% of their income compared to less than 35% for richest fifth.

- Raising the 40p tax rate

The Government plans to raise the income level at which the 40p tax rate starts from £42k to £44k as part of wider plans to increase the threshold for the higher rate of income tax to £50,000 by the end of the parliament. This measure gives more money to those already among the wealthiest in the country and offers nothing for the rest.

This, combined with the increase in the Personal Tax Allowance, it means that it is the wealthiest that are again benefiting from a Conservative Budget - Resolution Foundation analysis has found that almost half of gains from income tax cuts in 2017 will go to richest fifth of households.

- Capital Gains Tax

In addition, Capital Gains Tax will be cut from 28% to 20% from April 2016, a change that will benefit investors when they make money. Lots of very wealthy people will be delighted with yet another huge giveaway from the Chancellor.

Read more

- Resolution Foundation *Personal Tax Allowance analysis*
- IFS Distributional Analysis of the Budget
- Equality Trust *How Increasing the Personal Allowance Widens Inequality*

– Tax avoidance

The Chancellor announced plans to end several loopholes, including stopping multinationals over-borrowing in the UK and then deducting interest bills from their British profits and restrictions on offsetting losses against tax from 2019. While these are welcome steps, they simply don't go far enough. In addition, there is the issue of just how these new promises will be met. HMRC has lost around 40,000 jobs in the last decade, and more job cuts are on the way. Since 2010, there have been only 11 prosecutions in relation to offshore tax evasion. Without additional resources, the prospects of tackling tax avoidance by corporations are not very good.

– Business rates

The Budget contained proposals to exempt small businesses with a rateable value of under £12,000 from business rates and reduce amount paid by those under £15,000.

Support for small businesses is welcome and business rates have long been an area where the Government has refused to take action, but the Chancellor was silent on its implications for local government finances.

With revenue from business rates set to fall, it will be councils that suffer due to the Chancellor's pledge to devolve revenue to them rather than to central government. This is likely to benefit wealthy authorities in the south of England at the expense of Northern authorities who will see a significant drop in revenues if an equalisation system is not put in place.

Read more

- Class Budget 2016 panel: Professor Prem Sikka
- *Paul Johnson, IFS Capital Gains Tax*
- Richard Murphy *A Budget for the UK tax avoiders*

Education

The Budget contained plans to turn every school into an academy, effectively ending local authorities' control, by 2020. Not only is this a costly, unnecessary re-organisation, it is being done despite clear evidence that academies do not perform better than other schools and, in the case of many large chains, badly let down their most disadvantaged children.

The UK already has the third most autonomous school system in the world so it is clear that ideological motivated attack on local authority and parental control. The proposals to force all schools to become academies will result in the dismantling of state education and will end democratic accountability in our schools.

The Chancellor's announcement completely fails to address the real issues in the education system including teacher shortages, the poor retention of new teachers, a crisis in school places, and a growing attainment gap between the most disadvantaged and the rest.

In addition, the Government's plans are not fully funded, with a black hole of almost £600 million. Labour Party analysis reveals that the Budget allocated £140 million to academisation which leaves a huge shortfall of £560 million.

Read more

- NUT response to the Budget
- Politics Home *Black hole in Chancellor's education plans*
- Christine Blower *Academies are a failed experiment*
- Prof Stephen Ball *Are our schools in safe hands?*

Pensions and Savings

Under a new savings scheme, people under 40 will be able to save up to £4,000 a year and get an additional £1 for every £4 saved from the Government up to the age of 50. The savings can be used to pay for the deposit on a first home or be drawn down after age 60. Withdrawals outside these limited circumstances will result in the government contribution being taken back alongside an additional 5% penalty charge making the risks very high for those without additional savings.

Many people can hardly afford day-to-day costs of living, let alone setting aside thousands of pounds in savings- new research from the Centre for Responsible Credit shows that 3.2 million households spend more than a quarter of their income on paying back consumer debts.

The new measures benefit those already able to save considerable amounts but do nothing to help those most in need of support and who simply don't earn enough to save in the first place. In addition, as well as revealing the new scheme is unlikely to provide any help for homebuyers, the OBR has given it a high risk rating because the Government does not know how much the scheme will ultimately cost.

Read more

- NEF 'Help to Save'? Try tackling personal debt
- Centre for Responsible Credit research

Housing

The Chancellor's Budget ignored the very real housing crisis facing the country particularly in London and the South East and was a missed opportunity to tackle the shortage of affordable and social housing. The announcement of a reduction in Capital Gains Tax (see **Tax section** above) will benefit those with second homes and property assets and risks worsening the situation in an already volatile housing market.

Much of the housing content of the Budget was reaffirming existing or pre-announced policies, many of which have been scaled back to an extent that they are now a drop in the ocean in terms of the investment and new housing that is needed.

For example, the Government's plan for new 'Garden Cities' have been drastically cut back, just months after they were announced to great fanfare. Plans for a garden city in Ebbsfleet in Kent have stalled, with fewer than 400 homes being built so far, despite plans for 15,000.

Analysis has shown that this government will be spending 46% less than the last Labour government invested.

There was no new announcement on much needed affordable homes and new social housing. As it stands, what the Government means by 'affordable' – up to 80% of the local market rate - puts 'affordable' housing in the vast majority of the country beyond the reach of the average earner.

Read more

• Guardian *Housing experts say Budget is disappointing*

• Shelter *What is affordable housing?*

Health

The Budget contained an unexpected tax on drinks with a high sugar content. The tax will consist of two tiers with one applying to drinks with sugar content above 8g per 100ml and a lesser rate to drinks with more than 5g per 100ml. Drinks below 5g will be exempt as will fruit juices and milk-based drinks.

The new tax will apply from 2018 and is expected to raise £520m in the first year, £500m the following year and £455m in 2020-21. The delay in the introduction until 2018 could also mean that revenues may not be as high as the Government expect. The tax only applies to drinks, which make up just 20% of the nation's sugar consumption.

Any reduction in the amount of sugar consumed will have considerable health benefits for a society with increasing obesity levels. However, the tax only applies to some drinks rather than sugar more broadly. It is also regressive- hitting the poorest hardest- with the additional costs expected to be passed on from companies to consumers. A proportion of the revenues from the new tax have been promised as additional funding for school sports.

Read more

• NEF *Budget 2016: Sugar tax surprise*

Environment and climate

In his Budget speech the Chancellor did not use the phrase climate change, instead referring loosely to 'extreme weather events'. There was no sign of the much needed support for investment in renewable energy and the limited funding allocated for flooding comes off the back of years of underinvestment.

Instead, the Chancellor pledged to abolish the carbon reduction commitment and boost subsidies for the North Sea oil and gas industry. It was also announced that the Climate Change Levy will increase from 2019, which taken with recent changes, means a rise in the carbon tax for carbon-free renewable energy.

The Government has already cut a wide range of green policies such as solar power, green homes onshore wind and recently announced it is abandoning the £1bn competition to develop "carbon capture and storage" technology on power stations.

Read more

• Carbon Brief *Key climate and energy announcements*

NEF Budget: Energy roundup

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Infrastructure

The infrastructure spending announced in the Budget is neither new nor additional investment. Infrastructure is an essential part of government spending but the Chancellor has emphasised specific infrastructure projects while hiding the full scale of his limited investment and ambition.

Infrastructure investment, particularly in the North and outside of London, is much-needed and vital if the economy is to be sustainable, balanced and successful in the long term but the Budget contained pre-announced plans such as Crossrail 2 and comes following years of under-investment.

Read more

• Craig Berry, SPERI Budget 2016: Chaos Reigns

Other measures announced

Beer duty and cider duty to be frozen, duty on whisky to be frozen and other alcohol duties to rise in line with inflation. Fuel duty is to be frozen, despite costs for motorists already some of the lowest seen.

Was this a budget for the young?

Osborne framed this budget as one focused on the future and on the young. Our analysis does not lead to the same conclusion.

Looking above there was very little that will change the poor prospects of young people who are struggling to find good jobs, have high levels of debt and are too often unable to access affordable housing.

Read more

• Guardian *The 30-year betrayal of the next generation*

What has Class published?

• Budget 2016: Our Panel's Reaction

• Dr Faiza Shaheen *Nobel prize winning economists think Osborne's budget plans are bad but what to do they know anyway?*

• Director's blog: What can we expect from today's Budget?

• Professor Malcolm Sawyer The Budget Surplus Rule Scam

• Class briefing: Autumn Spending Review 2015

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Articles we like

• Frances O'Grady on Budget 2016

• IFS Budget analysis

• Resolution Foundation Budget analysis

• Craig Berry, SPERI *Budget 2016: Chaos Reigns*

• Geoff Tily *TUC Budget response*

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