HOUSE OF LORDS

Library Note

2016 Budget: Overview and Reactions

On 16 March 2016, the Chancellor of the Exchequer, George Osborne, presented his 2016 Budget Statement to the House of Commons. This was Mr Osborne's eighth Budget and his second following the election of a Conservative majority government in May 2015. The House of Lords debate on the UK economy in the light of the Budget Statement is to take place on 23 March 2016.

Economic Forecasts and Fiscal Rules

On the day of the Budget, the Office for Budget Responsibility (OBR) announced that its GDP growth forecast for 2016 would be revised down from 2.4 percent to 2 percent, citing a pessimistic international economic outlook and low productivity growth. The OBR's forecast for UK output per hour was revised down. While the Chancellor would miss his target to achieve a fall in net debt as a proportion of GDP in the current year, the OBR forecast that he was expected to reach another of his targets, the achievement of a budget surplus by 2019–20.

Announcements

The Chancellor announced a range of measures in the Budget, including:

- A new drive to reduce Government spending by a further £3.5 billion in the year 2019–20.
- An increase in the income tax personal allowance to £11,500 in April 2017.
- An increase in the higher rate threshold for income tax to £45,000 in April 2017.
- A raising of the ISA limit and introduction of a new 'Lifetime ISA'.
- A reduction in the main rate of corporation tax to 17 percent in 2020.
- Changes to business rates, capital gains tax and national insurance contributions.
- Reforms to education, including converting all schools to academies by 2020.
- The introduction of a new levy on the soft drinks industry from April 2018.

This Lords Library briefing provides an overview of some of the key Budget measures. The briefing then outlines the immediate reaction to the statement as expressed by members of the House of Commons on the day of the Budget Statement and by a selection of organisations and commentators.

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1. The Budget

1.1 Projections for Growth and Public Finances

The Office for Budget Responsibility's (OBR) *March 2016 Economic and Fiscal Outlook*, published on the same day as the Chancellor's 2016 Budget, provided a less optimistic economic picture than had been the case at the time of the 2015 Autumn Statement. The OBR argued that this was a reflection of falling global stock markets, commodity prices and stock yields. It also identified a reduction in UK productivity growth, revising down its November 2015 forecast. Output per hour fell by 1.2 percent in the last quarter of 2015, compared to a forecasted 0.2 percent increase.[1] This reversed almost all of the gains in productivity made in the first three quarters of 2015.

UK gross domestic product (GDP) growth in 2015 was 2.2 percent, lower than the 2.4 percent growth that the OBR had forecast at the time of the 2015 Autumn Statement. The OBR's forecast for annual GDP growth in 2016 also had to be revised down, from 2.4 percent on the previous year, to 2 percent.[2] The OBR revised down its average GDP growth forecasts to 2.1 percent per year for the rest of the decade. Lower GDP growth would be accompanied by lower growth forecasts for labour income and company profits growth which, the OBR argued, would lead to a greater risk of a significant reduction in tax receipts.

The OBR argued that these factors would make it harder for the Government to achieve its targets for public finances.[3] It stated that measures in the 2016 Budget would be sufficient to sustain a reduction in borrowing each year.[4] The OBR forecast that the Government was on track to reach its fiscal target of a budget surplus, giving a 55 percent chance that public sector net borrowing would be in balance or surplus by 2019–20.[5] However, the Chancellor would not achieve his target of a fall in public sector net debt as a percentage of GDP in 2015–16. Net debt was not expected to fall as a proportion of GDP until 2016–17.[6] The OBR stated that the Chancellor had also missed his welfare cap target that spending on social security benefits and tax credits would remain, in cash terms, below the limit set in July 2015.[7]

Presenting his 2016 Budget Statement in the House of Commons, Mr Osborne argued that, despite the revising down of the UK's productivity growth, Britain was well placed to face growing global economic risk.[8] He cited the OBR's forecast that the UK economy was still expected to grow faster than any other advanced industrial economy.[9] He also argued that the resilience of the UK economy was borne out by the strength of the labour market, with the OBR reporting the creation of 150,000 more jobs than it had estimated at the time of the 2015 Autumn Statement.[10]

[1] Office for Budget Responsibility (OBR), *March 2016 Economic and Fiscal Outlook*, 16 March 2016, p 9.
[2] ibid, p 12, table 1.1.
[3] ibid, pp 6–7, chart 1.2
[4] ibid, p 6.
[5] ibid, p 25.
[6] ibid, p 8.
[7] ibid, pp 141–2.
[8] HC *Hansard*, 16 March 2016, col 951.
[9] ibid.
[10] ibid, col 953. Statistics on the labour market at the time of the 2016 Budget were also published by the Office for National Statistics in *UK Labour Market: March 2016* (16 March 2016).

1.2 Key Measures

Spending

The Chancellor stated that, having reduced public spending as a proportion of national income from 45 percent in 2010 to 40 percent in 2016, he planned for total managed expenditure as a percentage of GDP to fall further to 36.9 percent by 2020.[11] Arguing that it would be necessary to reduce government spending in the context of great global economic uncertainty, Mr Osborne announced that the Chief Secretary to the Treasury, Greg Hands, and the Paymaster General, Matt Hancock, would undertake a drive to achieve further "efficiency and value for money", with the intention of reducing spending by a further £3.5 billion in the year 2019–20.[12] This would be achieved while maintaining the existing protections for spending areas such as the NHS and international aid.

In regard to welfare spending, the Chancellor stated that the disability budget would continue to rise by more than £1 billion, and that measures taken by the Secretary of State for Work and Pensions, Iain Duncan Smith, would enable support to be better targeted.[13] The Budget included measures to change the assessment criteria for personal independence payment (PIP) entitlement from January 2017, previously announced by the Department for Work and Pensions.[14]

Personal Tax and Savings

The Chancellor announced that he would increase both the income tax personal allowance to £11,500 and the higher rate threshold to £45,000 in April 2017.[15] The Chancellor also said that he would raise the annual ISA savings limit from £15,240 to £20,000 from April 2017 and introduce a new Lifetime ISA. The Lifetime ISA would be available to people between the ages of 18 and 40, enabling them receive a 25 percent bonus from the Government on up to £4,000 of the money saved per year.[16] This money could then be used to buy a first home or be withdrawn on reaching 60. These measures formed part of the Chancellor's stated aim to create an economy that would support the "next generation", enabling young people to save more easily for the future.[17]

Corporation Tax

The Chancellor announced that the main rate of corporation tax would be reduced to 17 percent in 2020.[18] This continues the reduction of the rate over previous budgets, from 28 percent in 2010. The Chancellor stated that he wanted to attract multinational businesses to the UK with a competitive corporation tax regime, while at the same time ensuring that those multinationals paid tax on their profits in the UK.[19] To this end, the Chancellor said that, to prevent large companies from using interest payments as a means of reducing the tax they paid

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[11] HC *Hansard*, 16 March 2016, col 954; HM Treasury, *Budget 2016*, 16 March 2016, p 90.
[12] HC *Hansard*, 16 March 2016, col 954.
[13] ibid, cols 954–5.
[14] Department for Work and Pensions, 'Personal Independence Payment Consultation Response Announced', 11 March 2016; HM Treasury, *Budget 2016*, 16 March 2016, p 103.
[15] HM Treasury, *Budget 2016*, 16 March 2016, p 95.
[16] ibid, p 100.
[17] HC *Hansard*, 16 March 2016, col 955.
[18] HM Treasury, *Budget 2016*, 16 March 2016, p 45.
[19] HC *Hansard*, 16 March 2016, col 957.

on their UK profits, the relief on interest payments would be capped at 30 percent of their UK earnings.[20] By this and other measures outlined in the Budget, the Treasury has stated that it would be able to raise £8 billion in revenues from large companies and multinationals.[21]

Business Rates

In what he described as the "biggest tax cut for business in this Budget", the Chancellor announced changes to business rates, coming into force from April 2017, intended to support small businesses.[22] These changes included an extension of the 100 percent small business rate relief for businesses occupying a property valued at £12,000 or less, replacing the existing £6,000 threshold.[23] There would be a new tapered rate of relief on properties worth up to £15,000. The standard business rates multiplier would also be reduced for properties with a rateable value below a new threshold of £51,000. From April 2020, the indexing of business rates would be by reference to the consumer price index instead of the retail price index, thereby reducing the amounts paid by businesses. The Government would also make changes intended to modernise the administration of business rates.[24]

In a further move intended to help businesses, the Chancellor announced that the way in which stamp duty on freehold commercial property and leasehold premium transactions was calculated would change from 17 March 2016.[25] New rates and tax bands would be introduced, including a higher £150,000 threshold for paying any stamp duty.

Measures Intended to Support Enterprise

Amongst measures announced in the Budget that were intended to help develop enterprise, from April 2018, class 2 national insurance contributions of £2.80 per week, required if someone makes a profit of £5,965 or more per year, would be abolished for self-employed people.[26] However, they would continue to pay class 4 national insurance contributions if their profits were over £8,060 per year. The Chancellor announced changes to capital gains tax, with a reduction in the basic rate from 18 percent to 10 percent and higher rate from 28 percent to 20 percent from April 2016, excluding residential property and carried interest.[27] Other measures intended to help entrepreneurs included two new tax-free allowances, for trading and property income up to £1,000 per year, intended to help "micro-entrepreneurs" selling services online or renting out their homes through the internet.[28]

Oil and Gas

In the context of falling revenues due to the low commodity prices, the Chancellor announced measures intended to support the oil and gas industry including: the effective abolition of the petroleum revenue tax, with a permanent reduction of the rate from 35 percent to 0 percent; and a reduction of the supplementary charge on ring-fenced profits from 20 percent to

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[20] HM Treasury, 'Budget 2016: Some of the Things We've Announced', 16 March 2016.
[21] ibid.
[22] HC *Hansard*, 16 March 2016, col 958.
[23] HM Treasury, *Budget 2016*, 16 March 2016, p 46.
[24] ibid.
[25] ibid, pp 50–1.
[26] ibid, p 97.
[27] ibid, p 3.
[28] ibid, p 48.

10 percent.[29] Mr Osborne argued that such measures would benefit the Scottish economy, and were only possible because Scotland had voted to stay part of the UK in the 2014 referendum.[30]

Duties

The Chancellor announced that the fuel duty would continue to be frozen.[31] Alcohol duty on beer, spirits and cider would also be frozen, but would increase for other alcoholic beverages.[32]

Local Government and Devolution

Mr Osborne's Budget Statement included a number of announcements regarding devolution, including that devolution for Greater Manchester would be further extended to include new powers over the criminal justice system.[33] Alongside existing proposals to establish city devolution for Edinburgh and Swansea, a new single East Anglia combined authority with an elected mayor and a new West of England mayoral authority would be created. Mr Osborne also announced the creation of a new air ambulance service for Northern Ireland and that the price of the tolls on the Severn crossings would be halved from 2018.

Infrastructure Investment

The Chancellor told the House of Commons that the Government was working to deliver the recommendations of the National Infrastructure Commission, including the building of High Speed 3 between Manchester and Leeds and Crossrail 2. In regards to housing, the Chancellor said that the Secretary of State for Business, Innovation and Skills, Sajid Javid, would be bringing forward proposals to increase home building.[34] The Chancellor announced the provision of £115 million to support the homeless and to reduce rough sleeping.[35] To provide increasing spending on flood defences, the Chancellor said that the insurance premium tax would be raised by half a percent.[36]

Childhood Obesity and Education

The Budget included a new levy on the soft drinks industry that would be introduced from April 2018, which was intended to combat the consumption of sugary drinks by children, something the Chancellor argued was "one of the biggest contributors to childhood obesity".[37] The main rate charge would apply to drinks containing above 5 grams of sugar per 100 millilitres.[38] A higher rate would exist for drinks with more than 8 grams of sugar per 100 millilitres. Milk-based drinks or fruit juices would be exempt. The Chancellor said that money raised from the levy would fund PE and sports in primary schools, through a doubling of the school sports premium.[39]

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[29] HM Treasury, *Budget 2016*, 16 March 2016, p 69.
[30] HC *Hansard*, 16 March 2016, col 959.
[31] HM Treasury, *Budget 2016*, 16 March 2016, p 30
[32] ibid, p 31.
[33] HC *Hansard*, 16 March 2016, col 960.
[34] ibid, col 961.
[35] HM Treasury, *Budget 2016*, 16 March 2016, p 126.
[36] HC *Hansard*, 16 March 2016, col 962.
[37] ibid, col 963.
[38] HM Treasury, *Budget 2016*, 16 March 2016, p 111.
[39] HM Treasury, 'Budget 2016: Some of the Things We've Announced', 16 March 2016.

The 2016 Budget included measures to fund a strategy to convert all schools in England to have either academy status by 2020 or an academy order in place to convert by 2022. Mr Osborne described this reform as necessary "to complete the task of setting schools free from local education bureaucracy".[40] Other proposals affecting schools included funding intended to enable schools to extend the length of the school day and the continuation of compulsory maths teaching beyond GCSE level. The day after the Budget, the Department for Education published a white paper on schools, entitled *Educational Excellence Everywhere*, containing these proposals.[41]

1.3 The Budget in the Context of the EU Referendum

During his speech to the House of Commons, the Chancellor made a reference to the Government's position on the EU referendum, arguing that "Britain will be stronger, safer and better off inside a reformed EU".[42] Noting the impartiality of the OBR and that its analysis of the UK economy was predicated on Britain remaining in the EU, Mr Osborne repeated the wording of the OBR's *March 2016 Economic and Fiscal Outlook* in the Chamber, that a vote to leave would lead to an "extended period of uncertainty regarding the precise terms of the UK's future relationship with the EU", which could have "negative implications" for business and consumer confidence and "might result in greater volatility in financial and other asset markets".[43] Again quoting from the report, Mr Osborne told the Commons that the OBR had cited a number of external reports that indicated what appeared to be:

> […] a greater consensus that a vote to leave would result in a period of potentially disruptive uncertainty while the precise details of the UK's new relationship with the EU were negotiated.[44]

In the subsequent debate, the UK's membership of the EU was raised by other MPs. For example, John Redwood (Conservative MP for Wokingham), speaking in support of a vote for the UK to leave the EU, argued that the OBR should be ignored in regards to predictions that the UK would be worse off if it left the EU.[45]

1.4 'Tampon Tax'

During the presentation of his Budget Statement, Mr Osborne told the House of Commons that £12 million of money raised by the Treasury through the so-called "tampon tax" would be donated to UK charities.[46] The tampon tax refers to the VAT on sanitary products which the UK Government is required to add according to European VAT law.[47] On the day of the Budget, it was reported in the press that the Government might face a defeat on the vote on the Finance Bill in the Commons further to the continuation of this VAT charge.[48] On 17 March 2016, the BBC reported that Mr Osborne hoped to be able to announce that the UK would no

[40] HC *Hansard*, 16 March 2016, col 963.
[41] Department for Education, *Educational Excellence Everywhere*, 17 March 2016, Cm 9230.
[42] HC *Hansard*, 16 March 2016, col 953.
[43] ibid. The sections of the report that Mr Osborne quoted from in the Chamber can be found in full in OBR's *March 2016 Economic and Fiscal Outlook* (16 March 2016, pp 84–5).
[44] HC *Hansard*, 16 March 2016, col 953.
[45] ibid, col 991.
[46] ibid, col 964.
[47] HM Revenue and Customs, *Women's Sanitary Protection Products: Vat Notice 701/18/02*, July 2011. Further information is provided in the House of Commons Library briefing *VAT on Sanitary Protection* (28 January 2016).
[48] Heather Stewart, 'MPs Plan Budget Rebellion against Tampon Tax', *Guardian*, 16 March 2016.

longer be required to charge VAT on sanitary products following negotiations with the European Commission.[49]

2. Reaction

2.1 In Parliament

Opposition

The Leader of the Opposition, Jeremy Corbyn, characterised Mr Osborne's Budget as having "unfairness at its very core".[50] He criticised the Chancellor, arguing measures in the Budget to reduce corporation tax and reduce taxes for those on higher incomes would be funded by cuts affecting "those who [could] least afford it".[51] This would include, Mr Corbyn argued, people with disabilities who would face a £1 billion reduction in personal independence payments.[52]

Mr Corbyn argued that the recovery of the UK economy after the fall-out from the economic crisis of 2008 was "built on sand", citing a lack of growth in the manufacturing sector, and stagnation in the construction industry.[53] He also criticised the Government's exports policy, arguing that the Government was going to miss its target to increase exports to £1 trillion by 2020. He described the Government's "inaction" in the face of a collapse of the UK steel industry as being an example of a failed economic policy.[54] On employment, Mr Corbyn argued that the Chancellor had presided over under-employment and growing job insecurity, saying that nearly one million people were on zero hours contracts.[55]

Responding to one of the themes in Mr Osborne's Budget, that the Government would support the "next generation", Mr Corbyn argued that the Budget did not offer former students any solution to the problem of high rents or high debt levels on leaving university.[56] He also criticised the Chancellor on the grounds that there had not been enough in the Budget to tackle a growing deficit in the NHS.[57]

Mr Corbyn identified a widening productivity gap between the UK and the rest of the G7 group of nations as being the result of the "chronic underinvestment", in both the public and private sectors, presided over by the Chancellor.[58] He argued that the Chancellor's fiscal rule requiring there to be a budget surplus was counterproductive and had locked Britain into a cycle of "low investment, low productivity and low ambition".[59] Further planned austerity, particularly in local government spending, Mr Corbyn argued, was a "political choice" and would continue "a cycle of failure and personal misery".[60]

[49] BBC News, '"Tampon Tax" Set to be Scrapped in EU VAT Deal, says Osborne', 17 March 2016.
[50] HC *Hansard*, 16 March 2016, col 969.
[51] ibid.
[52] ibid.
[53] ibid, cols 969 and 970.
[54] ibid, col 970.
[55] ibid, cols 970–1.
[56] ibid, col 972.
[57] ibid, cols 972–3.
[58] ibid, col 973.
[59] ibid, col 974.
[60] ibid.

Scottish Nationalist Party

The SNP Westminster Group Leader on the Economy, Stewart Hosie, criticised the Chancellor for a failure to keep to his public finance targets. He argued that this failure was a result of the Chancellor having "strangled the lifeblood from the recovery by cutting too much too quickly".[61] While Mr Hosie stated his party's support for the "modest" rise in capital expenditure in the Budget over the forecast period, he criticised the Chancellor for reducing the level of short term capital expenditure growth since the 2015 Autumn Statement.[62]

Mr Hosie welcomed the measures in the Budget intended to help the oil and gas industry, but stated his disappointment that the Chancellor had not mentioned exploration or production allowances.[63] He argued that the Government was failing to tackle problems in the manufacturing sector and he criticised cuts to the budget of the Department for Business, Innovation and Skills and UK Trade and Investment.[64]

In regard to the issue of productivity, Mr Hosie argued that there needed to be "inclusive growth" in the economy before productivity could be improved.[65] To achieve this, the Government would need to create a "fairer and more equal society". On spending cuts, Mr Hosie characterised changes to the personal independence payment as "disgraceful".[66] Mr Hosie argued that instead the Government should have followed the SNP's recommendation for a "modest 0.5 percent real-terms increase in expenditure".[67]

Liberal Democrats

The Leader of the Liberal Democrats, Tim Farron, described the UK economy as being in "a stronger economic position" because of the decisions made in the 2010–15 parliament by the Coalition Government.[68] This, he said, was something of which he and his party were proud. However, Mr Farron argued that further reductions in spending outlined in the Budget were "unnecessary cuts to meet an unnecessary target", in light of the fact the structural deficit—the difference between current spending and revenues—was likely to no longer exist in 2017.[69]

Mr Farron argued that the Chancellor's announcements made in the Budget regarding infrastructure spending were undermined by a failure to deliver on previous housing and transport projects.[70] On the subject of infrastructure investment, Mr Farron also argued that the Government had not yet provided the funding necessary to replace infrastructure damaged in the 2015–16 winter floods, citing the example of the continued closure of the A591, which was resulting in financial losses for the Lake District.[71]

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[61] HC *Hansard*, 16 March 2016, col 979.
[62] ibid.
[63] ibid.
[64] ibid, cols 980–1.
[65] ibid, col 981.
[66] ibid, col 981.
[67] ibid, col 982.
[68] ibid, col 1027.
[69] ibid.
[70] ibid.
[71] Further information on the winter floods and the Government's response is provided in the House of Commons Library briefing, *Winter Floods 2015–16* (21 January 2016).

Mr Farron said that the reforms to the education system announced by the Chancellor would do nothing to resolve what he described as a recruitment and retention crisis in schools.[72] He predicted that the Government's reforms would instead put teachers under extra pressure. He also criticised the policy of academisation across all schools in England, arguing that this was "about centralisation, not localisation".[73] Mr Farron gave his support to the changes in business rates that had been announced, which he said the Liberal Democrats had been calling for. However, he said that without the devolution of business rates to local authorities, the continued funding of local government services, such as social care, local transport and rubbish collections, would continue to come under increased financial pressure.

Democratic Unionist Party

The DUP Treasury Spokesperson, Sammy Wilson, welcomed measures in the Budget to raise income tax thresholds, arguing that this would enable people to spend more of their income in a way that they—rather than the Government—saw fit.[74] Mr Wilson also welcomed the announcement in the Budget that the UK Government would fund a new air ambulance service in Northern Ireland. On infrastructure spending, Mr Wilson said that there was more that the Government could commit to in terms of investment projects, arguing that there should be more investment in areas of the UK outside London and the South East of England.

On the EU referendum, Mr Wilson argued that the comments by the Chancellor on eliminating the budget deficit and reducing levels of government debt were undermined by the fact that the Chancellor continued to pay money into the EU budget which, Mr Wilson argued, was then spent wastefully by the European Commission.[75] Mr Wilson argued the Chancellor only made limited reference to the EU in his speech because "there is not a good story to tell on that in budgetary terms", citing a damaging effect on the UK economy of EU regulations.[76]

Plaid Cymru

The Plaid Cymru Treasury Spokesperson, Jonathan Edwards, argued that the Chancellor's economic strategy since 2010 had not achieved a rebalancing of the UK economy.[77] Mr Edwards argued that the economy was too reliant on consumer spending, which accounted for two thirds of UK GDP, and the UK needed a budget with an emphasis on exports and business investment. Despite what he argued was growing evidence that tackling inequality constituted a driver of economic growth, Mr Edwards said that growing wealth inequality would be exacerbated by the tax measures in the Budget. In regard to the Welsh economy, Mr Edwards criticised the Budget for failing to deliver parity for Wales with Northern Ireland and Scotland regarding fiscal devolution, with Wales having no equivalent controls over tax to the corporation tax powers of the Northern Ireland Executive or the Scottish Government's powers over income tax and airport duty tax.[78]

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[72] HC *Hansard*, 16 March 2016, cols 1027–8.
[73] ibid, col 1028.
[74] ibid, col 1011.
[75] ibid.
[76] ibid, cols 1011–12.
[77] ibid, col 1031.
[78] ibid, col 1033.

Chair of the Treasury Committee

The Chair of the House of Commons Treasury Committee, Andrew Tyrie (Conservative MP for Chichester), said that there would be much for his committee to examine and consider in what had been announced in the Budget. He stated that the Chancellor deserved credit for leading the UK economy out of "the worst crisis in modern history" and into a position of greater stability.[79] He argued that characterisation of the UK economy as being supported by an "unsustainable debt-driven, consumption-led recovery" was not supported by the statistics:

> Investment has contributed a third of the total growth [in the UK] since the depths of the recession in the middle of 2009, despite accounting for only one seventh of GDP in recent years; that is the figure for the past five years. Debt as a proportion of household income has remained well below crisis levels, and recently productivity and real wage growth, which are the hallmarks of a sustainable recovery, are also showing signs of a pick up—something that the Chancellor did not emphasise in his speech—so I do not think that that argument holds up.[80]

Although Mr Tyrie acknowledged that there were improvements to be made in the statistics published on the UK economy, he argued that existing figures were "the only figures we have got".[81] Mr Tyrie welcomed the announcement that Professor Sir Charles Bean would be conducting an independent review, commissioned by the Government, into the production of UK economic statistics.[82]

On the issue of the Chancellor's fiscal rules, Mr Tyrie queried the usefulness of such rules, arguing that errors in forecasting would inevitably lead to policy adjustments.[83] He argued that parameters on levels of spending and the deficit might serve a useful function by providing guidance to markets and the public about a government's plans. However, Mr Tyrie said that such statements were frequently presented as permanently binding on government and damage was done to a government's economic credibility when such fiscal rules were broken.[84]

2.2 Press

In an article published the day after the Budget, the *Telegraph* argued that the Chancellor's main aim:

> […] was to avoid annoying voters ahead of June 23; the last thing the Government needs is for the [European Union] referendum to become an opportunity for voters to kick an unpopular administration. To that end, the increase in personal allowance to £11,500 and the rise in income threshold for paying 40 pence tax to £45,000 from April next year—an acceleration of earlier plans—will be widely welcomed.[85]

The *Telegraph* said that the Lifetime ISA was a "good idea" but also said "why stop at 50 when many people now in their twenties and thirties will be working until they are 70?".[86]

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79 HC Hansard, 16 March 2016, cols 977 and 974.
80 ibid, col 975.
81 ibid.
82 Cabinet Office and HM Treasury, 'Charles Bean Kicks Off Review to Future-proof UK Statistics', 11 March 2016.
83 HC *Hansard*, 16 March 2016, cols 976–7.
84 ibid.
85 *Telegraph*, 'Telegraph View: Get Back to Conservative Principles, Chancellor', 17 March 2016.
86 ibid.

The *Guardian's* Jonathan Freedland described the Chancellor's plan as "so hopeful, so optimistic, it would make Pollyanna blush", writing that:

> He presented a series of annual figures that show newly swollen borrowing and a stubborn deficit in the coming years, still at £21.4 billion in 2018–19—only to be transformed, presumably accompanied by the screech of a handbrake turn and the smell of burning rubber, into a surplus of £10.4 billion by 2019–20, just in time for the next election.[87]

The BBC's Economics Editor, Kamal Ahmed, argued that the Chancellor's commitment to run a budget surplus by 2020 is "staking an awful lot" on forecasted gains from tax changes.[88] The BBC's Business Editor, Simon Jack, argued that small businesses:

> […] are the clear winners from the Budget with big businesses picking up the bill—and then some. The biggest beef for small businesses are rates, which far exceed the amount they pay in corporation tax, and there were hopes they would be reduced. Mr Osborne has obliged, announcing 630,000 small businesses will pay no business rates at all from next year.[89]

However, he believed that the biggest economic news from the Budget was the reduced productivity forecast, writing that:

> […] these trades between big and small are all overshadowed by the central view of the Office for Budget Responsibility (OBR) that the single most important measure of an economy—its productivity growth—looks permanently damaged. That's the big economic picture and it is not a pretty one.[90]

The *Financial Times*' Economics Editor, Chris Giles, expressed concern about the economic forecasts and the projected tax revenues. He said that the OBR had "flip-flop[ed]" by giving the Chancellor "a £27 billion windfall to play with over five years in the Autumn Statement and [the OBR] has now removed £56 billion in these Budget forecasts".[91]

However, Bloomberg Business said that the Chancellor believed that achieving his surplus target was realistic. Bloomberg Business quoted him speaking to the BBC, saying:

> If you hold to the course, if you deliver those plans, if the economy grows as expected, then we will have a surplus towards the end of the Parliament […] We wouldn't need anything extra like small spending cuts or more tax increases.[92]

2.3 Businesses and Trade Unions

The British Chambers of Commerce (BCC) was broadly supportive of the Chancellor's Budget describing it as "workmanlike" and maintaining that he "has finally taken real action to lessen

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[87] *Guardian*, 'Budget 2016: Magical Thinking From Charmed World of the Chancellor', 16 March 2016.
[88] BBC News, 'Osborne Stakes his Reputation on a 2020 Surplus', 16 March 2016.
[89] BBC News, 'Small Businesses are the Winners from Osborne's Budget', 16 March 2016.
[90] ibid.
[91] *Financial Times*, 'Future of Public Finances Looks Certain to Change', 16 March 2016.
[92] Bloomberg Business, 'Osborne Rejects Suggestions He May Miss UK Surplus Target', 17 March 2016.

the crushing burden of business rates, and sharpened incentives for entrepreneurship and investment".[93] The BCC's Acting Director General, Dr Adam Marshall, also said that:

> The Business Tax Roadmap will help provide a greater degree of certainty as businesses look to plan for the future. Ultimately, the acid test for the roadmap will be whether it makes it easier for businesses to navigate the UK's complex tax system.
>
> Cuts to corporation tax and capital gains tax show that the UK is very much open for business. The reduction in capital gains tax in particular will help to encourage entrepreneurial risk-taking in some of our most dynamic young firms.[94]

However, Dr Marshall described the OBR's revision of British productivity growth downwards as "concerning". He argued that:

> […] we need to urgently tackle deep-rooted productivity problems in the UK economy, through an unrelenting focus on business investment, better infrastructure and training.[95]

The Confederation of British Industry's (CBI) Director General, Carolyn Fairbairn, echoed the BCC's comments commending the Chancellor on "taking more small firms out of the [business rates] regime and changing the uprating mechanism from RPI to CPI, which the CBI has long been calling for".[96] She also described the establishment of more elected mayors as "positive"; however, she observed that "as a key player in the Northern Powerhouse, much of Yorkshire remains notably absent from these deals".[97]

As with the BCC and the CBI, the Federation of Small Businesses (FSB) welcomed the changes to business rates.[98] The FSB's Policy Director, Mike Cherry, said that the FSB "have consistently called on the Chancellor to make the temporary doubling of small business rates relief permanent and so are very pleased to hear today's announcement".[99] Mr Cherry also stated that the 50 percent reduction on the tolls on the Severn crossings "will provide an important boost to small firms in Wales and the West of England".[100]

The GMB union argued that the Budget "completely ignores the crisis in care while continuing with the crippling £22 billion of 'efficiency savings' in the NHS" and that the "UK population owes a total of £1.46 trillion. Most working people would love to save for a rainy day; it's a luxury they can't afford".[101] The GMB's General Secretary, Tim Roache, was highly critical of the Budget, arguing that the Chancellor had tried "to balance the books on the backs of working people and at the expense of our public services—it hasn't worked, it won't work and it's wrong".[102]

[93] British Chambers of Commerce, 'Budget 2016: Full BCC Reaction', 16 March 2016.
[94] ibid.
[95] ibid.
[96] Confederation of British Industry, 'Budget 2016', 16 March 2016.
[97] ibid.
[98] Federation of Small Businesses, 'Chancellor's Budget Backs Small Business—Full Reaction', 16 March 2016.
[99] ibid.
[100] ibid.
[101] GMB, 'GMB On Today's Budget', 16 March 2016.
[102] ibid.

Responding to the Budget, the Trades Union Congress General Secretary, Frances O'Grady, said that:

> The Chancellor's speech shows his gamble isn't paying off. Far from increasing growth, he's had to downgrade his forecasts and accept that his plan is failing on productivity and pay. Real earnings next year are set to grow even more slowly than he'd previously announced. And he's had to admit that overall government debt is up too.[103]

Mark Serwotka, General Secretary of the Public and Commercial Services Union, described the announcements on education and the soft drinks levy as "distractions", adding that:

> Further cuts to civil service departments would be devastating, as tens of thousands of jobs are already under threat and hundreds of offices are earmarked for closure, hitting vital services from tax collection to our justice system.[104]

2.4 Think Tanks

In regard to the Budget's reduced growth forecast, the BBC quoted the Institute for Fiscal Studies' (IFS) Director, Paul Johnson, as saying that:

> If there was another downgrade in fiscal forecasts of a similar magnitude and the Chancellor did wish to remain on course to deliver a budget surplus in 2019–20 then this would surely require more real policy change.[105]

The BBC also reported that Mr Johnson had given the Chancellor "just a 50 percent chance of hitting his target of a £10 billion surplus on the public finances by 2020".[106] Speaking at the IFS' lunchtime briefing on the Budget on 17 March 2016, Paul Johnson said that:

> In the longer term the public finances are kept on track only by adding yet another year of planned austerity on the spending side. Spending in 2020–21 will be £10 billion less than planned.[107]

However, he went on to say that:

> […] it is important not to lose sight of the wider picture. Whether or not he just gets to budget surplus in 2019–20 is economically irrelevant. If the deficit hasn't completely gone by then it will, dreadful economic news aside, be nearly gone. That will represent a huge turnaround over the decade.[108]

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[103] Trades Union Congress, 'Downgrades of Growth and Wages Shows This is No Budget for the Next Generation, Says TUC', 16 March 2016.
[104] Public and Commercial Services Union, 'Budget Response: Further Cuts Would do More Damage to Our Economy', 16 March 2016.
[105] BBC News, 'George Osborne is 'Running Out of Wriggle Room'', 17 March 2016.
[106] ibid.
[107] Institute for Fiscal Studies, *Paul Johnson's Opening Remarks: IFS Budget briefing 2016*, 17 March 2016, p 2.
[108] ibid.

In its response to the Budget, the Resolution Foundation argued that:

> At the centre of […] yesterday's Budget documents is a major deterioration in the OBR's forecast for the public finances over the coming years: the £27 billion fiscal windfall from the Autumn Statement transformed into a £55 billion fiscal hole.[109]

It also wrote that:

> Taken together with other policy announcements made by the Government since last year's election, we estimate that households in the bottom half of the income distribution stand to lose an average of £375 a year by 2020–21, while those in the top half are set to gain by an average of £235.[110]

The Adam Smith Institute (ASI) described the Chancellor's Budget as "disappointing".[111] In its reaction piece the ASI wrote that "Mr Osborne seems so firmly focused on the politics of the Budget that he seems to have ignored the economics of it altogether".[112] Nevertheless, the ASI's Executive Director, Sam Bowman, welcomed the devolution of corporation tax to Northern Ireland asserting that:

> […] there is a very strong incentive for firms to site themselves just across the border in the Republic of Ireland, purely in order to pay lower corporation tax. Equal corporation tax on either sides of the border would bring the UK more revenue, and increase efficiency by reducing arbitrary distortions on where businesses should locate.[113]

However, on the issue of the Budget's small business rates changes the ASI was less supportive. Mr Bowman argued that:

> […] there now is a large distortion in favour of smaller firms present in the rates system, akin to rules in slow-growing Eurozone states like France and Italy. Smaller firms are generally less productive than large firms, and by creating a large distortion in favour of inefficient small businesses the Chancellor is risking the "Italification" of British business.[114]

The Joseph Rowntree Foundation was pleased with the Chancellor's announcement that unemployment had fallen to record lows, writing that:

> It is hugely welcome that employment has reached record levels and that we have the lowest proportion of people claiming out-of-work benefits since 1974, but what we needed was a Budget building on these foundations and supporting the Prime Minister's all-out assault on poverty.[115]

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[109] Resolution Foundation, *Budget 2016 Response*, March 2016, p 3.
[110] ibid.
[111] Adam Smith Institute, 'The Adam Smith Institute's Reaction to the 2016 Budget', 16 March 2016.
[112] ibid.
[113] ibid.
[114] ibid.
[115] Joseph Rowntree Foundation, 'Chancellor's Budget Giveaways Failed to Support an All-Out Assault on Poverty', 16 March 2016.

Illustrating this point, the Foundation argued that:

> Raising the income tax personal allowance helps people in poverty less and less: 85 pence in every £1 of the personal allowance rise will go to the richest half of the country. This is because many don't earn enough to benefit and it's the combination of tax with earnings, welfare and costs that matters for people's standard of living, not income tax by itself.
>
> Instead, the Chancellor should have considered cancelling cuts to the work allowance in universal credit (UC), which would put £1,000 in the pockets of three million low-earning families. There was no mention of UC in his speech, but this flagship policy should be central to the nation's efforts to reduce poverty.[116]

The Director General of the Institute of Economic Affairs (IEA), Mark Littlewood, described the Budget as "slow, steady" and "rather unimaginative". However, Mr Littlewood went on to say that "at least the Chancellor hasn't thrown out his target of a Budget surplus for 2020, even if he has almost no margin for error in hitting that target".[117] He argued that:

> The increase in the 40 pence threshold of income tax will be welcome relief for many middle-earners, whilst the substantial cuts to capital gains tax will increase activity and may well pay for themselves in terms of increased revenue. The old top rate of 28 percent was actually losing the Government income—high CGT rates damage economic growth by encouraging individuals to hold on to assets that would be better off under different ownership.[118]

The Head of Economic Research at the Centre for Policy Studies, Daniel Mahoney, welcomed the Budget's increase to the personal tax allowance and the raising of the 40 pence tax threshold.[119] Mr Mahoney also said that some of the Chancellor's measures would "undoubtedly help boost British enterprise" including those "on business rate relief, corporation tax and tax cuts for the offshore oil and gas industry".[120] However, he said that the Chancellor had "ducked some of the more major reforms needed. His announcement on tax simplification, for example, falls far short of what is required".[121]

2.5 Education Measures

On the announcement that the Government plans to provide £285 million a year to assist 25 percent of secondary schools in extending their school days, the Deputy General Secretary of the National Union of Teachers, Kevin Courtney, said that the Chancellor:

> […] seems to be unaware that schools already open earlier and later for clubs and activities. The idea for the expansion of the school day, applying to only one quarter of secondary schools, has clearly not been properly planned. Nor will it address the fact that many children do not have access to a well-balanced and rounded education with

[116] Joseph Rowntree Foundation, 'Chancellor's Budget Giveaways Failed to Support an All-Out Assault on Poverty', 16 March 2016.
[117] Institute of Economic Affairs, 'Institute of Economic Affairs' Response to Budget 2016', 16 March 2016.
[118] ibid.
[119] Centre for Policy Studies, 'CPS Budget 2016 Reaction by Head of Economic Research Daniel Mahoney', 16 March 2016.
[120] ibid.
[121] ibid.

> many subjects such as art, music, drama and sport being squeezed out of the curriculum by pressures to meet targets in core subjects and by the impact of the freeze on core school funding.[122]

Speaking on the announcement that all schools will become academies by 2020, Mr Courtney said that this will "end democratic accountability in our schools", adding that:

> This 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. Nowhere else in the world has this been attempted apart from Chile where the results have been disastrous.[123]

The National Association of Head Teachers' General Secretary, Russell Hobby, also spoke about the increase in the school day, saying that whilst "the idea that most schools shut at 3.30 in the afternoon is itself pretty outdated […] we have no problem with extra money to help them in the activities they offer".[124] However, he said that:

> The shift to universal academisation will probably not produce the benefits that the Chancellor hopes for and the price paid for the change will be high. We do not yet have a positive vision for the future of smaller schools in the absence of local authority support.[125]

2.6 Soft Drinks Levy

The British Diabetes Association's Chief Executive, Chris Askew, responded to the Chancellor's announcement of a new soft drinks industry levy stating that:

> It is really promising news that the Government has announced a tax on the soft drinks industry. We have been campaigning for this measure as we are all consuming too much sugar. This is contributing to the huge rise we are seeing in the numbers of people who are overweight and obese, and therefore at increased risk of Type 2 diabetes. There are already around 3.6 million people in the UK with Type 2 diabetes. This is already a huge health and economic burden for individuals and health systems.[126]

However, he cautioned that in order to be effective the levy should not be absorbed by the drinks industry because "prices need to change otherwise there will be no impact on the health of [the] nation". Mr Askew added that he wanted to see mandatory reductions in the levels of salt, sugar and fat in products, alongside a restriction on the marketing of "junk food" to children.[127]

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[122] National Union of Teachers, 'Budget', 16 March 2016.
[123] ibid.
[124] National Association of Head Teachers, 'NAHT Response to the Budget', 16 March 2016.
[125] ibid.
[126] British Diabetes Association, ''Promising News' That Government Announces Tax on Soft Drinks Industry', 16 March 2016.
[127] ibid.

The IEA described the levy as "astonishing" asserting that:

> […] there is no evidence from anywhere in the world that such taxes have the slightest effect on obesity. Whether dressed up as a direct tax or a levy on industry, the effect will be that the Government will be picking the pockets of the poor for no benefit.[128]

The IFS was more positive, describing the case for it as "sound" in "economic terms", being "similar to the case for a tax on alcohol".[129] However, its Director, Paul Johnson, said that:

> Only around 17 percent of added sugar consumed comes from soft drinks—though the proportion in households with children is a little higher. Obviously the soft drinks tax won't have any impact on the other 80 plus percent of sugar consumption—indeed it might increase it as people move away from soft drinks to other sugary products.[130]

Nevertheless, Mr Johnson went on to say that "taxing soft drinks, which have little or no other nutritional value, may well make sense as a first step".[131]

The Director General of the British Soft Drinks Association (BSDA), Gavin Partington, said that the BSDA was:

> […] extremely disappointed by the Government's decision to hit the only category in the food and drink sector which has consistently reduced sugar intake in recent years—down 13.6 percent since 2012.
>
> We are the only category with an ambitious plan for the years ahead—in 2015 we agreed a calorie reduction goal of 20 percent by 2020.
>
> By contrast sugar and calorie intake from all other major take home food categories is increasing—which makes the targeting of soft drinks simply absurd.[132]

The CBI's Director General, Carolyn Fairbairn, expressed concern about the levy, stating that companies would want reassurance that it is not "the thin end of the wedge".[133] However, she said that the soft drinks industry would continue to build on their steps to reduce sugar and that they would "continue to engage with the Government on effective strategies to address this issue".

2.7 Personal Independence Payment

In response to the changes to the assessment criteria for personal independence payments (PIP), Scope, a charity that campaigns for opportunities for disabled people, said it was "concerned at how these changes will impact on disabled people's ability to make ends meet and save for their futures".[134] Scope argued that disabled people "already have less financial resilience than non-disabled people, with an average of £108,000 less in savings and assets", and said its own research showed that "disabled people spend an average of £550 a month on the

[128] Institute of Economic Affairs, 'Institute of Economic Affairs' Response to Budget 2016', 16 March 2016.
[129] Institute for Fiscal Studies, *Paul Johnson's Opening Remarks: IFS Budget Briefing 2016*, 17 March 2016, p 7.
[130] ibid.
[131] ibid.
[132] British Soft Drinks Association, 'Response to the Proposed Soft Drinks Levy', 16 March 2016.
[133] Confederation of British Industry, 'Budget 2016', 16 March 2016.
[134] Scope, 'What Today's Budget Means For Disabled People', 16 March 2016.

extra costs of being disabled". Scope welcomed the announcement in the Red Book that the Government intended to publish a white paper focusing on the roles that the health, care and welfare sectors could play in supporting disabled people and those with health conditions to get into and stay in work.

Using figures from the OBR that indicated 370,000 people would be affected by the changes to PIP criteria, the IFS calculated that this would mean an average loss of £3,500 per person per year.[135]

The *Independent* reported that the Chancellor was "under pressure" to compromise over the plans, noting that Labour intended to push the issue to a vote in the Commons and that "party sources also predicted the measure could face opposition in the Lords".[136] Owen Smith, the Shadow Work and Pensions Secretary, said that Labour would resist any attempt by the Government to "push through the changes in secondary legislation, without a full debate in Parliament".[137] Andrew Percy (Conservative MP for Brigg and Goole), was reported to have organised a letter of protest against the plans signed by Conservative backbenchers.[138] He told reporters that there were "scores of Tory MPs who are deeply concerned about this—certainly far more than the Government's majority".[139] He described the situation as "open rebellion" and asserted that there was "zero chance of getting it through".

Mr Osborne told the BBC in an interview that he was "always happy to listen to proposals about how to improve" but that "we have got to control our disability budget and make sure help goes to the people who need it most".[140] Some commentators have expressed support for the principle of reform to disability benefits. For example, an editorial in the *Telegraph* argued that there was "still a case to be made for the Government's changes to disability benefit", as "unless the Government lives within its means and ensures economic growth, none of the benefits that [the "welfare lobby"] defend can be provided".[141]

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[135] Institute for Fiscal Studies, *Personal Taxes and Benefits*, 16 March 2016, slide 16.
[136] Nigel Morris, 'George Osborne Faces Commons Defeat Over Plans to Cut £4.4bn from Disability Benefits', *Independent*, 18 March 2016.
[137] BBC News, 'Minister Justin Tomlinson Defends 'Cuts' to Disability Payments', 17 March 2016.
[138] Nigel Morris, 'George Osborne Faces Commons Defeat Over Plans to Cut £4.4bn from Disability Benefits', *Independent*, 18 March 2016.
[139] Ben Riley-Smith, 'Budget 2016: George Osborne Faces Mass Tory Rebellion Over Disability Cuts', *Telegraph*, 17 March 2016.
[140] BBC News, 'Minister Justin Tomlinson Defends 'Cuts' to Disability Payments', 17 March 2016.
[141] *Telegraph*, 'The Case for Change on Disability Benefits', 18 March 2016.