



freshwater

**BUDGET**

2016



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# Budget 2016

**The Freshwater public affairs team looks at the 2016 Budget Statement in detail, with particular attention on transport and infrastructure.**

## Summary

George Osborne heralded this budget as one for the “next generation”, an attempt to ward off claims that his previous statements had focused on an older generation more concerned with savings and pensions.

He began by stating that the UK economy had grown last year by 2.4%, but this masked a cautious economic forecast. The Office of Budget Responsibility, the government’s independent fiscal watchdog, revised down its optimistic growth forecast delivered at the last Autumn Statement for the next five years due to, as Mr Osborne put it, “storm clouds gathering” around the world. Despite the economic weather, the chancellor told Parliament that Britain is in the best position possible to deal with any global downturn.

A more perilous fiscal outlook has only strengthened the chancellor’s resolve when it comes to making difficult decisions over where to find savings. Government departments will have to find a further £3.5 billion of savings by the end of the decade, on top of requirements announced in previous budgets and last year’s Spending Review (which saw non-protected departments asked to make cuts of 18% on average). Local government will be likely to feel much of the pain (the Department for Communities and Local Government has seen its budget cut by over 60% between 2010-11 and 2014-15), and while the chancellor recently decided that local authorities will be able to keep more revenue from business rates, in this Budget he also announced that rates themselves will be cut.

The government has never been shy to talk about its record on employment and the Budget states that by the end of 2015 there was a record number of women in employment, a strong demand for labour, nearly three-quarters of the increase in 2015 employment driven by full-time workers, and 92% of the growth in employment to Q4 of 2015 in high and medium skill occupations.

The headline news was the introduction of a ‘sugar tax’ on soft drinks to be introduced in 2018. Keen to prove that this is not simply a revenue-raising stealth tax, Mr Osborne told us that proceeds from the tax would be invested to improve the health of Britain’s children. There was also a controversial announcement to give academy status to all schools by 2022. This will hand control from local authorities to head teachers and governors.

Much of the new announcements on infrastructure have followed, and been in support of, the recommendations made by the National Infrastructure Commission. The Lord Adonis-chaired Commission has advised the chancellor that he should press ahead with the proposed HS3 and Crossrail 2 projects to ensure growth in the northern and London economies. Both these plans have now been given financial backing with the intention of building starting in the next decade.



## Transport

The majority of the transport news had been confirmed prior to the Budget due to the Treasury's acceptance of the National Infrastructure Commission's recommendations. Last week, the commission advised that the proposed north-south Crossrail 2 rail line through London should go ahead with immediate effect as, without it, London would be made severely vulnerable to critical overcrowding on its existing transport network. The chancellor has accepted this advice and has provided £80 million to help develop the project, while asking Transport for London to match his contribution. A Hybrid Bill on the scheme should enter Parliament before the next general election.

Furthermore, the Commission released its report into transport in the north of England, stating that the development of 'HS3', the high speed rail line from Liverpool in the west to Newcastle and Hull in the east, was vital for economic growth and prosperity. The chancellor backed this proposal with £60 million to improve general transport connectivity across the north of England and to advance detailed plans for HS3 by 2018.

The long-awaited Shaw Report into the long term shape and financing of Network Rail was released just after the Budget. Nicola Shaw, the chief executive of High Speed 1, has advised that there should be increased access and opportunities for third-party funding for Network Rail projects, as well as further route devolution. The Treasury has said that it will respond in full to the recommendations later in the year.

Apart from these major announcements, there was also news on smaller transport developments across the country. There will be a further £4 million committed to improve Manchester Piccadilly, Manchester Airport and Leeds stations. Midlands Connect, the new transport authority for the 'Midlands Engine', will be put on a statutory footing to place it as a sub-national transport body along the lines of Transport for London and Transport for Greater Manchester. £151 million will be allocated from the local major transport schemes funding and bidding on the second tranche of funding will be launched.

The interim report of the Peninsula Rail Task Force will be supported with £5 million investment to develop options for boosting resilience of the line between Newton Abbot and Exeter via Dawlish. Rail stations in the south west will also benefit from £3 million for station improvements.

## Infrastructure & planning

The Budget reportedly accelerates the commitments delivered in last year's Spending Review to invest £100 billion in infrastructure by 2020-21.

Much of the National Infrastructure Commission's recommendations over recent weeks have focused on transport infrastructure and improving this across the country. This has included a proposal to develop the case for a trans-Pennine road tunnel underneath the Peak District. The chancellor has provided funding for scoping work to be carried out. Mr Osborne has also commissioned the NIC to look into two further studies: 5G internet connectivity and how Britain can best take advantage of it; and strategic infrastructure in the Cambridge-Milton Keynes-Oxford corridor.



There were a number of planning changes announced by the chancellor which seek to make the system easier and quicker for developers. There is a move to a 'zonal, red-line' system which will enable local authorities to set out their development plans from the outset, making it easier for developers to know how likely their project is to be accepted, reducing the number of stages they need to pass and reducing the risk of planning permission not being granted. The government will also free up local authorities to build garden cities and give financial help to those involving between 1,500 and 10,000 homes. This is intended to make it easier for large developments of housing to go ahead.

In London the government will provide £5 million to fund small, local infrastructure projects in outer London boroughs. It will also invite Transport for London to advance proposals to finance infrastructure from increases in land values.

## Devolution

Following the theme of this government towards more devolution, the chancellor announced a raft of new devolution deals and further developments with existing ones.

This week, a £1.3bn City Deal was announced for the Cardiff City Region, providing funding for new infrastructure projects such as the South Wales Metro. In the Budget, further deals were announced for East Anglia, the west of England and Greater Lincolnshire. These developments will mean powers being transferred to the local authorities in these areas and plans put in place for directly-elected mayors. The Budget also confirmed already-announced Mayoral devolution deals for Greater Manchester and the Liverpool City Region.

Further to this, Mr Osborne confirmed plans that the Manchester and Liverpool devolved authorities could keep 100% of business rates, as well as moving towards 100% rate retention for the Greater London Assembly. A growth commission chaired by Lord Heseltine called Thames Estuary 2050 has been announced which will explore ways of maximising economic potential and improving infrastructure around the Thames Estuary.

## Energy

The chancellor has accepted the recommendations of the National Infrastructure Commission's first report into how to improve the nation's energy supply. The commission recommended a large investment in 'smart power' to improve Britain's storage of energy. It is expected that this will eventually save consumers £8 billion per year. It was also announced that the Treasury would work with Ofgem to remove barriers to positioning the UK as a world leader in smart technologies. At least £50 million will be allocated for investment in energy storage, demand-side response and other smart technologies. The Budget also includes measure to reduce the costs of decarbonisation: Contracts for Difference of up to £730 million will be auctioned in this Parliament for up to 4 GigaWatts of offshore wind and other renewables.

According to the government, this Budget announces the biggest business energy tax reforms since the taxes were introduced. These reforms include abolishing the CRC energy efficiency scheme, increasing the Climate Change Levy, and keep existing Climate Change Agreement eligibility criteria, which help to protect energy intensive industries from the cost of energy, in place until at least 2023.



## Reaction

### **Jeremy Corbyn, Leader of the Labour Party**

“For all his talk of the Northern Powerhouse, the North East accounts for less than 1% of government’s infrastructure pipeline projects in construction. For all his rhetoric there’s been systematic under investment in the North.”

### **Dr Adam Marshall, acting Director General, British Chamber of Commerce**

“Business wanted a steady, workmanlike Budget, and that’s what we got. The Chancellor listened to our calls to avoid higher business taxes and costs – and indeed moved to lower them in a number of areas. He has finally taken real action to lessen the crushing burden of business rates, and sharpened incentives for entrepreneurship and investment. While his commitments to key business infrastructure projects are positive, the Chancellor must ensure that they move from the drawing board to speedy construction on the ground.”

### **Jonathan Clifton, Associate Director for Public Services, IPPR**

“The Chancellor has once again promised to protect the headline amount of funding that goes to schools and health - but he is loading more pressure onto these services via the back door. In a little noticed move he announced that an additional £2bn worth of savings will come from public sector pensions. These pension changes will fall on all public sector employers – including schools and hospitals - which are meant to be ‘protected’ from spending cuts.”

### **Carolyn Fairbairn, Director General, CBI**

“After a year of surprises, this was a stable Budget for business facing global stormy waters. The Chancellor has listened to our concerns about the mounting burden on firms and chosen to back business to grow the economy out of the deficit. Progress on some key infrastructure projects, from HS3 to 5G, are positive. Investors and companies will be encouraged by the greater clarity and simplification of the Government’s energy policy.”

### **Jonathan Carr-West, Chief Executive, Local Government Information Unit**

“This is a budget that will leave many in local government deeply anxious. The chancellor announced £3.5bn extra cuts in public sector funding by the end of the parliament. It’s not clear where these cuts will fall but experience suggests they will hit local government either directly or through the knock on effects of cuts to welfare benefits. Only two months ago local government was offered the “certainty” of a four-year funding settlement, but that certainty already looks illusory. Elsewhere, there was better news, with progress on three new devolution deals, but many of the deals we expected were not announced and it remains to be seen whether the government’s somewhat secretive, deal-based approach to devolution will help or hinder this to fulfil its potential.”



## Transport, infrastructure, devolution and energy: list of key announcements

### **Transport**

- Green light on Crossrail 2 and HS3
  - Government providing 300m of funding to improve northern transport connectivity
  - Crossrail 2 funded by £80m to help development, Transport for London asked to match
    - Hybrid bill by end of Parliament
- Further £4m to support development of Manchester Piccadilly, Manchester Airport & Leeds stations
- Midlands Connect on statutory footing
- £3m to improve stations across the south west
- Approved new Thameslink station at Brent Cross – 7,500 homes
- Shaw Report
  - Key recommendations are to investigate more third party funding of Network Rail, increase route devolution & create a 'route for the north'
  - Government to report back in full later this year

### **Northern Powerhouse, regional devolution and cities**

- More devolution deals
  - Cardiff City Deal
  - Devolution deals for East Anglia, West of England & Greater Lincolnshire
  - Thames Estuary 2050 growth commission – led by Lord Heseltine
  - Opens door for growth deal for North Wales and a Swansea Bay City Deal
- 100% business rate retention for Manchester & Liverpool
- Move towards 100% retention for Greater London Authority
- Extend Sheffield City Region enterprise zone
- £250m Midlands Engine Investment Fund
- New LEP created across Loughborough & Leicester



## Energy

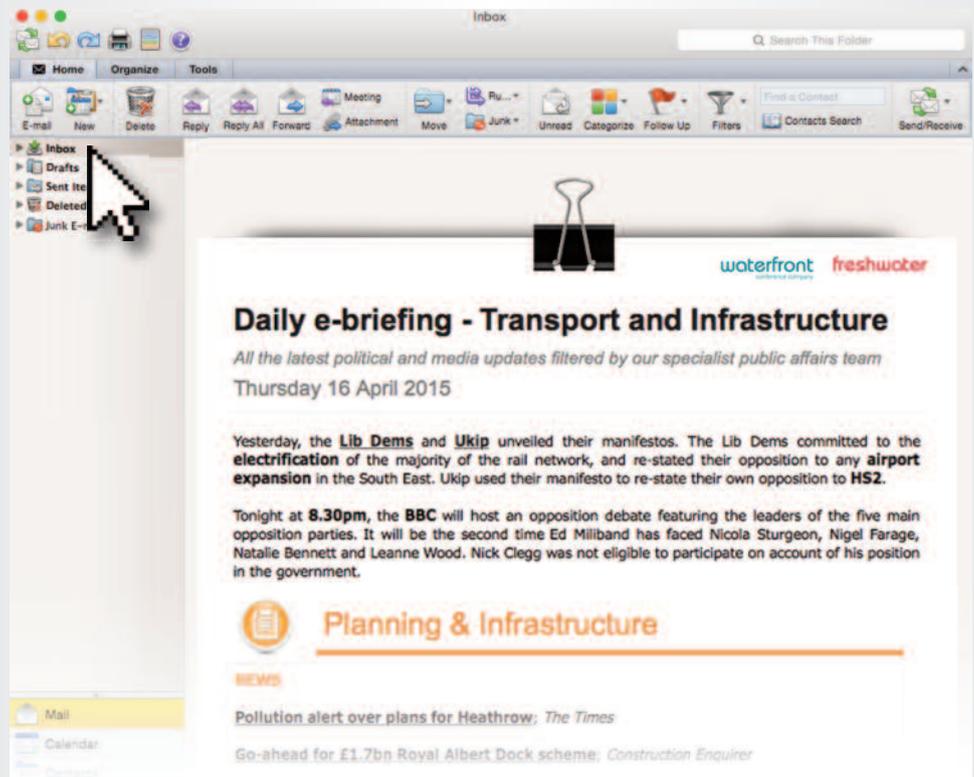
- Implement National Infrastructure Commission' recommendations to transform the future of UK's electricity sector
- Allocate at least £50m to energy storage, demand-side response and other smart technologies
- Government will act quickly on Competition and Market Authority's decision from its Energy Market Investigation

## Infrastructure

- Move to a more streamlined planning service
  - Move to a zonal, 'red-line' planning system
- Local authorities set out plans from the outset – gives early certainty to projects and reduces number of stages for developers
- Unnamed measures to speed up planning process
- Home and Communities Agency to work with Network Rail to free up land for homes and commercial development
- Make it easier for local authorities to build garden cities
- Commissioned studies on:
  - 5G – how the country can take advantage of 5G tech and become a world leader
  - Cambridge-Milton Keynes-Oxford corridor – National Infrastructure Commission to report on strategic infra priorities in region
- Establish a new Broadband Investment Fund, in partnership with private sector investors
- Develop business case for trans-Pennine road tunnel under Peak District

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