Glenigan
Constructing Insight

# Budget 2015

## Special Glenigan Report

March 2015
Prepared by Glenigan

A 4C Service

**Glenigan**
Constructing Insight
A 4C Service

Established in 1973, Glenigan currently invests £3.1million and makes over a million research telephone calls per year to provide details on every construction project in the UK. This enables us to provide the most up-to-date and comprehensive construction sales leads and analysis, to help companies win new business.

We also have exclusive partnerships with key industry associations such as the Builders' Conference and the Building Research Establishment (BRE), enabling us to offer project data that's not available elsewhere in the market.

Glenigan's detailed insight is used across all levels of our customers' businesses. Different departments have much to gain from using our industry knowledge and product features to deliver results for their specific job role.


For further information, visit glenigan.com or contact us on the details below.

**Switchboard**
Phone +44 (0)1202 786700
Fax +44 (0)1202 316680
info@glenigan.com

**Address**
5th Floor,
80 Holdenhurst Road
Bournemouth, BH8 8AQ

**Subscription Sales**
Phone 0800 373 771
info@glenigan.com

**Account Management**
Phone 0870 443 5373
accountmanagement@glenigan.com

## Glenigan comment

Inevitably 50 days before the general election, the Chancellor's attention has been on short-term political priorities rather than long term investment needs. However, there has been no big pre-election give away, with the government choosing to use better than expected public revenues to tackle the deficit more quickly than previously planned.

Nevertheless, the forecasted faster growth in the UK economy and household incomes should bolster private housing and non-residential construction activity.

The Chancellor's Budget proposals are centred upon supporting and encouraging private sector investment and economic growth. This includes his 'surprise' move to create a Help to Buy ISA that will include a government contribution of up to £3,000 for savers to help bolster their deposit. Additional support for increasing new housing supply is being provided though the creation of the first 20 housing zones outside London, with the potential to deliver 34,000 new homes.

Elsewhere, direct government support is limited. An expected £13 billion of planned departmental cuts during the next Parliament indicates that publicly funded construction work would remain under pressure under a future Conservative government.

While funding support has been pledged for a few projects such as the Brent Cross regeneration scheme, the Croxely rail link and the Swansea Bay tidal lagoon, the Chancellor's focus was more on the government's enabling role. This includes the promised release of public sector land with capacity for up to 150,000 new homes between 2015 and 2020. Additional planning powers are promised for the London Mayor to accelerate new housing provision, while pilot schemes in Greater Manchester and Cambridge and Peterborough will incentivise local authorities to support economic growth by allowing them to retain any additional growth in business rates.

## Economic summary

The Office for Budget Responsibility (OBR) is forecasting GDP growth of 2.5% this year, close to the 2.4% expansion forecast at the 2014 Autumn Statement. This came despite deteriorating expectations for fixed investment, particularly into private dwellings but also due to weaker predictions of investment by businesses. Overall fixed investment is predicted by the OBR to have risen by 6.8% in 2014 and to rise by 4.3% in 2015, which compares to estimates of 8.1% and 8.4% respectively forecast three months ago. This was offset by an increase in forecast government consumption; now expected to rise by 0.8% in 2015, revised upwards from a 0.4% drop forecast in December.

| OBR Economic Forecast | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Change on previous year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** |
| GDP | 1.7 | 2.6 | 2.5 | 2.3 | 2.3 | 2.3 | 2.4 |
| Household Consumption | 1.7 | 2.0 | 2.6 | 2.7 | 2.5 | 2.3 | 2.2 |
| Business investment | 5.3 | 6.8 | 5.1 | 7.5 | 6.5 | 6.4 | 4.4 |
| Investment in Private Dwellings | 6.2 | 6.6 | 3.5 | 5.4 | 5.5 | 6.2 | 5.2 |
| House prices | 3.5 | 10.0 | 5.9 | 4.9 | 6.4 | 6.9 | 6.4 |
| Inflation | 2.6 | 1.5 | 0.2 | 1.2 | 1.7 | 1.9 | 2.0 |

The outlined spending plans, as with previous government spending plans, entail significant further cuts after the general election. The Chancellor's speech stated that the spending plans require £30 billion of savings by 2017/18. If the Conservatives are given the keys to the Treasury in 50 days' time, £13 billion of these would come from government department spending; £12 billion from welfare and £5 billion would be raised by combating tax avoidance and aggressive planning.

However independent forecasts of UK public sector net borrowing have tended to be higher, perhaps due to questions over the political feasibility of further cuts to public services. According to consensus forecasts compiled by HM Treasury, the median forecast made over the three months to March were for PSNB to be £76.5 billion in 2015/16 in 2015/16. These were, of course, made without knowledge of the Budget announcements, but were in each case around £7 billion higher than the OBR's Autumn Statement forecasts (£70.3 billion in 2015/16 and £49.0 billion in 2016/17).

**Public Finances**

| £ billion | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|
| Public Sector Gross Investment | 61.2 | 67.8 | 68.3 | 69.4 | 70.5 | 73.6 | 77.2 |
| Public Sector Expenditure | 660.3 | 669.3 | 674.3 | 670.9 | 673.4 | 685.6 | 720.1 |
| Public Sector Net Borrowing* | 97.3 | 90.2 | 75.3 | 39.4 | 12.8 | -5.2 | -7.0 |

* Excludes Royal Mail and Asset Purchase Facility Transfers

Encouragingly, government investment is forecast to remain relatively stable in real terms, with reductions in public spending coming on the current account side. Gross Public Sector Investment is forecast to rise by just 1% in nominal terms during 2015/16, followed by rises of 2% per year for the next two years, with increase further accelerating at the end of the forecast period once the government deficit is eliminated.

The most marked change to forecasts of public sector net borrowing is for plans once the Budget is in surplus. Spending plans announced at the Autumn Statement contained a forecast surplus in 2019/20 of £23.1 billion. This would take public spending to 35.2% of GDP, the lowest level since the 1930s, and was seized upon by Labour campaigners arguing the Conservatives would cut back vital services. The new spending forecasts are for spending to level out at 36.0% of GDP from 2018/19, the same level as in 2000 when Gordon Brown was Chancellor.

## *Specific Budget Measures*

### *General taxation:*

- **Income tax:** Personal tax allowance rises to £10,600 from 2015/16, with further increases announced to £10,800 in 2016/17 and £11,000 in 2017/18. In 2016/17 the higher rate threshold above which individuals pay income tax at 40% will be increased to £42,700, rising to £43,300 in 2017/18.
- **Fuel duty:** The increase in fuel duty planned for September 2015 has been scrapped.
- **Class 2 National Insurance Contributions (NICs):** The government plans to abolition Class 2 contributions during the next Parliament and will consult on the detail and timing of these change later in 2015 .
- **Corporation tax:** As previously announced, the rate will be 20% from 2015/16.
- **VAT registration and deregistration thresholds** rise from £81,000 to £82,000 from 1 April 2015. From 1 April 2015, Heavy Goods Vehicles VED and Road User Levy rates will be frozen for one year.
- **Export finance:** Funding for the UK Export Finance programme will be doubled to £3 billion and interest rates will be cut.
- **Business rates:** Pilot schemes in Greater Manchester and Cambridge and Peterborough will allow local government to retain 100% of growth in business rates above expected forecasts.

### *Environmental taxes:*

- **Aggregates levy:** The aggregates levy will remain at £2 per tonne in 2015/16.
- The standard and lower rates of **Landfill Tax** will increase in line with RPI, rounded to the nearest 5 pence, from April 2016.
- The government will bring forward **compensation for energy intensive industries** with higher electricity costs resulting from small-scale feed-in tariffs for renewable generation, from 2016/17 to the point at which state aid approval is received in 2015/16.

***Construction-related measures:***

- The government and Transport for the North will shortly publish the interim report of the **Northern Transport Strategy,** which will set out the strategic options for future transport investment in the north of England.
- The government has launched a consultation into the **compulsory purchase regime** to make it clearer, faster and fairer to support brownfield development.
- The £140 million of new funding announced in the Autumn Statement for the repair and restoration of vital **flood defences** will enable 165 flood schemes to be delivered earlier than originally planned. A further 47 new schemes will be included within the 6-year flood and coastal erosion programme.
- The government will enter into the first phase of negotiations on a Contract for Difference (CfD) for **Swansea Bay Tidal Lagoon** to determine whether the project is affordable and value for money for consumers, and whether it will drive down costs of future lagoons.
- The government will provide a further £34 million to support the delivery of the **Croxley rail link project**, subject to a £16 million contribution from Transport for London and final approval of the scheme.

***Housing:***

- The government is announcing the first 20 **Housing Zones** outside London with the potential to deliver 34,000 homes and will continue to work with eight other potential Housing Zones. In total, these have potential to deliver up to 45,000 new homes.
- The government intends to release enough **surplus land** between 2015 and 2020 to build up to 150,000 new homes.
- The government is to create a **Help to Buy ISA** that will include a contribution of up to £3,000 for first time buyers saving up the deposit for their first home.