

Policy Update: Budget 2016 Highlights

Following the budget announcement we have put together the following brief to highlight the main issues that are likely to be of interest or may affect UKSIF members. All quotes are taken from the budget document itself, available [here](#).

What did we get?

Financial Advice Market Review – The Government welcomed the Financial Advice Market Review, [published this week](#), and which included a host of policy recommendations geared towards plugging the UK's 'advice gap'. On the back of the report, the Chancellor today committed to implementing all of the recommendations for which it is responsible and will consult on introducing a single, clear definition of financial advice. UKSIF's response to the FAMR review can be found [here](#).

Local Government Pension Schemes – The Government announced it would 'work with administering authorities to establish a new Local Government Pension Scheme infrastructure investment platform to boost infrastructure investment.' In February, the Government's consultation on investment rules for LGPS funds closed- part of which concerned asset pooling. This was a measure announced last year by George Osborne and is intended to reduce fees and costs to the tune of £200-300 million.

Despite some wider concerns with the LGPS consultation, [UKSIF backed plans to pool assets](#). The pooled *British Wealth Funds*, each with assets of around £25bn will be in a far better position to boost SRI, although more clarity and detail is still needed on expectations around stewardship.

Mandatory Carbon Reporting – For many weeks it had looked as though mandatory

reporting of carbon emissions by listed companies was set to go. The justification that this reporting requirement is too burdensome on companies is nonsensical; 95% of the FTSE100 go beyond the minimum legal requirements under the Companies Act 2016 in voluntarily reporting to CDP. This appeared to be part of the Government's wider drive to 'cut red tape'.

There are wide-ranging benefits to investors and businesses from a mandatory reporting framework including savings through measurement and management of energy usage and providing investors comparable data with which to analyse companies. This is something UKSIF has consistently spoken out against to both ministers and civil servants and we have collaborated [with others](#) in the sector to ensure this important requirement wasn't lost.

The good news was that today the Government confirmed it will be consulting on a new simplified reporting framework for listed companies and explicitly acknowledged the importance of mandatory reporting in the new regime. It highlighted the importance of 'data transparency for investors and [wants to] establish London as a centre of global green finance. The government also fully supports the work of the Financial Stability Board's industry-led Task Force on Climate-related Financial Disclosures (TCFD).'

Transition to a low-carbon economy – The Government emphasised its commitment to driving down the costs of decarbonisation with the announcement of the next CfD auction of up to £730 million over this Parliament for up to 4GW of offshore wind and other less established renewables. The Government will continue to focus on costs to consumers of decarbonisation and will release more details in the autumn.

The first stage of the competition to identify the best value small modular nuclear reactor (SMR) was also announced. The Government hopes this will pave the way to build one of the world's first SMRs. An 'SMR delivery roadmap' will be published later this year.

This is one issue UKSIF will pay close attention to and represents the area in which we have been most disappointed by the Government's actions to date.

Other announcements included:

- An increase to the Climate Change Levy from 2019 (NB: renewables now pay this tax).
- The Government has published the [remit of the Financial Policy Committee](#), set up to identify long-term risks to the UK's financial system.
- The Government announced a pensions dashboard will be introduced by 2019 to ensure individuals can view their retirement savings in one place.

What didn't we get?

While tomorrow's papers will be filled with the Chancellor's headline announcements such as more spending cuts and a new sugar tax, less attention will be paid to those rumoured announcements that didn't make the cut. Conspicuous by their absence were the following:

Pensions ISA – After a few weeks of *will he, won't he* the latter triumphed and the Chancellor failed to announce the "Pension ISA" first mooted at last year's summer budget. [UKSIF was against the Pensions ISA](#) for a variety of reasons including that, contrary to its stated intention, it represented a disincentive to save. It would have also been incredibly complex to implement, particularly in DB schemes, and the move from "EET" to "TEE" could have represented a risk of double taxation for some savers. It also means there will be no move towards a flat rate of pension tax relief at this stage.

Instead the new Lifetime ISA was announced, which will be available from April 2017 and savers 'will be able to contribute up to £4,000 per year, and receive a 25% bonus from the government.' Some have cited this as pensions tax reform by the back-door due to it being voluntary, rather than compulsory and it could represent an attractive option for people under the age of 40. The Government also published a summary of responses to its consultation.

Auto-enrolment employers' tax – There have been rumours over recent weeks that the Chancellor was going to introduce a tax on employers' contributions to pensions under auto-enrolment. This would have had clear implications for savers, many of whom already may not have adequate income in retirement. This policy was heavily linked to changes to pension tax relief and had been estimated to raise up to £5bn for the Treasury. It is no surprise therefore that he has chosen not to introduce the tax at this stage, although we would not be surprised to see it introduced in the future alongside reform towards a flat rate system of tax relief.

Please email any questions or comments to Fergus.Moffatt@uksif.org.