

BUDGET 2010

POLITICAL BRIEFING

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The Budget 2010

At a Glance

- Forecasted growth for 2009-10 is between 1 and 1.5%, and for 2010-11 is between 3 and 3.5%.
- Borrowing for 2010 is forecast to be £167 billion; which is £11 billion lower than predicted in December.
- HM Treasury's tax plans will raise £19 billion towards reducing borrowing.
- £2.5 billion growth package to support small business, funded by revenue from bankers' bonus tax.
- 2 year stamp duty relief for first-time buyers on properties up to £250,000, and a 5% stamp duty introduced on properties over £1 million.
- Creation of a Green Investment Bank, with £1 billion of investment.
- Confirmation 18-24 year olds unemployed for 6 months will be guaranteed a job, work experience or training, plus the creation of a £270 million University Modernisation Fund.
- Allocation of £4 billion to fund operations in Afghanistan.

Commentary by Razi Rahman

Just weeks before a General Election, the Chancellor of the Exchequer, Alistair Darling MP, today presented his Budget Statement to the House of Commons. Given the fragile state of the economy and the poor state of the public finances, this Budget was never going to contain the tax cuts and spending increases that have been the hallmark of so many pre-election budgets, under both Labour and Conservative Governments. However, such limited room for manoeuvre did not alter the fact that this was a clearly a political Budget in content and presentation.

In a confident speech, Mr Darling set out the scale of the challenge that the UK economy had faced, "emerging from the deepest global recession for over 60 years" and the choice faced by the Government, "whether to intervene to rescue the financial system or stand on the sidelines". The choices made by the Government, the Chancellor argued, had prevented recession turning into depression.

He stressed investment in what he described as "the industries of the future", argued that the Government should actively support people and businesses "achieve their ambitions" and sought to draw a dividing line with the Conservatives, bringing down borrowing "in a way which does not damage the recovery or the front-line services on which people depend".

The key difference between the parties was laid bare today. It is an argument that we will hear again and again in coming weeks. Whether, as the Conservatives argue, the Government must act now on the deficit to get the economy moving, keeping mortgage rates low and protecting the country's credit rating. Or whether, as Labour suggests, such action would damage public services and put the recovery at risk.

The Chancellor argued that the Government had a plan to reduce the deficit based on growth, tax and reductions in public spending. On growth he restated a forecast of 1-1.5% for this year and slightly reduced next years' growth forecast to 3-3.5%. Some commentators regard even this revised forecast for next year as over-optimistic.

On borrowing, the Chancellor announced that as a result of higher VAT and corporation tax receipts and stronger income tax revenues, borrowing this year would now be £11 billion lower than forecast, at £167 billion. Expect Conservative and Liberal Democrat Party politicians to point out that this still leaves the UK with a huge deficit.

The Bankers' bonus levy, heavily criticised by commentators, but popular with the public, has in revenue raising terms at least been a success, with the Chancellor announcing that it had raised £2 billion, twice as much as the Treasury had expected when introduced.

Conscious that elections are nearly always won on visions of the future, rather than on records of achievement, the Chancellor today announced a £2.5 billion one-off growth package – to help small business, promote innovation, and invest in national infrastructure and key skills. The Chancellor claimed that this would be offset by making savings in departmental budgets.

A headline announcement in today's Budget was the exemption from paying stamp duty for first time buyers on properties up to £250,000. The Conservatives will be frustrated that this was in fact their policy, first announced at the Party Conference in 2007. The Chancellor also announced that a Stamp Duty rate of 5% for purchases in excess of £1 million – a move that some will characterise as a "mansion tax".

In respect of higher earners, the Chancellor confirmed the announcements made in last year's Budget that from next month there would be a new 50% rate of income tax for those earning more than £150,000 a year and the withdrawal of personal allowances for those earning more than £100,000. Although there were no further announcements in respect of income tax, it should be noted that the Chancellor failed to increase personal allowances in line with inflation – meaning the majority of taxpayers will pay more tax next year.

Much of the debate in recent days between the Prime Minister and his Chancellor has focussed on the planned increase in fuel duty, with No11 arguing that it should be deferred. In the event, there appears to have been a compromise, with the increase being phased over the year.

There was no increase in VAT, but with the UK enjoying a lower rate than many of its EU counterparts, expect this to be revisited after the election whichever party wins.

Mr Darling brought cheers to the Labour benches in the House of Commons as he announced a crackdown on tax evasion and stated that new agreements would be signed with the governments of Dominica, Granada and Belize – home of the Conservative Party donor, Lord Ashcroft.

In recent days, expectations had been set for today's Budget, with the Chancellor and Treasury officials briefing that it would be "sensible" and "workmanlike". Critics however will argue that this was a Budget that ducked the tough decisions – leaving the difficult choices on public spending cuts to the Spending Review next year or an emergency Budget should there be a change in Government. In responding to the Budget Statement, the Leader of the Opposition, David Cameron MP, argued that the Labour had decided "don't do anything before the election, let's just sit tight and keep our fingers crossed." Nick Clegg MP for the Liberal Democrats stated that "this Budget was a political dodge not an economic plan".

Although the lack of detail on public spending cuts has drawn criticism from both the Opposition and the media, political strategists from all parties acknowledge that no government would want to open itself up to the political attack that would result from spelling out detailed plans at this point. Note that although both the Conservatives and the Liberal Democrats have called for such detail, their own plans are somewhat vague. They, too, are concerned about opening themselves up to criticism just weeks before an election. Whether all three parties can continue with this lack of detail through the intensity and scrutiny of a campaign remains to be seen. What is certain, however, is that whoever wins the election will face the toughest public spending decisions in a generation.

Economy

- HM Treasury confirmed that the economy will grow by between 1 and 1.5% in 2009-10. The forecast for 2010-11 is growth of between 3 and 3.5%.
- Measures will bring in additional tax worth £500 million a year, while protecting £4 billion worth of revenues by 2012-13.
- Forecasts for inflation remain unchanged, returning to below 2% by the beginning of 2011.
- Spending plans for next year will see a 2.2% real-terms increase.

Public Debt

- Borrowing in 2010 is expected to be £11 billion lower than forecast, at £167 billion.
- It is that predicted that borrowing will be £163 billion in 2011-12, £131 billion in 2011-12, £110 billion in 2012-13, and £89 billion in 2013-14, reaching £74 billion in 2014-15. This prediction is £8 billion lower than forecast in December 2009, and debt will be £100 billion lower by 2013-14 than was forecast at last year's Budget.
- As a share of the economy, borrowing is forecast at 11.8% of Gross Domestic Product (GDP) this year. It will then fall to 11.1% 2010-11, 8.5% in 2011-12, 6.8% in 2012-13, 5.2% in 2013-14, falling to 4.0% in 2014-15. This means a reduction in the deficit from 11.8% of GDP to 5.2%.
- 2010 structural deficit is estimated at 8.4% of GDP, falling to 2.5% by the end of 2014-15.
- Public sector debt will reach 54% this year, rising to 75% by the end of the forecasted period in 2014-15. Net debt, as a share of GDP, will begin to fall the year after that.
- HM Treasury plans to reduce borrowing by £78 billion in cash terms over the next four years, funded by tax increases, public spending cuts and economic growth.
- The Government is looking to appoint advisers in the next couple of months to develop a sales proposal for the Student Loan Book; is on track to launch a sale process of Tote this summer; and is finalising options on the sale of the Dartford Crossing.

Public Sector

- Public sector expenditure will grow at an average of 0.8% a year from 2011-12 to 2014-15, and net investment will fall to 1.24% of GDP by 2013-14.
- Public pay settlements will be held at a maximum of 1% for the two years from 2011, to reduce the pay bill for senior civil servants.
- Departments will publish details on 24 March 2010 of how they will make £11 billion of savings from 2011, identified in Pre Budget Report.
- The number of civil servants in London will be reduced by one third. 15,000 posts will be relocated within the next five years and 1,000 posts from Ministry of Justice will be moved out of Central London, saving £41 million.

Public Finances

- From April 2010, the annual ISA limit will rise from £7,200 to £10,200, half of which can be saved in cash. ISA limits will increase annually in line with inflation.

Tax

- HM Treasury's tax plans will raise £19 billion towards reducing borrowing.
- It is intended that 60% of all tax rises since the beginning of the global crisis will be paid for by the top 5% of earners.
- There will be an increase in the Entrepreneurs' Relief lifetime limit from the first £1,000,000 to the first £2,000,000 of qualifying gains.
- It was announced that there will be no increase to the main rate of Capital Gains Tax.
- 50% rate of income tax will come in April 2010, but this only affects those with earnings over £150,000 a year, the top 1% of earners. For people with incomes over £100,000 a year, the top 2%, there will be a gradual removal of the value of personal allowances.
- The Inheritance Tax threshold will be frozen to 2014-15.
- HM Treasury confirmed that there will be no rise in VAT, income tax or National Insurance rates.

Drink and Tobacco Duties

- Duty on beer, wine and spirits will increase as planned from midnight on 28 March 2010.
- Alcohol duties will also increase by 2% above inflation for two further years from 2013.
- Duty on cider will increase by 10% above inflation from midnight on 28 March 2010.
- Tobacco duty will increase from 24 March 2010, by 1% above inflation and then increase by 2% in real terms each year until 2014.

Tax Avoidance and Evasion

- HM Treasury announced new penalties for individuals who fail to pay taxes due to offshore income or gains, with penalties of up to 200% of tax for deliberate and concealed evasion.
- Higher penalties for non-compliance will be linked to the tax transparency of the jurisdiction in which the non-compliance arises, with the tougher penalties not applying in jurisdictions which automatically share tax information with the UK.
- The Government is ready to sign tax information exchange agreements with three additional countries: Dominica, Grenada and Belize.
- The measures in the Budget to combat tax avoidance will bring in additional tax worth £500 million.
- The initial findings of the Hidden Economy Advisory Group, set up at the Pre-Budget Report, identify no clear route for those with undeclared tax to establish their position and disclose their liabilities. HM Revenue & Customs (HMRC) will improve this process.

Financial Services Reform

- The bonus tax on banks has raised £2 billion, over double the expected proceeds.
- HM Treasury supports a systematic risk tax on banks, but only if done globally.
- The Government will introduce a new 'universal service obligation' to ensure one million extra people are guaranteed a basic bank account over the next five years.
- The Financial Services Authority will improve and speed up the licensing process for new banks.
- The Government will ask the Retail Financial Services Forum to consider to what extent financial services firms' staff targets and incentives led to poor outcomes for consumers and employees and how they can be reformed.

Business

- HM Treasury announced a £2.5 billion growth package to support small business, promote innovation, and invest in national infrastructure and key skills. This package is to be paid for by switching spending from within existing allocations and the extra proceeds from the tax on bank bonuses.
- There will be a one year business rate cut for small businesses from October, designed to help 500,000 companies.
- Lloyds Banking Group and The Royal Bank of Scotland will lend £94 billion to businesses over the next 12 months; half of which will be lent to small businesses.
- The annual investment allowance will be doubled to £100,000 and there will be Entrepreneurs' Relief for Capital Gains Tax to encourage innovation and business creation.
- A new £4 billion national investment corporation, UK Finance for Growth, will be created to streamline and improve the Government's offer to Small and Medium Enterprises (SMEs). It will include a new Growth Capital Fund, focused on providing fast-growing companies with the private capital. Commercial banks have agreed to contribute over half of the £200 million to this fund, which will eventually provide £500 million of finance.
- HM Treasury announced the Small Business Credit Adjudicator, a new service with statutory powers to ensure that SMEs are treated fairly when applying to their bank for finance.
- The Government will continue to offer the Time to Pay arrangements, launched at the 2008 Pre-Budget Report, to help business spread tax payments.
- The Department for Business, Innovation and Skills will lead work across government to increase awareness of available financing sources, working with companies, Business Link, the Association of Corporate Treasurers, and industry.

Workforce & Skills

- The minimum number of hours needed to work to be eligible to receive Working Tax Credit for people over 60 will be reduced.
- There is an ongoing consultation for reform of employers' right to make people retire at 65.
- The guarantee for a job or job training after six months of being out of work for younger people between 18 and 24 years-old will be extended until March 2012.
- Job creation will be supported by the UK's new inward investment deals with companies that develop sustainable energies.
- Industries that will be supported by HM Government will include the computer gaming industry and green technology.
- The headline rate of the National Minimum Wage will rise by 2.2% to £5.93 in October 2010.

Pensions

- Reforms of the public pay settlements will be put in place to ensure public pensions are affordable. These reforms include £11 billion of operational efficiencies and other cost cutting savings, £5 billion of savings from targeting and prioritising spending, and savings from restraint on public sector pay and reforms to public sector pensions.
- The Government committed to increase the basic State Pension by the higher of 2.5% or the Retail Prices Index, and has legislated to restore the link with earnings by 2012.
- A full basic State Pension will be £97.65 a week in 2010-11, or £156.15 for couples, an increase in real terms of 12% since 1997.
- Starting in April 2010, every pensioner will be entitled to a weekly income of £132.60 to help them cope with the above-inflation increases in the basic state pension.
- There will be increased personal allowances for older pensioners.
- Starting April 2011, no-one over 75 will pay any tax on the first £10,000 of income.
- A winter fuel payment of £250 will be extended a further year to pensioner households.
- A streamlined process will now allow new Pension Credit claimants to claim Housing and Council Tax Benefit simultaneously.

National Insurance

- There will be a one percentage point increase in the employee, employer, and self-employed rates of National Insurance Contributions (NIC) from April 2011.
- The one penny increase in the main rate of National Insurance Contributions will not affect anyone earning under £20,000 a year.
- The NIC's thresholds and limits will remain unchanged for 2010-2011, with the exception of the Lower Earnings Limit, which will rise in line with the Basic State Pension.
- The primary NIC's threshold will be increased to the weekly equivalent of £570 or more than the income tax personal allowance.

Education & Young People

- HM Treasury confirmed a job, work experience or training will be guaranteed for every 18-24 year old who has been unemployed for 6 months or longer. It also confirmed the provision of extra maths and English tuition for 7-11 year-olds.
- A £270 million University Modernisation Fund will be set up to drive efficiencies in higher education and fund the teaching costs of 20,000 extra undergraduate places in key courses in science, maths and technology starting in September 2010.
- The Government will launch a £25 million University Enterprise Capital Fund to fund the commercialisation of promising university innovations.
- £30 million of funding will be given to the Institute of Web Science, a joint venture between Southampton and Oxford Universities to aid technological development.
- Through the Modernisation Fund, HM Government has allocated £20 million for Shared Service pilots between Further Education institutions.
- The European Investment Bank has agreed to grant £350 million to finance higher education construction and improvement works, through Barclays Bank.
- HM Government will extend Enterprise Education to primary schools and further education colleges, providing £15 million in funding.

Innovation & Research

- Pending EU state aid approval, HM Government will introduce a tax relief for the UK's video games industry.
- The Government will double the Annual Investment Allowance to £100,000 and the Entrepreneurs' Relief lifetime limit to £2 million from April 2010.

Energy & Environment

- The establishment of the Green Investment Bank was announced, to operate on a commercial basis and involve both public and private sector capital. HM Government will start by investing up to £1 billion in the fund.
- Up to £60 million will be invested for the development of port sites to support offshore wind turbine manufacturers.
- The Government will meet the UK's energy challenges by: publishing a Strategy for National Infrastructure, including the Green Investment Bank; acting on the findings of the Energy Market Assessment; and creating a £120 million grant for Accelerated Development Zones.

Public Services

- HM Treasury confirmed the Government's commitment to deliver annual efficiency savings in the NHS of £15 to £20 billion by 2013-14.
- £100 million of the £500 million savings on IT programmes announced in the Pre-Budget Report will be made to the NHS National Programme for IT.

Transport

- The Government is taking forward plans for a high-speed rail link from London to the Midlands, and then to the North and Scotland.
- £100 million will be provided to fund repairs for local roads damaged by the recent cold weather and £285 million to pay for improvements in the motorway network. Where appropriate, there will be consequential provisions for Scotland, Wales and Northern Ireland.
- Fuel duty will increase by one penny per litre on 1 April, and one penny per litre on 1 October 2010, then by 0.76 pence per litre on 1 January 2011. Fuel duty will increase by a further penny per litre in real terms in April 2014.
- Company car tax for ultra-low carbon cars will be halved for five years from April 2010.
- A Reduced Pollution Certificate will be available for vehicles that achieve early compliance with the Euro VI air quality standard.

Housing

- HM Treasury announced a two year stamp duty land tax relief for first-time buyers for residential property purchases up to £250,000.
- An additional 5% rate of stamp duty land tax will be introduced for residential property over £1 million from April 2011.
- The Standard Interest Rate at 6.08% will be maintained for a further six months until December 2010.
- From October 2011, the highest rents across the country, including the most expensive 8% of properties in London, will be excluded from the calculation of the Local Housing Allowance in each area.
- Excessively high Local Housing Allowance payments for a small number of tenants in the most expensive areas will be tackled, saving another £50 million a year by 2014-15.
- The Government intends to transfer the regulation of second charge mortgage lending to the Financial Services Authority, including the regulation of existing second charge loans.
- The Planning Inspectorate will continue to report on land supply across the country, and from 2010-11 HM Government will withhold the relevant elements of the Housing and Planning Delivery Grant from local authorities that fail to produce satisfactory five year land supply assessments.
- Regulatory costs on the construction industry will be reduced, as part of the £1 to £1.25 billion savings to be achieved through the Built Environment theme of the 2010-2015 Simplification Target. Progress will be reported on in the 2011 Budget.

Families

- HM Treasury announced that parents of one to two year olds will receive an additional £4 a week through the Child Tax Credit from 2012.
- A range of budgets across the Department for Children, Schools, and Families will be reduced, saving £350 million.
- By 2015 the ten hours of free childcare offered for the most disadvantaged two year olds will be extended to families on low or modest incomes; this will commence in April 2011.
- Child Benefit and disability benefits will provide additional support to low earners, families with children and disabled families
- Families will no longer have to submit original UK birth certificates from 2011-2012 to claim Child Benefit because of an electronic link that will be established between the HMRC and General Register Offices.

International Development

- Spending on international development will continue to rise in the next Spending Review period to meet HM Government's Official Development Assistance commitment in 2013 as planned.
- £20 million will be saved by halving the amount of money spent on consultants by both the Foreign and Commonwealth Office and Department for International Development.

Defence

- HM Treasury confirmed the allocation of over £4 billion from next year's Reserve to fund operations in Afghanistan.
- The Ministry of Defence will support the Operational Efficiency Programme by cutting £550 million, including £120 million from greater use of collaborative procurement on construction, food, IT, management of the defence estate and savings through greater efficiency in equipment support.
- The Ministry of Defence is leading an independent review into the use of civilians for defence, and will continue to reduce the overall size of the civilian workforce.
- In both 2009-10 and 2010-11 the Ministry of Defence will have access to the Departmental Expenditure Limits Reserve to fund military operations.