

Budget 2009

The full report can be found at:

http://www.hm-treasury.gov.uk/d/Budget2009/bud09_completereport_2591.pdf

A transcript of the speech can be found at:

http://www.hm-treasury.gov.uk/bud_bud09_speech.htm

The Government's Operational Efficiency Programme: Final Report can be found at:

http://www.hm-treasury.gov.uk/vfm_operational_efficiency.htm

Budget 2009 & Social Media

DirectGov

<http://www.direct.gov.uk/budget>

HM Treasury on Twitter

<http://twitter.com/hmtreasury>

UK Parliament podcast on the Budget

<http://www.parliament.uk/about/podcasts/budget.cfm>

Overview

Depending on what you have read in the run-up to the 2009 Budget, delivered by the Chancellor of the Exchequer, Alistair Darling MP, you may have seen it referred to as the 'Budget for Jobs', the 'Green Budget' and even the 'Titanic Budget' (rearranging deckchairs etc...). Regardless of the publication or programme, you have probably seen the phrase "We will never return to the old boom and bust" used many, many times by gleeful journalists and opposition MPs. This was of course Gordon Brown's pledge to the UK in his final Budget as Chancellor of the Exchequer in spring 2007. It was predictably used by the Conservative Party today as a rather large stick to beat his successor with.

The backdrop to today's Budget was not ideal, but then again, it never usually is. The Damian McBride email scandal continues to dominate the comment pages of the press "long after the blood has been removed from Number 10's carpets" and few doubt that we have seen the last of a damning insight into the Government's PR machine. On Monday the IMF announced, somewhat erroneously as it now appears, that the cost of the UK Government's bailout of the banking system was almost £200bn – larger as a percentage of GDP than that of the US Government's bailout. That HM Treasury quickly set the IMF straight (more like £60bn as announced by the Chancellor today) held little sway with the press, which does not seem overly concerned about giving the IMF's retraction a prominent place in its pages. The public backlash against MP's expenses has been increasing with every new story in the media, and has forced the Prime Minister's hand on the eve of the Budget to announce a fast track reform of the system. Finally, on the day of the Budget itself, unemployment statistics were published showing an additional 130,000 people joining the two million already out of work in the last month. Not the best lead up to the delivery of the grimmest set of Budgetary figures since 1945.

The Budget itself was significant as a result of a number of key announcements – some predicted, some not. The Chancellor's economic appraisal did not, according to some commentators, reflect the reality of the situation. The Chancellor forecast that the economy would grow by 1.25 per cent

in 2010 – much higher than the consensus forecast – and he expected the economy to grow at a 3.5 per cent rate from 2011 onwards. Additionally, the Chancellor warned that public borrowing would reach a post war high of £175bn this financial year, or 12.4 per cent of GDP, falling to £173bn next year, and £130bn the year after that. The publication of the Operational Efficiency Programme Report, which highlights just how the civil service is going to increase its efficiency savings, has a huge role to play in leveling out this massive expenditure.

Perhaps the most newsworthy announcement is that the top rate of income tax will rise to 50p in the pound, (not 45p in the pound as planned) for those earning over £150,000. This will be from next year - just before the election - not 2011 as had originally been predicted. This has certainly drawn a battle line between the two major parties and breaks a 2005 Labour Party manifesto commitment.

Great importance has been attached to helping individuals and businesses that are struggling as a result of the economic recession. The predictions that this Budget would be dominated by jobs and the environment have also rung true – the Chancellor attaching great importance to the role of green technology in not only providing a way out of the recession for the UK, but also in achieving the goals set in the world's first ever carbon budget announced today, which commits Britain to cut its carbon emissions by 34 per cent by 2020.

Whether it was statistical confirmation of the gravity of the economic situation that the UK is in, or a general lack of enthusiasm about the measures proposed by the Chancellor today, a telling verdict was that the FTSE dropped significantly over the duration of Darling's 2009 Budget speech.

Outline of measures

Economy

- The UK economy will start growing again by the end of 2009, with the UK economy doubling in size over the next 20 years
- GDP will reduce by 3.5 per cent in 2009
- The economy will grow by 1.25 per cent in 2010, and will grow by 3.5 per cent in 2011
- UK Government borrowing has reached a record £90bn in the last financial year
- Consumer price inflation expected to reach 1 per cent by the end of 2009. Retail Price Index inflation is expected to reach – 3 per cent by the end of the year
- Debt will rise to 59 per cent of GDP this year, increasing to 68 per cent in 2010, 74 per cent in 2011, peaking at 79 per cent in 2012. It will start to fall in 2016

Government spending/saving

- Public borrowing in 2009 will be a record £175bn (12 per cent of GDP), falling to £173bn in 2010, and £140bn in 2011
- Increased public spending combined with weakening tax revenues would mean that public sector net debt would almost double to 79 per cent of national income by 2013. After that it is expected to stabilise and then start to fall only from 2015-16

- Government is expecting £9bn of efficiency savings by 2013-2014
- Government expects that tax increases will raise an extra £6bn by 2012
- Government property worth £16bn will be sold over the next three years from 2012
- The Operational Efficiency Programme is expected to save £15 billion through changes to back office operations and IT, collaborative procurement, asset management and sales, property and local incentives and empowerment

Business

- Loss-making companies will be able to reclaim more taxes on profits made in the last three years
- Government will introduce a first-year capital allowance of 40 per cent for one year with effect from April 2009. Firms investing over £50,000 in qualifying plant and machinery in 2009-10 will benefit from a higher rate of tax relief on investment
- Government will establish a £750m Strategic Investment Fund to support advanced industrial projects of strategic importance. This will include £50 million to enable the Technology Strategy Board to increase its capacity to support innovation in areas which have high potential to drive future growth, such as low-carbon technologies, advanced manufacturing and the life sciences
- A new 'top-up' trade credit insurance scheme to help businesses maintain their finances, in which Government will offer to match private sector trade credit insurance provision, for a temporary period, if insurers reduce cover to any UK business
- The introduction from July 1 2009 of an exemption from tax for foreign dividends received by all companies. This will be supported by a limited restriction to the interest deduction rules, which has been refined following discussions with business and will be introduced for accounting periods beginning on or after January 1 2010
- Green technology will be one of the great growth sectors, and has the potential to create hundreds of thousands of high-skilled jobs
- Government will pursue Universal Service in broadband, at a speed of 2 Megabits per second, by no later than 2012. The Government will review the powers and duties of Ofcom to ensure it can strike the right balance between delivering competition and encouraging investment in the communications infrastructure
- Government has announced new pilot city-regions in Greater Manchester and Leeds that will attract investment for the development of new business
- The Government has announced that will now undertake another tranche of regulations of the financial services sector including implementing the Turner Review, reducing the impact of the failure of financial firms, protecting and supporting consumers, improving efficiency and competition in financial markets, and strengthening regulators and the international regulatory framework

Environment

- £435m funding for energy efficiency measures for houses, buildings and public buildings
- £525m of extra funding over the next 2 years for offshore wind farms which will provide energy for an 3 million homes
- Government will allocate £405m to support the development of a world-leading low-carbon energy and advanced green manufacturing sector in the UK
- UK renewable and energy projects stand to benefit from up to £4bn of new capital from the European Investment Bank
- Government to commit to reducing carbon emissions by 34 per cent by 2020 – the world's first carbon budget
- Coal, oil and gas will continue to a source of energy for the future. The Government will bring forward incentives that should allow an extra 2bn barrels of oil to be drilled
- Clean energy technology is vital. Four Carbon Capture and Storage (CCS) demonstration projects will be delivered with £90m is being allocated to fund companies in the current competition to undertake detailed preparatory studies for CCS
- Main fuel duty will increase by two pence per litre on September 1 2009 and by one penny per litre in real terms on April 1 each year from 2010 to 2013

Housing

- A scheme to help people pay their mortgages when they lose their jobs to be extended for another 6 months
- The stamp duty "holiday" for properties worth less than £175,000 will be extended to the end of the year
- The government is to guarantee mortgage-backed securities (a measure to encourage more mortgage lending)
- Extra £80m for shared equity mortgage scheme
- £500m to kick start stalled housing projects
- £100m for local authorities to build energy efficient homes

Individuals

- The current VAT reduction will continue until the end of December 2009
- Child tax credit will rise by £20 by 2010
- Basic state pension will be increased by at least 2.5 per cent regardless of inflation
- Annual limit for tax-free ISAs to rise to more than £10,000 for over-50s this year and for everyone else next year

- £2,000 discount from next month on cars bought where the owner scraps another car more than 10 years old. However, this will be time limited with Lord Mandelson, the Business Secretary to announce details shortly
- Winter fuel allowance to be maintained at higher level - £250 for over 60s and £400 for over-80s - for another year

Individual taxation

- Top rate of income tax will rise to 50p in the pound, (not 45p in the pound as planned) for those earning over £150,000, and from next year - i.e. just before the election - not 2011
- Top-rate tax relief on pension contributions will be cut for those earning more than £150,000 from 2011
- Alcohol taxes to go up 2 per cent from midnight, April 22 2009 - one estimate is that it would put 5p on the average pint of beer
- Tax on tobacco to go up by 2 per cent from 6pm on April 22 2009

Next steps

- 23.04.09 – Continuation of the Budget debate in the House of Commons
- 27.04.09 – Treasury Select Committee in the House of Commons to take evidence from a panel of experts (Robert Chote, Institute of Fiscal Studies; Roger Bootle, Capital Economics; John Whiting, PwC; Martin Weale, National Institute of Economic and Social Research) on the Budget
- 28.04.09 – Treasury Select Committee in the House of Commons to take evidence from HM Treasury officials on the Budget
- 29.04.09 – Treasury Select Committee in the House of Commons to take evidence from the Chancellor of the Exchequer, Rt Hon Alistair Darling MP on the Budget

Contact

For further information on any of these issues, please contact Ben Wilson on (020) 8702 2626 or benw@lewispr.com