

# SLIM – Comment

## *Emergency Budget 2010*

25/06/10

Following yesterday's Emergency Budget, I think it is fair to say that in terms of skills policy, we are still waiting for the detail. In fact, a quick search on 'skills' reveals, effectively, only one real entry – in relation to Local Enterprise Partnerships (LEPs). The only other mentions are in relation to non-doms or references to Departmental names.

But there are some notable announcements that need mention. Chief amongst these is the announcement that Regional Development Agencies will be abolished through a 'Public Bodies Bill'. A White Paper later in the summer will set out details of this and related proposals. As part of these developments, the Government will support the creation of 'strong' LEPs.

The LEPs are envisaged to be based around England's major cities and other 'natural economic areas', to enable improved coordination of public and private investment in transport, housing, skills, regeneration and other areas of economic development. Clearly there is much lobbying to go before we are clear about what 'natural economic areas' mean for the South West.

There is further information on the skills/labour market aspects of the Budget below.

I hope you find this SLIM-Comment useful, and we will ensure you are kept up-to-date with developments as and when we hear of them.

Best wishes

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## SUMMARY

This Budget sets out a five-year plan to rebuild the British economy. It shows how the Government will carry out 'Britain's unavoidable deficit reduction plan' in a way that 'strengthens and unites' the country.

*The British economy has become unbalanced. It has been too reliant on growth from a limited number of sectors and regions. Overcoming these challenges will require a new model of economic growth built on saving, investment and enterprise instead of debt. This Budget is the first step in transforming the economy and paving the way for sustainable, private sector-led growth, balanced across regions and industries.*

This Budget sets out the action the Government will take in three areas to rebalance the economy and provide the conditions for sustainable growth:

- deficit reduction;
- enterprise; and
- fairness.

The following section takes excerpts from the Budget of most relevance to the work of the skills sector, and is followed by a section drawing together the other key highlights.

## SELECTED ELEMENTS OF THE BUDGET

*The Government is determined that all parts of the UK benefit from sustainable economic growth, and that the private sector recovery is particularly strong in areas that are currently overly dependent on the public sector.*

### **Economic and business growth**

The difference in real gross value added per capita growth rates between the Greater South East and all other English regions widened towards the end of the last decade, from 0.6% (1989-2002) to 0.7% (2002-2008). The Government's new strategy to support private sector enterprise in all parts of the UK aims:

1. To encourage the creation of private sector jobs in regions reliant on public sector employment, through reducing the cost to new businesses of employing staff. The Government will shortly announce details of a scheme to help new businesses in targeted areas of the UK that need it most. During a three-year qualifying period, new businesses which start up in these areas will get a substantial reduction in their employer National Insurance Contributions (NICs). Within the qualifying period, these employers will not have to pay the first £5,000 of Class 1 employer NICs due in the first twelve months of employment. This will apply for each of the first 10 employees hired in the first year of business and operate in selected countries and regions. Subject to meeting the necessary legal requirements, the scheme is intended to start no later than September 2010. Any new business set up from 22 June 2010 which meets the criteria set out in the forthcoming announcement will benefit from the scheme.
2. To help areas and communities particularly affected by reductions in public spending to make the transition to private sector-led growth and prosperity, the Government will create a Regional Growth Fund in 2011-12 and 2012-13. This Fund will operate in England only and support increases in business employment and growth.
3. The Government will enable locally-elected leaders, working with business, to lead local economic development. As part of this change, Regional Development Agencies will be abolished through the Public Bodies Bill. A White Paper later in the summer will set out details of these proposals. As part of this, the Government will:
  - support the creation of strong LEPs, particularly those based around England's major cities and other natural economic areas, to enable improved coordination

of public and private investment in transport, housing, skills, regeneration and other areas of economic development;

- consider the most appropriate framework of incentives for local authorities to support growth, including exploring options for business rate and council tax incentives, which would allow local authorities to reinvest the benefits of growth in local communities; and
- as part of the shift to a more locally driven planning regime, promote the role for a simplified planning consents process in specific areas where there is potential or need for business growth, through use of Local Development Orders.

The Government will promote employment by reducing the cost of retaining and hiring staff. The Government inherited plans for National Insurance rates to increase by 1% in April 2011. The negative effect of the employer rate rise will be largely reversed by increasing the threshold for employer National Insurance Contributions (NICs) by £21 a week above indexation. As a result, the number of employees for whom employers pay no NICs will rise by 650,000. This will benefit a number of sectors, including manufacturing.

### **Low-carbon economy**

The Prime Minister has pledged to make this the greenest government ever, including reducing the Government's own emissions by 10% between mid-May 2010 and mid-May 2011.

The Government is committed to playing its part in moving to a low-carbon economy. The transition will change the shape of industry, growth and jobs. As part of this, the UK needs £200 billion of investment to 2020 to provide secure low-carbon energy. This will require reform of the energy market and action to attract additional private sector funding.

Alongside wider market reforms, the Government will assess how the energy tax framework can provide the right incentives for investment. In the autumn, the Government will publish proposals to reform the climate change levy in order to provide more certainty and support to the carbon price. Subject to consultation, the Government intends to bring forward relevant legislation in The Finance Bill 2011.

The Government is also determined to address other barriers to investment in the low-carbon economy. Following the Spending Review, the Government will put forward detailed proposals on the creation of a Green Investment Bank to help the UK meet the low-carbon investment challenge. The Government is considering a wide range of options for the scope and structure of the Green Investment Bank. The options will be evaluated for effectiveness, fiscal affordability and transparency.

The Government will establish a Green Deal for households through legislation in the Energy Security and Green Economy Bill, to help individuals invest in home energy efficiency improvements that can pay for themselves from the savings in energy bills. These improvements provide substantial and cost-effective carbon reductions but the initial cost can be significant, especially for low-income households. The Government will also continue to work on green financial products to provide individuals with opportunities to invest in the infrastructure necessary to support the green economy.

These measures are expected to have positive environmental impacts by enabling investment in low-carbon infrastructure and technologies. The environmental impact of Budget measures will be assessed in more detail as proposals are developed.

## **Infrastructure**

*As the Government acts to reduce the fiscal deficit, it will continue to encourage increased funding for infrastructure projects from the private sector.*

It will target public sector investment in infrastructure on those projects with the greatest economic benefit for which private sector capital is not available. The Government will undertake a fundamental review of all capital spending plans to ensure they are affordable and to identify the areas of spending that will achieve the greatest economic returns.

This Budget confirms the establishment of Infrastructure UK (IUK) to lead work within HM Treasury to enable greater private sector investment in infrastructure, and improve the Government's long-term planning and delivery. In the autumn, the Government will publish a national infrastructure plan that will set out goals for UK infrastructure.

This will include priority public and private sector investments and proposals for delivering and supporting investment on a cross-sector basis. IUK will also carry out an investigation into how to reduce the cost of delivery of civil engineering works for major infrastructure projects.

## OTHER MAJOR POINTS

### Responsibility: deficit reduction

*The most urgent task facing this country is to implement an accelerated plan to reduce the deficit. Reducing the deficit is a necessary precondition for sustained economic growth. To continue with the existing fiscal plans would put the recovery at risk, given the scale of the challenge.*

For the first time, the Government's fiscal policy decisions have been based on independent forecasts for the economy and public finances. The Government has therefore set a forward-looking fiscal mandate to achieve a cyclically adjusted current balance by the end of the rolling, five-year forecast period. At this Budget, the end of the forecast period is 2015-16.

At this time of rapidly rising debt, the fiscal mandate will be supplemented by a target for public sector net debt as a percentage of GDP to be falling by a fixed date of 2015-16, ensuring that the public finances are restored to a sustainable path.

This Budget takes urgent action to eliminate the bulk of the structural deficit through plans for additional consolidation of £40 billion per year by 2014-15. These plans include:

- £32 billion per year by 2014-15 from spending reductions. This includes £30 billion of current spending reductions and no further reductions in capital spending beyond those already announced. The Budget announced the Spending Review will be on 20 October 2010;
- As part of these spending reductions, the Budget announced £11 billion of welfare reform savings designed to reward work and protect the most vulnerable, including adopting the Consumer Prices Index for the indexation of benefits, tax credits and public service pensions from April 2011. The Budget also announced a two-year freeze in public sector pay, except for those earning less than £21,000 a year; and
- £8 billion per year from net tax increases. This includes an increase in the main standard rate of Value Added Tax (VAT) to 20% and the standard and higher rate of Insurance Premium Tax (IPT) to 6% and 20% from 4 January 2011.

*The OBR's judgement is that the policies set out in this Budget are consistent with a greater than 50% chance of achieving the Government's fiscal mandate and target for debt. The OBR's central forecasts also show the mandate and debt target being met a year early in 2014-15.*

## Freedom: enterprise

*The second element to rebalancing the economy is creating the conditions for enterprise and sustainable growth. If growth is to be sustainable, it needs to be based on an expansion in the private sector, not the public sector, and businesses across all regions and industries need the right conditions to be able to grow.*

The Budget sets out a plan to support business and 'restore the UK's diminished competitiveness'.

The Budget will give businesses more freedom by reducing regulation and tax rates, while refocusing support towards infrastructure, the low-carbon economy, and regional development. It announced:

- a reduction in the main rate of corporation tax from 28% to 24% over the course of four financial years from April 2011, a reduction in the small profits rate to 20% from April 2011, and a reduction in the main and special rate of capital allowances to 18 and 8% respectively in April 2012
- an increase of £200 million to the Enterprise Finance Guarantee (EFG) scheme, which will support small business lending of up to £700 million to 31 March 2011. Additionally, lenders participating in the EFG will have a target of 20 working days in which to process loans.
- the creation of a £37.5 million Enterprise Capital Fund, which will provide equity finance for small businesses. The Government will provide £25 million and private investors will provide the rest. The Fund will form part of a programme of Enterprise Capital Funds.
- a Green Paper on business finance, which will look at the finance options available to all businesses and how to improve access to finance for credit-worthy businesses. This will be published before Parliament's summer recess.
- a scheme to help support employment and growth for new businesses. New businesses that start up in specific areas of the UK (not including London, the East of England and the South East) will be exempt from paying the first £5,000 of Class 1 employer National Insurance Contributions due in the first 12 months of employment. This applies to the first ten employees taken on in the business's first year. The scheme is expected to start no later than September 2010 and new businesses that start up now and meet specific criteria should be eligible for the scheme.
- the creation of a Regional Growth Fund in 2011 that will provide support to English regions that rely heavily on public sector employment and encourage support and

growth in the private sector. Governments in Scotland, Northern Ireland and Wales are expected to provide similar schemes.

- The publishing of central Government tenders online and free of charge from the end of 2010.

## Fairness

*Underpinning the Government's approach is a commitment to fairness. The Government will ensure that every part of society makes a contribution to deficit reduction while supporting the most vulnerable, including children and pensioners. The Government will also seek to build over the long term a fair tax and benefit system that rewards work and promotes economic competitiveness.*

The Budget sets out a vision for a refocusing of the tax and benefit framework. It announces measures to encourage people to take personal responsibility for their actions by rewarding those who work hard work and save responsibly for the future. In particular:

- the personal allowance for under 65s will be increased by £1,000 in April 2011, with the gains limited to basic rate taxpayers. The Government estimates that the 880,000 lowest income taxpayers will be removed from tax altogether;
- capital gains tax will be increased to 28% for higher and additional rate taxpayers, with an increase in the entrepreneurs' relief lifetime limit to £5 million;
- the Government will introduce a levy based on banks' balance sheets from 1 January 2011 intended to encourage banks to move to less risky funding profiles. The Government will also take action on unacceptable bank bonuses; and
- the Government will 'work in partnership with local authorities' in England to freeze council tax In 2011-12.

As part of the welfare reforms referred to above, the Budget announces reforms to the housing and disability benefit and tax credit system to make it fairer and more affordable.

These reforms will reduce dependency and promote work.

- Housing benefit: New maximum limit of £400 a week for properties with more than three bedrooms, £250 a week for a one-bedroom flat, £290 for a two-bedroom property and £340 for a three-bed property, to save £1.8bn a year by the end of the Parliament.
- Unemployed people will see their Housing Benefit cut by 10%, after 12 months of claiming Jobseeker's Allowance from April 2013.

- It will also be cut for people of working age who are in larger homes than their family size warrants but, from April 2011, disabled claimants who do not have a resident carer will be able to claim for an extra bedroom.

To help protect those who are most vulnerable and have the highest level of need, the Budget announces that Child Benefit will be frozen for three years to help fund significant increases in the Child Tax Credit. The Budget also announces that the Basic State Pension will be up-rated by a triple guarantee of earnings, prices or 2.5%, whichever is highest, from April 2011.

Health in pregnancy grant to be abolished from April 2011, the Sure Start maternity grant will be restricted to the first child.

Lone parents will be expected to look for work when their youngest child goes to school.

Excluding the state pension and pension credit, from 2011 benefits, tax credits and public service pensions will rise in line with the Consumer Price Index, rather than the, generally higher Retail Price Index, saving over £6 billion a year by the end of the Parliament.

The government will introduce a medical assessment for Disability Living Allowance from 2013 for new and existing claimants.

### **Public Sector Pay Freeze**

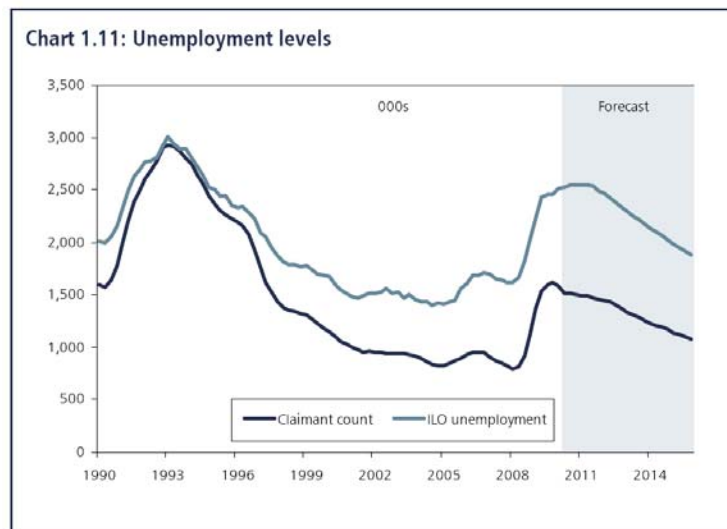
Public sector workers face a two-year pay freeze if they earn over £21,000. Those earning less than £21,000 will get a flat pay-rise worth £250 in both years.

## SLIM COMMENTS

When considering the extremely difficult economic position and an atmosphere of increasing fiscal tightening, the focus and content of the budget is not particularly surprising. The concerns cited by many economists that the slow rate of growth and the impact of the fiscal tightening already being carried out in many other countries (notably Germany) may lead to significantly reduced growth and possible retreat back into recession have been overlooked, though the 2011 start date for the increase in VAT may be a nod to this. Some commentators, including the CIPD's John Philpott, have suggested that the Budget will slow growth by considerably more than the Government has forecast. We all have to hope that they are all wrong - and Mr Osborne is right.

The Office for Budget Responsibility (a new Quango lest ye thought they were all out-of-favour) has already downgraded its economic growth prediction for 2010 from 1.3% to 1.2%, and growth in 2011 was predicted to be 2.3%, down from the 2.6%. It has also worsened its predictions for unemployment levels by around 100,000 people..

### Budget 2010 Unemployment forecast



It is also worth noting that the stated 80:20 rule (rule? Or consultancy speak?), which concerns where savings will come from (80% from spending cuts and 20% from tax) simply couldn't be done, at least for a few years. Bad though the cuts will be in the next few years, departments can console themselves that it could have been even worse.

In terms of welfare provision, the Budget delivers £11bn of savings, over half of which comes from indexing to Consumer Price Index (CPI) instead of Retail Price Index (RPI), which will lead to relatively lower levels of benefit over time as CPI typically is lower than RPI which includes housing. Most of the rest comes from the largest working-age benefits and tax credits:

- Tax credits and child benefit will be more focused on poor children, but less targeted at babies and infants
- Housing Benefit will be less generous for most recipients in the private rental sector

- There will be tighter rules for the Disability Living Allowance

In the skills community, we will have to wait until late summer to discover just what the Coalition Government has planned for the various bodies and strategies that currently exist. This is perhaps not surprising, considering the complexity of structures they have inherited and their stated desire to maintain the shift to demand-led learning.

In the meantime, policy-makers need to try and escape the incessant noise of what I have read described as the 'deficit reduction vuvuzelas', and to try and put real sustainable structures in place to deliver what is surely now an even more important skills strategy, on a much tighter budget. With so many new bodies around and a still far from fixed set of working relationships across the sector, this poses a very considerable management challenge for what will be left of the public sector.

## LINKS

### The Document

[http://www.hm-treasury.gov.uk/d/junebudget\\_complete.pdf](http://www.hm-treasury.gov.uk/d/junebudget_complete.pdf)

### Supplementary Material

[http://www.hm-treasury.gov.uk/d/junebudget\\_supplementary\\_material.pdf](http://www.hm-treasury.gov.uk/d/junebudget_supplementary_material.pdf)

### Easy-to-Browse version

[http://www.hm-treasury.gov.uk/junebudget\\_easyread.htm](http://www.hm-treasury.gov.uk/junebudget_easyread.htm)

### The South West Budget Page

[http://www.hm-treasury.gov.uk/junebudget\\_south\\_west.htm](http://www.hm-treasury.gov.uk/junebudget_south_west.htm)

### CIPD Comment

[http://www.cipd.co.uk/pressoffice/articles/220610-The-CIPD-responds-to-the-implications-of-the-Budget.htm?wa\\_src=email&wa\\_pub=cipd&wa\\_crt=editorial\\_1\\_none&wa\\_cmp=cipdupdate\\_230610](http://www.cipd.co.uk/pressoffice/articles/220610-The-CIPD-responds-to-the-implications-of-the-Budget.htm?wa_src=email&wa_pub=cipd&wa_crt=editorial_1_none&wa_cmp=cipdupdate_230610)

### BBC Summary

<http://news.bbc.co.uk/1/hi/politics/10374475.stm>



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