

Budget 2009

Summary and analysis



Headline announcements

- More progressive taxation – higher rates for the rich
- Car scrappage scheme to boost automotive sales
- a £750 million Strategic Investment Fund to support advanced industrial projects of strategic importance, of which a third of the funding will be earmarked specifically for low carbon projects
- Boost for construction and house building
- Continued assistance for homeowners threatened by repossession
- Extension by 3 months of stamp duty holiday on properties under £175,000
- Increase benefits for savers through ISAs
- Statutory redundancy pay increased from £350 to 380
- Public services efficiency savings and reductions in future expenditure increases

From a Unite perspective our objectives in seeing a budget for homes has to some extent been met. However, for the immediate problems facing workers in manufacturing and other sectors the prospects are less promising.

Whilst businesses have been offered some additional support to enable cash flow to be maintained, and the automotive sector sees the introduction of the much trailed scrappage scheme, it is unlikely that this will curtail the current haemorrhaging of jobs from manufacturing and elsewhere. The future is supported by the Strategic Investment Fund but the amount is likely to limit its real impact.

That position is further exasperated by the minimal increase announced for statutory redundancy maximum pay increasing the current level from £350 p.w. to £380 p.w. This falls considerably short of the union's objectives to link payments to average earnings and the Chancellor failed to indicate when this increase comes into force. No mention has been made as to whether this change will also apply to unfair dismissal awards which have historically been linked through legislation.

The situation concerning public services raises some serious concerns. Whilst clearly the Chancellor's approach in this budget is to sustain services as opposed to the cuts that the opposition is committed to, the reduced future levels of expenditure growth means that some cuts are inevitable and Unite will need to be vigilant in the discussions which take place in coming months about the detail of implementation of the new financial plans.

It is pleasing to note that the Chancellor has addressed the issue of progressive taxation through the increase in the higher rate for those earning over £150,000 pa and bringing forward that increase to April 2010. Other tax adjustments to higher earners are also in line with Unite policy.

The package aimed at construction and homeowners is a welcome step. The extra £500 million to kickstart stalled housing projects including £100 million for local authorities to build energy efficient homes goes some way to meet the Unite demand for new homes, but falls way short of the needs to increase significantly the provision of affordable homes.

Government continues to provide a range of support to those wanting to buy new homes including an extension of the holiday on stamp duty at the lower end of the property price market.

Overall economic picture

The chancellor was faced with what most would describe as an extraordinary global recession which has meant the budget has produced statistics previously unheard of in the UK economy. The global recession which has brought the UK to this stage is now accepted as a product of a *lasses faire* approach to global finances allowing financial institutions to engage in an orgy of reckless investment and risk which the public are now having to pay for.

The UK government has forecast a sharp economic slowdown, saying the UK economy will shrink by 3.5% in 2009. While this is in line with most independent forecasts, the chancellor is predicting 1.25% growth in 2010, above the 0.3% consensus. The government's Budget predictions also pencil in an above-average growth rate of 3.5% in 2011.

In real terms this means that UK borrowing for the year 2009/10 will be at a record level of £175 billion (12.4% of GDP).

Inflation (CPI) is expected to reduce to 1% by the end of this year whilst RPI is likely to reduce to minus 3% by end of year.

The Chancellor is forecasting that the unrecoverable cost of the financial interventions over the past months amount to 3.5% of GDP which equates to £52 billion. This is less than half that predicted by the IMF. Based on these forecasts the deficit will begin to move to balance slowly, with the deficit falling to 5.5% of GDP by 2013-14. But total government debt will continue to build up for longer, with the debt rising from 59% of GDP to 79% by 2013-14. The Chancellor has predicted that it will not be until 2015-16 - in the next but one Parliament - that the share of debt will begin to fall again.

The impact of this forecast on public spending is the most serious concern to unite members both in terms of public service jobs but also for all members and their families in respect of delivery of public services.

Below follows a detailed summary of the key elements of the Budget:

Detailed summary

Support for the economy

- £1.7 billion for Jobcentre Plus and the Flexible New Deal, and the offer a guaranteed job, training or work placement for all 18-24 year olds who reach 12 months unemployed;
- Extending the enhanced loss relief for an additional year and expanding HMRC's Business Payment Support Service, increasing capital allowances for new investment to 40 per cent for one year;
- Establishing a £750 million Strategic Investment Fund to support advanced industrial projects of strategic importance;
- An increase in the annual investment limit for Individual Savings Accounts (ISAs) to £10,200, up to £5,100 of which can be saved in cash;
- An additional payment alongside the Winter Fuel Payment worth £100 for households with someone aged over 80 and £50 for households with someone aged over 60;
- A £600 million funding package of measures to build more homes through unlocking sites currently sitting as dormant, and an extension of the stamp duty holiday for all houses costing up to £175,000 until the end of the year.
- Setting the world's first carbon budgets and measures to encourage energy efficiency and low-carbon growth.

Taxation

- From April 2010, an additional rate of income tax of 50 per cent will apply to income over £150,000, and the income tax personal allowance will be restricted for those with income over £100,000;
- From April 2011, tax relief on pensions contributions will be restricted for those with incomes of £150,000 and over, and tapered down until it is 20 per cent;
- Fuel duty will increase by 2 pence per litre on 1 September 2009, and by 1 penny per litre in real terms each year from 2010 to 2013
- Alcohol taxes to go up 2% from midnight - putting the price of the average pint up 1p
- Tax on tobacco to go up by 2% from 6pm - equivalent to an extra 7p on a pack of 20 cigarettes

Public services

Operational Efficiency Programme over the next Spending Review period, rising to £9 billion a year by 2013-14.

Current spending will grow by an average of 0.7 per cent a year in real terms between 2011-12 and 2013-14. This represents real cuts in public expenditure.

Support for business

The budget includes a wide range of measures designed to assist businesses particularly with regard to cash flow. These include:

- Further support to loss-making businesses, by extending the enhanced loss relief announced in the 2008 Pre-Budget Report for an additional year and expanding HMRC's Business Payment Support Service;
- Enabling businesses to spread payment of this year's inflation up-rating to business rates over three years, as announced on 31 March 2009;
- A 'top-up' trade credit insurance scheme to help UK businesses maintain their finances in the current economic climate. Under this scheme, the Government will offer to top up private sector trade credit insurance provision if insurers reduce cover from any business operating in the UK. Cover provided under this scheme will be time-limited and capped at £5 billion;
- An increase in capital allowances for new investment to 40 per cent for one year, with effect from April 2009, to allow a higher proportion of private investment to be offset in that year against taxable profits;
- A £750 million Strategic Investment Fund to support advanced industrial projects of strategic importance, of which a third of the funding will be earmarked specifically for low carbon projects; and
- The implementation of a package of reforms to the taxation of foreign profits, including the introduction of an exemption for foreign dividends, supported by a limited restriction to the interest deduction rules.

Vehicle scrappage scheme

For a temporary period to March 2010, a vehicle scrappage scheme, co-funded with industry, that will enable consumers who scrap vehicles older than ten years to replace them with new vehicles at a discount of £2,000.

The Scheme will provide a total discount of £2,000 offered to consumers buying a new vehicle to replace a vehicle more than ten years old which they have owned for more than twelve months. The Government will set aside £300 million for this scheme with funding matched by manufacturers participating in the scheme.

The scheme is due to start in May 2009, will see government offer a £1,000 incentive to be matched by participating vehicle manufacturers when scrapping a taxed, insured and MOT'd car or van over ten years old which they have owned for at least one year.

Housing

- Scheme to guarantee mortgage backed securities to boost lending
- Stamp duty holiday for homes up to £175,000 to be extended to end of year
- Extra £80m for shared equity mortgage scheme
- £500m to kickstart stalled housing projects - including £100m for local authorities to build energy efficient homes
- £50m to upgrade housing for the armed forces

Jobs and Training

- Government support for economy to protect 500,000 jobs
- All long-term unemployed under 25s to be offered job or training
- £1.7bn additional resources for Job Centre network
- £250m funding to help people get work experience in growth industries
- Funding to create 54,000 new places in sixth form education

Environment

- Britain commits to cut carbon emissions by 34% by 2020
- An extra £1bn to help combat climate change by supporting low-carbon industries
- £525m for offshore wind projects over the next two years
- £435m support for energy efficiency schemes for homes, firms and public buildings
- £405m to encourage low-carbon energy and advanced green manufacturing

Pensioners

- Grandparents of working age who care for their grandchildren will see that work count towards their entitlement for the basic state pension
- Winter fuel allowance to be maintained at higher level - £250 for over 60s and £400 for over-80s - for another year
- The basic state pension will be increased by at least 2.5%, regardless of inflation

Benefits

- Child tax credit to rise by £20 by 2010
- Child trust funds for disabled children to rise by £100 a year, £200 a year for severely disabled children

**Unite Research Department
April 2009**