



THE 2009 BUDGET – AN OVERVIEW

Plenty of clear red water between the parties ahead of next year's election – and plenty of deep red figures on the nation's balance sheet.

Those were the two most striking things to come out of Alistair Darling's second budget: dividing lines and debt.

Raising the new higher rate of tax with those of incomes of over £150,000 a year to 50% is a clear dividing line with the Conservatives and a political challenge which David Cameron looks likely to duck.

It was one of Tony Blair's signs of the modernisation of the Labour Party to pledge that the higher rate of tax would not be increased and yet now times have changed. While in the 1990s voters saw that as aspirational, now in the midst of a recession blamed on bonus-stuffed bankers the public may well like the idea of the rich paying more.

And how we will all end up having to pay more to account for the unprecedented levels of borrowing!

Any way you slice it, the debt is huge. Borrowing is £175 billion this year alone. £606 billion more borrowed over the next four years. And in four years time national debt will peak at 79% of GDP.

But that is presuming that the economy grows along the line of the Chancellor's optimistic forecasts. He expects the economy to contract by 3.5% this year and grow by 1.25% next, but he had hardly sat down in the Commons when the IMF contradicted him, predicting the economy will contract by 4.1% this year and again by 0.4% next.

Borrowing is up. Taxes for the rich are up whilst public spending has effectively been cut. The rate at which public spending will rise has been cut from 1.2% to 0.7%, less than the rate of inflation.

Had the Tories suggested that measure, Labour would have yelped about spending cuts. That is one dividing line they may have smudged although in his reply to the Chancellor, David Cameron seemed to suggest that the cuts should have gone further.

If Alistair Darling bet the farm on the fiscal stimulus working at the Pre-Budget Report, he doubled his bet today. He had to. The logic of his position meant he had to borrow more.

And the political bet is that there will be a recovery – and voters will feel that recovery – before the election in May 2010.





In his reply Cameron ridiculed the Prime Minister and the Chancellor for announcing schemes to help homeowners and business which have not yet started operating, let alone helping anyone.

The pace at which the Government turns its announcements into action is crucial. And the details of the schemes which the Chancellor announced today to help boost construction and the car industry will be pored over in the coming days. But the Chancellor's decision to bring his tax hike for the rich forward and make it steeper brings something else forward with it – the election campaign.

He was candid about the levels of debt in the years to come. The question is now how credible he was in his proposals of how he pays it back, albeit after the general election.

The Chancellor bet the economy – and Labour's future – on red. Now the voters will need to see some winnings within the next 12 months or the gamble will have failed – spectacularly.

Key announcements: -

Economic Outlook

- *Economic growth* – the Chancellor confirmed that the economy shrank by 1.6% in 2008 and predicted that the UK economy would shrink by a further 3.5% in 2009. Optimistically he expects the tide to have turned by the end of 2009, with the economy realising 1.25% growth in 2010. Going further, the Chancellor predicted that the economy will achieve 3.5% annual growth from 2011
- *Inflation* – following news yesterday that the Retail Prices Index (RPI) went negative for the first time since 1960, the Chancellor predicted that RPI would return to around 3% by September. At the same time he also anticipated that Consumer Price inflation will fall to 1% by the end of the year
- *Fiscal policy* – whatever happened to the good old days of the “Golden Rules” of borrowing...? This year public borrowing is set to account for 12% of GDP, amounting to some £175 billion. This means that UK net debt will increase to 68% next year, shattering the Government's own “Golden Rule” of keeping public debt below 40% of GDP
- Over the next four financial years, borrowing is set to rise by £173 billion (11.9% of GDP), £140 billion (9.1% of GDP), £118 billion (7.2% of GDP) and £97 billion (5.5% of GDP). The Chancellor estimates that borrowing levels will stabilise in 2014/15 and then drop back, leading to a balanced budget two years later. Nevertheless he conceded that national debt would still amount to 79% of GDP in 2013/14
- *Public spending* – the Government is planning £9 billion of extra efficiency savings by 2013/14 as it looks to find revenue to fund public services as other income streams shrivel.



Today, the Chancellor announced that public spending will be cut from 1.1% in 2010 to 0.7% in 2011/12

Taxation & Benefits

- In a move seen as establishing the dividing line for the next General Election, the Chancellor announced that from April 2010 those earning over £150,000 per annum will now pay income tax of 50% whilst confirming that there will be no other income tax increases
- In another move aimed at top earners, the Chancellor declared that tax relief on pensions will be reduced for those earning over £150,000
- To commemorate the “great success” and tenth anniversary of ISAs, the annual tax-free limit will rise to £10,500 from £7,200. This will first apply to those over 50 this year and will then be extended to everyone else next year
- Child Tax Credit will increase by £20 by 2010, whilst additional support will be made available through Child Trust Funds for disabled and severely disabled children through an increase of £100 and £200 respectively
- To acknowledge the increasing number of grandparents of working age who take care of grandchildren, this work will now be taken account of and will count towards their entitlement for the basic State Pension. Going further the Chancellor established that regardless of inflation, the basic State Pension will rise by at least 2.5%
- The Chancellor also announced that the one-off higher level of Winter Fuel Allowance will be maintained this year resulting in those over 65 receiving a payment of £250 whilst those over 80 can expect to receive £400
- In an effort to raise £6 billion of revenue by 2012, the Chancellor declared that from September, fuel prices will increase by 2 pence per litre, whilst as of six o'clock today tobacco prices will increase by 2% and at midnight alcohol prices will also increase by 2%

Education & Skills

- As unemployment today reached 4.5%, the Chancellor announced an additional pot of funding amounting to £1.7 billion to help people get back into work, administered through JobCentre Plus and the flexible New Deal
- For those under 25 who have been out of work or training for more than a year, as of January they will either be offered a job or training, for which they will receive a wage or money on top of their benefits
- £260 million of new money will be made available to train people to work in growth industries
- Over the next two years, money will be made available (£250 million this year, £400 million in 2010) to secure 54,000 additional places in sixth form education



Environment

- The Chancellor committed Britain to cutting 34% of carbon emissions by 2020 and announced £1 billion would be made available to support low carbon industries
- £453 million of additional support will go towards making energy efficiency savings for homes, businesses and public buildings
- £525 million worth of financial support for offshore wind farms will be made available over the next two years via the renewable energy obligation providing enough electricity for three million households
- Energy projects will also receive £4 billion of new capital from the European Investment Bank
- A new funding mechanism will be established for at least two, and a maximum of four, Carbon Capture and Storage (CCS) demonstration projects
- £405 million worth of funding will be made available to encourage the application of new technology and investment in small scale projects
- The Chancellor also announced his intention to remove fiscal barriers to the North Sea and announced incentives to encourage smaller fields to produce an additional two billion barrels of oil and gas

Transport

- A scrappage scheme will be introduced, providing a £2,000 discount on new vehicles bought in exchange for cars over ten years old. The scheme will be introduced next month and end in March 2010. Government and industry are each expected to provide £1,000

Housing

- To reduce the number of repossessions, the Support for Mortgage Interest Scheme, covering mortgage interest payments for those who have lost their jobs, will be extended for another six months at the higher level
- A scheme to guarantee securities backed by mortgages has been introduced to ease the flow of mortgage finance
- The stamp duty holiday on properties sold for less than £175,000 has been extended to the end of the year and the Government's shared equity mortgage scheme, HomeBuy Direct, will receive an £80 million extension
- £500 million worth of extra support will be made available to 'kick-start' housing projects stalled in the credit crunch. Of this £100 million will be allocated to local authorities to build energy efficient housing
- £50 million was also allocated to accelerate the modernisation programme for Armed Forces accommodation



Business and Regulation

- Businesses suffering from a shortage of credit will be able to reclaim taxes paid on profits made in the last three years. This, it is argued, will lead to repayments worth, on average, up to £4,000 per year and will be available up to November 2010
- The main capital allowance rate will this year be doubled to 40%, to promote investment in companies in the growth sectors. The Chancellor said this will lead to enhanced tax relief worth £50 billion to support investment
- Following the Digital Britain Summit earlier this month the industry has been allocated £750 million via the Strategic Investment Fund. The fund will provide support for emerging technologies including advanced manufacturing, digital and biotechnology
- Alistair Darling also committed to publishing his recommendations for wide-ranging financial reform. The Chancellor will propose action to reform corporate governance, remuneration at banks, regulation of capital and liquidity and improve transparency with a single set of accounting rules. These proposals will regulate all important institutions, including hedge funds

For further information, please contact:

Paul Sinclair, Managing Director, Public Affairs
paul.sinclair@hillandknowlton.com 0207 413 3429

Clare Coffey, Consultant, Public Affairs
clare.coffey@hillandknowlton.com 0207 413 3048

Edward Jones, Client Executive, Public Affairs
Edward.jones@hillandknowlton.com 0207 413 3217

