

'Emergency' Budget 2010

Quick Guide

July 2010

Introduction

The Chancellor of the Exchequer (George Osborne) presented the UK Government's 'emergency' Budget 2010¹ on 22 June 2010. The Budget states that it:

...presents a five year plan to rebuild the British economy based on the Government's values of responsibility, freedom and fairness. It shows how the Government will carry out Britain's unavoidable deficit reduction plan in a way that strengthens and unites the country.²

The Budget sets out the action the Government will take in three areas: **deficit reduction**, **enterprise** and **fairness**. It states that the Government have set a forward looking fiscal mandate to:

...achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period. At this Budget, the end of the forecast period is 2015-16.³

The fiscal mandate is also to be underpinned by a target for public sector net debt (as a percentage of GDP) to be falling at a fixed rate by 2015-16.

Impact on Wales

The Budget 2010 contains **no direct consequentials for Wales**.⁴ Until the outcome of the **Spending Review (to be announced on 20 October 2010)**, there are **no indicative figures for the Welsh block for next year or future years**.

However, early indications from the Budget suggest that following the spending review the **Welsh Government may have to face real cuts of around £2 billion over the next four years (approximately £500 million each year)**.⁵ This is in addition to the £163 million⁶ as a result of the cuts in 2010-11 announced in May 2010.⁷

In a press release on 22 June, the Minister for Business and Budget (Jane Hutt AM) suggested that the Welsh Government are planning next year's budget on the assumption of **a three per cent revenue reduction and a ten per cent capital reduction** year on year.⁸

¹ HM Treasury, **Budget 2010**, 22 June 2010 [accessed 5 July 2010]

² HM Treasury, **Budget 2010** page 1 [accessed 5 July 2010]

³ HM Treasury, **Budget 2010** page 1 [accessed 5 July 2010]

⁴ Confirmed to Members' Research Service by HM Treasury officials.

⁵ BBC News, **Budget ignores Wales' needs, says Carwyn Jones**, 23 June 2010 [accessed 5 July 2010]

⁶ Further information can be found in the Members' Research Service Quick Guide: Impact of UK spending reductions on Wales (May 2010) [accessed 5 July 2010]

⁷ HM Treasury, **Reducing the Government deficit**, 24 May 2010 [accessed 5 July 2010]

⁸ Welsh Government News Release, **Delivering projects that make a difference to Wales**, 22 June 2010 [accessed 5 July 2010]

The Minister has also stated that health, education and skills remain priorities for the Welsh Government, and that there is a commitment to capital investment projects.⁹ The First Minister (Carwyn Jones) has also indicated that the Welsh Government's policies of free prescriptions, free school breakfasts and the concessionary travel fares scheme remain priorities.¹⁰

UK Deficit reduction

Budget 2010 states:

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. High levels of debt also put an unfair burden on future generations.¹¹

The Budget announces plans to eliminate the deficit by:

- **£32 billion per year by 2014-15 from spending reductions.** These are stated to be mainly from current (ie revenue) spending. These reductions include plans to make **£11 billion of welfare reform savings**, including adopting the Consumer Price Index for the indexation of benefits, tax credits and public service pensions from April 2011. The Budget also announces 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 **increasing the standard rate of VAT to 20 per cent** and the standard and higher rate of Insurance Premium Tax to 6 per cent and 20 per cent from January 2011.

Budget 2010 goes on to state that:

The Budget and the plans the Government inherited represent a total consolidation of £113 billion per year by 2014-15 and £128 billion per year by 2015-16, of which £99 billion per year comes from spending reductions and £29 billion per year from net tax increases. By 2015-16, 77 per cent of the total consolidation will be delivered through spending reductions.¹²

The fiscal forecasts in the Budget, as prepared by the **Office for Budget Responsibility** (OBR) indicate that:

- Public sector net borrowing is forecast to reduce from £155 billion in 2009-10 to £37 billion in 2014-15. In the March 2010 Budget the total public sector net borrowing from 2009-10 to 2014-15 was forecast to be £734 billion. The current Budget **reduces this by £128 billion** to £606 billion.
- Public sector net debt is forecast to peak at £1,235 billion in 2013-14, before starting to reduce in 2014-15. The March Budget saw net debt still rising to £1,405 in 2014-15. Thus, **net debt is forecast to be lower and reduced earlier** than previously.

The current budget is in deficit throughout the forecast period. This deficit is forecast to reduce from £106 billion in 2009-10 to £1.7 billion in 2014-15, and **balancing out at zero in 2015-16**. This is in comparison to forecasts in the March Budget which showed a £117 billion deficit reducing to £51 billion in 2014-15.

⁹ ibid

¹⁰ BBC News, **Budget ignores Wales' needs, says Carwyn Jones**, 23 June 2010 [accessed 5 July 2010]

¹¹ HM Treasury, **Budget 2010**, 22 June 2010 page 1 [accessed 5 July 2010]

¹² HM Treasury, **Budget 2010**, 22 June 2010 page 2 [accessed 5 July 2010]

UK Headline policy announcements

In relation to 'enterprise', the Budget states that if growth is to be sustainable, it must 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.

This Budget sets out a plan to support business and restore the UK's diminished competitiveness. The Government will give businesses more freedom by reducing regulation and tax rates, while refocusing support towards infrastructure, the low-carbon economy, and regional development.¹³

Policy announcements relating to 'enterprise' in the Budget include:

- A **reduced rate of corporation tax** from 28 per cent to 24 per cent over four years from April 2011; reduction in small profits rate to 20 per cent from April 2011 and reduction in the main and special rate of capital allowances to 18 and 8 per cent in April 2010.
- An **increase in the Enterprise Finance Guarantee** of £200 million and the creation of a new Growth Capital Fund.
- A **reversal of the planned increase in employer National Insurance Contributions** by raising the threshold by £21 a week above indexation in April 2011. **This could lead to a saving of around £140 million in Wales.**¹⁴
- **Regional Growth Fund** in 2011-12 and 2012-13 to support increases in business employment and growth, and a scheme in which new businesses in targeted areas will get a substantial reduction in their employer National Insurance Contributions (NICs). **Up to 27,000 businesses in Wales could benefit from this scheme.**¹⁵

In relation to 'fairness', Budget 2010 states:

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.¹⁶

Policy announcements include:

- The **personal allowance for under 65s will be increased by £1,000 in April 2011**, with the gains limited to basic rate taxpayers. Around 1.1 million taxpayers in Wales will benefit from this.¹⁷
- **Reforms to the housing and disability benefit and tax credit system** to make it fairer and more affordable. These reforms are intended to reduce dependency and promote work.
- **Child Benefit will be frozen** for three years to help fund significant **increases in the Child Tax Credit. Tax credit eligibility is to be reduced** for families earning over £40,000 from April 2011.
- **Basic State Pension will be up rated** by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest, from April 2011. **An estimated 0.6 million pensioners in Wales will benefit from this.**

¹³ HM Treasury, **Budget 2010**, 22 June 2010 page 2 [accessed 5 July 2010]

¹⁴ HM Treasury Press Release, **Budget Report 2010 for Wales**, 22 June 2010 [accessed 5 July 2010]

¹⁵ HM Treasury Press Release, **Budget Report 2010 for Wales**, 22 June 2010 [accessed 5 July 2010]

¹⁶ HM Treasury, **Budget 2010**, 22 June 2010 page 4 [accessed 5 July 2010]

¹⁷ HM Treasury Press Release, **Budget Report 2010 for Wales**, 22 June 2010 [accessed 5 July 2010]

- **Capital gains tax will be increased** to 28 per cent 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 remove to less risky funding profiles. The Government will also take action on unacceptable bank bonuses.
- The Government will work in partnership with local authorities in England to **freeze council tax in 2011-12**.

Further information

For further information on aspects of the 'Emergency' Budget 2010, please contact Dr Eleanor Roy (Eleanor.Roy@wales.gov.uk), Members' Research Service.

For further information on the topics below, double click on the links.

- HM Treasury, **June Budget 2010**
- Previous Labour Government's **Budget 2010** (March 2010). See also the Members' Research Service Research Paper: **Chancellor's Budget 2010** (April 2010)
- **Office for Budget Responsibility** and the OBR **Pre Budget Forecast** (14 June 2010)
- Members' Research Service Quick Guide: **Impact of UK spending reductions on Wales** (May 2010)

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Enquiry no: 10/1760

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