

GWE BUSINESS WEST BRIEFING COALITION EMERGENCY BUDGET 22ND JUNE 2010

In the Coalition Agreement the government promised an emergency budget in 50 days. This was presented to the House at 12.30pm on Tuesday 22nd June. George Osborne introduced this as a tough but fair budget that deals decisively with the country's record debts – it pays for the past and plans for the future.

It spelt out the government's desire to address the current budget deficit and reflected the core values of responsibility, fairness, freedom.

The budget sets out a plan to tackle the deficit, restore confidence in the economy and support the recovery. This budget marks the start of the long-term task of moving from an economy built on debt to one based on saving, investment and exports where growth is spread more widely.

More detail and tough decisions will be announced in the autumn spending review on 20th October 2010.

TAX CHANGES

George Osborne set out a budget that cuts borrowing faster than previously planned by the Labour Government. It included £85bn of tax rises and spending cuts to be implemented by 2013/14. The bulk of reduction comes from lower spending rather than higher taxes, 77% to come from spending cuts and 23% from tax increases.

The changes to the tax system are varied and mostly expected. They include:

- Personal income tax allowance – increase of £1000 in threshold from next year, with the aim of increasing this to £10k in time
- National Insurance Contributions – employers NIC threshold to rise from £110 to £131, reducing the cost of employing people on lower incomes
- VAT increase – from 17.5% to 20% from 4th January 2011
- Aviation duty - to be reviewed on the basis of a per plane rather than a per person tax, to be announced in the autumn
- Council tax freeze - the government will help low-spending councils in England to freeze council tax for one year from April 2011.
- Capital Gains Tax - remains at 18% for low and middle-income savers but from midnight higher rate taxpayers will pay 28%.
- Corporation Tax - to be cut next year to 27%, and by 1% annually for the next three years, until it reaches 24%. The small companies' tax rate will be cut to 20%.
- "Landline tax" - to fund the rollout of fast broadband will be scrapped, instead the government will support private investment.
- A bank levy – to be introduced, which will apply to the balance sheets of UK banks and building societies and the UK operations of foreign banks. It is expected to raise over £2bn a year.

The government proposed no increase to tax on alcohol, tobacco or fuel in this budget; indeed they also reversed the previous government's "cider tax".

90% of the businesses we surveyed this month were supportive of a reduction in the headline rate of corporation tax. It is particularly welcome that the small companies' rate will be reduced to 20% from next year. The business community will also welcome the four-year plan to reduce the headline rate for large companies to 24% - as this will help make our tax system more competitive internationally.

The BCC opposed changes to the Capital Gains Tax system that penalized investors. However, we believe the Government has made some sensible compromises in its approach, such as the significant increase in Entrepreneurs' Relief and the maintenance of capital gains tax allowances. The Chancellor has tried to steer a course between retaining simplicity and tackling avoidance, and he has appeared to have succeeded in this aim. The proposal to increase the capital gains rate from 18% to 28% for individuals seems a reasoned response. We will watch closely, however, to see if this change has an impact on investor confidence.

The BCC lobbied hard to roll back the rise in employers' National Insurance planned for next year. While we are pleased that the Government has taken the sting out of the rise by raising payment thresholds, some employers across the country will still be worse off from April 2011. We would urge the Government to go further – and eliminate the whole of this unwelcome tax on jobs.

Our members were clear that VAT was the 'least worst' tax rise they could face. While the rise will inevitably affect businesses and consumption, we are pleased that the Government has put off the increase to 4th January 2011 – exactly what we called for when the main rate rose earlier this year. A few days' delay after New Year gives businesses time to adjust.

SPENDING CUTS

The Chancellor announced significant cuts in public spending, with £11bn off the welfare bill, a further £17bn cuts in departmental spending meaning unprotected departments face an average real cut of around 25% over four years. The budget proposed an additional cut in current expenditure of £30bn per year by 2014-15 compared to the plans set out by the Labour government.

The cuts in welfare spending include freezing child benefit for 3 years, reducing tax credits to families earning over £40,000, putting a maximum limit on housing benefit and introducing a 2-year pay freeze for all public sector workers earning over £21,000.

There are no further reductions in capital spending totals announced in this Budget but the Chancellor made it clear that "careful choices" would be made about how it was spent. Projects with "a significant economic return to the country" would be prioritised and assessed in the autumn spending review.

Specific reference was made to a small number of key infrastructure schemes where funding would be made available – these were the upgrade of the Tyne and Wear Metro, extension of the Manchester Metrolink, redevelopment of Birmingham New Street station and improvements to the rail lines to Sheffield and between Liverpool and Leeds, all of which now have the go ahead. Meanwhile there is an extensive list of schemes in the South West region still on hold and under review, with funding likely to be withdrawn or significantly reduced. The full list of

schemes is included as appendix 1, but these include some of the very transport schemes fundamental to the future growth and development of the region.

GWE BUSINESS WEST COMMENT

Whilst welcoming the intention to support continued investment in capital projects, we are concerned at the lack of reference to the South West region and the many schemes now hanging in the balance in our area. Many of our Chamber of Commerce and other business members have constantly campaigned for the need to redress the infrastructure deficit in the South West and the Bristol city region in particular, and deliver on the many schemes actively supported by the business community. These schemes are now under threat and businesses ever more frustrated about the lack of progress on some significant but quite basic infrastructure improvements needed to enable business and the economy to function.

BRITISH CHAMBERS OF COMMERCE COMMENT

Chambers of Commerce have vocally supported continued investment in infrastructure – which underpins productivity and growth. While the UK still faces an important infrastructure deficit, we are very pleased that the Government is not further slashing capital spending, meaning that vital regional transport projects like Birmingham New Street Station will be able to go ahead.

PLANNING & THE REGIONS

The government announced its intention to introduce a "simplified planning consents process in specific areas" as part of its Emergency Budget. The move, through the use of Local Development Orders, was described as "part of the shift to a more locally driven planning regime".

The government also confirmed its intention to scrap Regional Development Agencies and replace them with strong local enterprise partnerships, 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.

Osborne called for a "new approach" to the English regions and promised a white paper on the issue later in the summer. He announced that a White Paper would be published later in the summer on tackling regional economic differences in Britain. This could potentially include additional support for areas most reliant on public sector funding and support.

A Regional Growth Fund will be created to help fund regional capital projects over two years. Projects will be prioritised in terms of greatest impact on improving innovation and creating jobs. Further information is due to be provided over the summer on this Fund.

The Budget also 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. The government will publish a national infrastructure plan in the autumn that will set out goals for UK infrastructure. The Chancellor did make it clear that there would be no further reductions in capital spending - "we have faced many tough choices about the areas in which we should make additional savings, but I have

decided that capital spending should not be one of them. There will be no further reductions in capital spending totals in this Budget."

GWE BUSINESS WEST COMMENT

The Budget (page 31, paragraph 1.89) confirmed that Regional Development Agencies in England will be replaced by Local Enterprise Partnerships. A White Paper is expected this summer. GWE Business West is taking a lead role in bringing the business community together to be at the forefront of this debate across Gloucestershire, West of England and Swindon/Wiltshire. We agree with British Chambers of Commerce on this issue – Chambers of Commerce and business needs to be ready to take on a leadership role in any new arrangements.

In terms of tackling regional economic differences in Britain, we accept that there is a role for government and recognise the importance of supporting “failing” areas, but we also believe the government needs to recognise the benefits of investing in “buoyant” cities. If the Government wants to grow its private sector economy and create more private sector jobs, it needs to prioritise strategic capital investment in buoyant cities that have the most chance of generating jobs through their expansion, rather than solely prioritising investment in struggling city economies (Report by the Centre for Cities – Private Sector Cities: A New Geography of Opportunity 2010).

APPENDIX 1 – TRANSPORT SCHEMES

The government has released a list of the 62 transport schemes which are on hold pending the outcome of the spending review. The Department for Transport announced that schemes prioritised under the Regional Funding Allocation process, but on which contracts have yet to be signed, were under review. In a written ministerial statement, Hammond said that councils should consider carefully whether investing further time and resources in such schemes is justified. No decisions will be made on these schemes until the conclusion of the spending review.

The full list of South West schemes affected is set out below:

- Isles of Scilly Link (Cornwall)
- Bath Transportation Package (Bath & North East Somerset)
- Kingskerswell Bypass (Devon County Council)
- East of Exeter improvements (Devon)
- Taunton Northern Inner Distributor Road (Somerset)
- Weston Super Mare package (North East Somerset)
- BRT Ashton Gate to Temple Meads (Bristol)
- Camborne-Pool-Redruth Transport Package (Cornwall)
- Kingskerswell By-pass (Devon/Torbay)
- A338 Bournemouth Spur Road maintenance (Dorset)
- North Fringe to Hengrove Package Bus Rapid Transit (Bristol)
- South Bristol Link Phases 1&2 (Bristol)
- Elmbridge Transport (Gloucestershire)