

DARLING'S PRE-ELECTION BUDGET

BUDGET REPORT INSIGHT SPECIAL

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The first shot of the election campaign was fired today by Chancellor Alistair Darling MP as he set out his Budget to secure Britain's economic recovery.

One of the many problems recognised by the PM and his Chancellor recently has been that although more voters marginally trust Labour to navigate the country out of the recession (by 3% according to a recent C4/YouGov poll), the same voters believe that in the longer term, the Conservatives would be best for Britain's economy (a 2% lead over Labour).

Hence Chancellor Alistair Darling's appearance on YouTube accompanied by overnight spin where the theme was, unsurprisingly enough, 'the future' – future growth, future jobs and 'big decisions for the future'. The message is that the Government is no longer in 'crisis mode' with all efforts being made on 'Securing the Recovery' – the title of this year's speech. Labour is desperate to move itself out of its unenviable position as the party the voters would like to dump as soon as the green shoots of recovery have taken root.

Dividing Lines

Darling repeated the dividing lines of the last few weeks – that the Conservatives were wrong about all the important decisions which were taken by the UK over the course of the recession. Speaking immediately after the Budget, Lord Mandelson was typically the first Minister to spun the line further; the choice, he said, was between 'the Conservatives' age of austerity compared to our efforts to expand our economy while repaying debt'.

Darling pointed to the three themes for securing the recovery: taxation, spending and economic growth. What he did not talk about were 'cuts', although he announced increased efficiency savings throughout Government. These included reducing the number of civil servants in London by a third and possibly the removal of 1,000 civil servants from the Ministry of Justice. Darling pointedly told the House that many of his spending initiatives will be funded by money from existing projects, a foray back into the honesty he showed about the depths of the recession which caused the unleashing of the 'forces of hell' by Number Ten.

On tax, he announced no new changes to VAT or NI but that the inheritance tax threshold would be frozen for four years. Beer wine and spirits would rise as planned, though cider duty will increase 10% above inflation. On spending plans, he said the Government would stick to its current plans which were 'tough, challenging, but achievable'.

Banking reforms

While recognizing that a healthy, strong financial services sector is essential to the success of Britain's economy, he was also clear that 'there can be no return to business as usual for the banks'. Reforms to the sector include speeding up the licences for new banks and a new investment corporation 'UK Finance for Growth'. Banks will also offer basic accounts to those who are not presently served in order to get a million more people using basic current accounts. He also expected Lloyds TSB and RBS to provide £94bn of new investment to small businesses, following yesterday's spin by Lord Myners that it was time for the rescued banks to provide for the UK. Darling told the House that the Government is taking a leading role in the international reform agenda, working with its G20 and European partners: he announced principles to guide international work on a systemic risk tax which will ensure that the activities of financial institutions reflect the costs associated with systemic risk, as well as helping to meet the wider costs of crises. Other measures

Key Measures:

- First Time Buyers' stamp duty limit increased to £250,000 from midnight. Relief to be funded by increase in stamp duty to 5% for property over £1million
- £2billion green investment fund to fund low carbon industries and energy infrastructure
- £2.5 billion growth package for SMEs, paid for by switching spending and extra money from banking bonuses
- Guarantee that everyone can have a basic bank account
- Fuel duty to rise by 1 penny in April, and again in October and January 2011
- Alcohol duty to rise as planned, and rise by 2% above inflation from next year. Duty on cider to be increased by 10% above inflation from Sunday
- Inheritance tax threshold will be frozen until 2014/15
- Increasing child tax credit by £4 per week, for all children
- No-one over 75 will pay any tax on first £10,000 of income
- Winter Fuel Allowance rate guaranteed for a further year
- From next month, every pensioner will get £132.60
- Young Persons' Guarantee extended until March 2012
- Annual ISA tax-free limit rises to £10,200, and will annually increase with inflation



included a doubling of the annual investment allowance for small business and further tax breaks for entrepreneurs. He also recommitted the Government's support for High Speed Rail and Crossrail, high spending projects which the Conservatives may not be so ready to support should they form the next Government.

The biggest cheer in a relatively quiet House came from the Labour benches, when Darling announced that the Government was ready to sign tax information exchange agreements with three countries – Dominica, Grenada and Belize, a party political jab at the misfortunes of Lord Ashcroft.

So Darling's challenge was not just to show the country the future direction of the economy but to also convince voters and the City that he and his Party are part of that future – that Labour still has drive, imagination and ambition in the face of the largest public debt since the Second World War. It was a confident, dry performance which will do no damage to Darling's standing. What remains to be seen was whether it was proportionate to the sheer scale of the financial crisis affecting the UK.

Finance Bill

We understand that the Finance Bill will complete all its stages in one day, as per the timetable of the 2005 Finance Bill.

Opposition Response

The Leader of the Opposition responded to the Chancellor's statement saying that the biggest risk to Britain's recovery is five more years of 'this Prime Minister'. Going on to say that 'like every Labour government before them they've run out of money, and leaving it to the next Conservative government to clean up the mess'.

Cameron said that Britain needs new energy, leadership and values: 'we need a freeze in council tax; no tax on new jobs for new businesses; lower corporation tax rates and the small business tax.' And that 'These are ticking tax bombshells timed to go off the day after the election and that will destroy our recovery.'

Economy

GDP growth for 2010 to be 1 to 1½ per cent. GDP is then forecast to grow by between 3 and 3½ per cent in 2011, before rising to 3¼ to 3¾ per cent in 2012. Public Sector Net Borrowing is forecast to fall to 5.2 per cent of GDP in 2013-14 and then further to 4.0 per cent in 2014-15. 'Structural' net borrowing is predicted to fall from 8.4 per cent of GDP in 2009-10 to 2.5 per cent in 2014-15. Net debt is forecast to be at 74.5 per cent of GDP in 2013-14, peaking at 74.9 per cent of GDP in 2014-15. The Chancellor has forecasts borrowing in 2013-14 to be 'slightly below the ceiling' set under the Fiscal Responsibility Act (5.5 per cent of GDP).

Energy & Environment

The Government intends to create a Green Investment Bank that will support private investment in low-carbon infrastructure projects, bringing together public and private sector capital and operating on a commercial basis. It will provide up to £60 million for the development of UK port sites to support offshore wind turbine manufacturers looking to locate new facilities in the UK. Darling announced a commitment to reduce Government departments' carbon emissions by at least 30 per cent by 2020 and a commitment to reform the energy market to provide clean, secure and affordable energy in the long term, with a White Paper by Spring 2011.

Health

Darling re-stated the commitment to protect NHS frontline spending that was promised in the Pre-Budget Report.

Science and innovation received notable focus. An investment of up to £25m in a University Enterprise Capital Fund will support universities in commercialising innovations. A further £270m Modernisation Fund for universities will enable them to focus on research and innovations, through supporting efficiencies and providing an extra 20,000 undergraduate places, particularly in science, technology, engineering and maths.

Transport

The Chancellor spoke of the tough decisions to improve transport links and to cut delays in the planning system. He repeated the Government's commitment to high-speed rail, the development of Crossrail and Heathrow - supporting some 100,000 jobs over the coming years. The Government would also invest in green transport through the new £2bn 'green bank' fund. Acknowledging the toll the recent bad weather has taken on roads - and the explosion in the number of potholes - there will be £100m for local road repairs and £285m for motorway improvements and expansion projects, such as allowing hard-shoulder running in busy times.

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