

The Chancellor's Pre-Budget Report

The potential implications for the
consultancy and engineering sector

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The Pre-Budget Report

The Chancellor's Pre-Budget Report statement indicates the likely direction of the next Budget. Alistair Darling's 2009 report takes on added significance in light of the economic crisis and the upcoming general election.

This document summarises the main points of the Pre-Budget Report as they relate to ACE member companies. While there are some positive announcements, particularly relating to sustainable development and investment in small businesses, firm details are yet to be announced.

ACE will continue to monitor the outcomes of the Pre-Budget Report, particularly in the run-up to the next Budget.

Outlook for the economy

- The UK economy is expected to have contracted by 4.75 per cent in 2009, albeit returning to growth in the fourth quarter.
- The Chancellor forecasts growth of between and 1.5 per cent in 2010, rising to 3.5 per cent in 2011 and 2012. This growth is likely to come from more varied sources, and would not depend as heavily on the financial sector.
- Inflation (CPI) is expected to reach around 3 per cent in early 2010, before falling back.
- Tax revenues will take time to recover.
- The overall impact of the bank rescue on the public finances has been revised down from £50bn to around £10bn.
- Borrowing is set to fall to £176bn (12 per cent of GDP) in 2010, and reach £82bn by 2014-15 (4.4 per cent of GDP).



Specific measures

Tax

Measures	Comments
<ul style="list-style-type: none">• VAT to return to 17.5 per cent from 1 January 2010.	The VAT and bank bonuses announcements were not surprises.
<ul style="list-style-type: none">• One-off 50 per cent tax on bank bonuses above £25,000 – paid by the bank, not the employee.	Increases in National Insurance contributions will create added employment costs, but the Chancellor believes that the change to the threshold will mean that those earning less than £20,000 will not pay National Insurance.
<ul style="list-style-type: none">• National Insurance rates to rise by 0.5 per cent from April 2011, offset partially by a rise in the starting point for NICs.	
<ul style="list-style-type: none">• New 10 per cent tax on income from patents.	The new, lower tax rate on income from UK patents is targeted primarily at the biosciences sector, but there could be potential benefits for other intellectual property-driven activities.
<ul style="list-style-type: none">• Employer pension contributions to be included in the definition of income for pension tax purposes.	

Procurement and efficiency

Measures	Comments
<ul style="list-style-type: none">• Efficiencies in departmental spending totalling 3 per cent per year up to 2011, plus £12bn of savings per year up to 2013-14.	The call for greater public sector efficiencies is reflected in the business plans and reorganisations at many public sector client bodies.
<ul style="list-style-type: none">• General commitment to “improve procurement and streamline back-office functions”.	Addressing procurement reform across the public sector would deliver benefits to all, through better value procurement and more efficient project delivery. We would hope that the general commitment to improve procurement would be backed up with firm proposals, and ACE will continue to work with the government and clients on this vital issue.



Small businesses

Measures	Comments
<ul style="list-style-type: none">Planned increase in corporation tax for small businesses “until recovery is secured”.£500m Growth Capital Fund to invest specifically in small businesses.Time to Pay scheme to be retained “as long as it is needed”.	<p>The Chancellor seems to have recognised the importance of small businesses to driving the economic recovery. We await details on how the £500m Growth Capital Fund will work.</p>

Low carbon development

Measures	Comments
<ul style="list-style-type: none">£160m investment in low carbon and renewable projects through the Innovation Investment Fund and the Carbon Trust Venture Capital scheme.£200m investment (£100m extra funding) via the Strategic Investment Fund.The government will also invest £90m in the European Investment Bank’s new 2020 fund, which will enable €6.5bn of finance for green infrastructure projects.Warm Front insulation scheme to receive extra £200m.Electric cars to be exempt from company car tax for five years.	<p>These measures appear to demonstrate the direction of travel. Promises of investment in low carbon projects are welcome, and ACE awaits further details.</p> <p>Exemption of electric cars from company car tax is intended to encourage greener car fleets, but is unlikely to make a major difference unless there is a roll-out of supporting infrastructure and low carbon electricity.</p>



Energy

Measures	Comments
<ul style="list-style-type: none">• Four carbon capture and storage demonstration projects to be financed.	The decision to support four carbon capture and storage demonstration projects is helpful, coming as it does in the wake of the publication of the draft National Policy Statements.
<ul style="list-style-type: none">• Roll out of smart meters, to be completed by 2020.	
<ul style="list-style-type: none">• Tax-free payments for people who connect home wind turbines or solar panels into the national grid.	Smart meters were expected, and the tax-free payments for connecting microgeneration equipment to the grid may be a precursor to the intended feed-in tariffs.
<ul style="list-style-type: none">• Relaxing of oil field allowance criteria to support the development of up to eight known fields and encourage further exploration.	The last announcement is a sign that gas and oil remain part of the strategic mix of energy.

Transport

Measures	Comments
<ul style="list-style-type: none">• Work on Crossrail, the Thameslink project, and the upgrade of the M1 will continue.	There are few new initiatives regarding transport infrastructure, although the electrification plans for Liverpool and Manchester may be more extensive than previously announced.
<ul style="list-style-type: none">• Electrification of the Great Western Main Line and the Liverpool-Manchester line.	
<ul style="list-style-type: none">• Further plans for rail electrification between Liverpool, Manchester and Preston – details to be announced.	
<ul style="list-style-type: none">• The Government will respond in early 2010 to proposals for a new high speed rail line.	

Telecoms

Measures	Comments
<ul style="list-style-type: none">• Commitment to provide “super fast” broadband to 90 per cent of the population by 2017, funded by a 50p per month levy on fixed phone lines.	This announcement was entirely expected, and stems from the Digital Britain plans announced earlier in 2009.



Education and training

Measures	Comments
<ul style="list-style-type: none">• Guarantee of place in education or training for all school leavers.• Guarantee of work or training for those under 24 unemployed for six months or more.• Specialist employment skills support for the over 50s.• Financial support for 10,000 undergraduates from poor backgrounds to have internships in industry, business and the professions.	<p>Measures to encourage more internships will be helpful to undergraduates and their prospective employers, as they help to boost the employability of the next generation of professionals.</p> <p>However, it is difficult to see how the guarantees of training or work could be fulfilled at a time when companies are laying staff off.</p>

Regional measures

Measures	Comments
<ul style="list-style-type: none">• £30m of support for businesses on Teesside, found from existing resources.• Refocusing of regeneration spending to where it is needed most.	<p>There is no new money for regionally focused spending. We await more details of how regeneration spending will be more closely targeted.</p>