

Quick guide

Pre Budget Report 2009

December 2009

Introduction

The *Pre Budget Report 2009 Securing the recovery: growth and opportunity*, (PBR 2009) was published on 9 December 2009.¹ It updates the assessments and forecasts of the economy and public finances and how the UK Government plan to “secure recovery and provide a platform for economic growth”.

Economic and Fiscal Forecast

The PBR 2009 states that:

The impact of the crisis on the UK economy has been larger than forecast at Budget 2009, as output fell more sharply than expected....²

Budget 2009 forecast that GDP would reduce by 3.5 per cent in 2009 and begin to recover toward the end of 2009. PBR 2009 revises the GDP forecast to a reduction of 4.75 per cent in 2009, and an increase of 1 to 1.5 per cent in 2010 and growth of 3.5 per cent in 2011 and 2012.

Similarly, the PBR 2009 revises the inflation forecasts detailed in Budget 2009. CPI is now forecast to be 2 per cent in 2009, dropping to 1.75 per cent in 2010, 1.5 per cent in 2011 and rising again to 2 percent in 2012.

In relation to public sector net borrowing, Budget 2009 forecast a peak at 12.4 per cent (£175 billion) in 2009. PBR 2009 revises these figures estimating net borrowing for 2009 to be 12.6 per cent of GDP (£178 billion). Borrowing is forecast to be £170 billion in 2010, £140 billion in 2011 and £96 billion in 2013. The plans to reduce borrowing are to be embedded in legislation via the *Fiscal Responsibility Bill*,³ which was presented to Parliament alongside the PBR.

¹ The Pre Budget Report 2009 and other related documents can be accessed via the [Pre Budget Report 2009](#) pages of HM Treasury's website. [Accessed 11 December 2009]

² HM Treasury, [2009 Pre Budget Report Securing the recovery: growth and opportunity](#) (December 2009) Annex A page 133 [Accessed 11 December 2009]

³ [Fiscal Responsibility Bill](#) [HC], Bill 13, 2009-10 [Accessed 11 December 2009]

Headline announcements

The following are some of the key announcements in PBR 2009:

- National Insurance rates to rise by a further 0.5 per cent from April 2011, alongside a rise in the threshold at which National Insurance contributions are paid – estimated to raise £3.2 billion in 2011-12 and £3.4 billion in 2012-13;
- Reversion to 17.5 per cent VAT rate from 1 January 2010;
- Stamp duty holiday on properties up to £175,000 to end 1 January 2010;
- One-off 50 per cent tax on bonuses of over £25,000 from 9 December 2009 until 5 April 2010 – estimated to raise £550 million in 2009-10; and
- Basic state pension to rise by 2.5 per cent in April 2010; and child and disability benefit to rise by 1.5 per cent in 2010.

Impact of PBR 2009 on Wales

Barnett Consequentials

Announcements made in the PBR 2009 will result in an **additional allocation of £13 million to the Welsh block** via the Barnett formula in 2010-11.⁴ These are as follows:

- Warm Front Scheme provides assistance to vulnerable households with heating and insulation. Consequential to Wales **£3 million capital**.
- Greener Boiler Incentive - £400 incentive to upgrade working G-rated boilers. Consequential to Wales **£1.2 million capital**.⁵
- Extension of free school meals – to primary school pupils in low income working families. Consequential to Wales **£7 million revenue**.⁶
- Strategic Investment Fund – support for advance industrial projects, including low carbon investment. Consequential to Wales **£2 million capital**.⁷

Table 1 shows the changes to the Welsh departmental expenditure limits (DEL) for 2010-11 from the 2007 Comprehensive Spending Review (CSR) as a result of UK decisions.

⁴ Sourced from HM Treasury and the Wales Office.

⁵ The PBR 2009 states that the total cost of Warm Front and the Greener Boiler Incentive is £215 million in 2010-11, including Barnett consequentials for non-reprioritised funding. £130 million of this is funded via reprioritisation.

⁶ The **PBR 2009** (Table 1.2 page 11) states the total cost of this as £140 million in 2010-11. [Accessed 11 December 2009]

⁷ The **PBR 2009** (Table 1.2 page 11) states that the total addition to the Strategic Investment Fund is £210 million in 2010-1, including Barnett consequentials for non-reprioritised funding. £100 million of this is funded via reprioritisation. [Accessed 11 December 2009]

Table 1: Changes to Welsh DEL for 2010-11 from CSR 2007

£ millions

	2007 PBR and CSR¹	Budget 2008³	2008 PBR⁴	Budget 2009⁵	2009 PBR⁶
Revenue DEL	14,215	14,200	14,200	14,000	14,000
Capital DEL	1,842	1,800	1,800	1,700	1,800
Total DEL	16,057²	16,000	16,000	15,700	15,800

1. [2007 Pre Budget Report and Comprehensive Spending Review](#) (Annex D) October 2007

2. Table D28 shows total DEL to be £15,772 on a full resource budgeting basis, net of depreciation.

3. [Budget 2008](#) March 2008 (Chapter C)

4. [2008 Pre Budget Report](#) November 2008 (Annex B)

5. [Budget 2009](#) April 2009 (Chapter C)

6. [2009 Pre Budget Report](#) December 2009 (Annex B)

Note figures in all columns except the 2007PBR and CSR are rounded to the nearest hundred million.

It should be noted that the consequentials coming to Wales because of these announcements are allocated at the discretion of the Welsh Government, and therefore may not be allocated to similar schemes in Wales.

Other measures

- Enterprise Finance Guarantee Scheme to be extended for 6 months beyond planned closure in March 2010. This supports up to £1.3 billion of bank lending to small and medium sized businesses across the UK. To date, almost £27.8 million of eligible applications from 363 companies across Wales have been granted or are being processed/assessed.⁸
- Young Person's Guarantee to be brought forward to 6 months, offering work, training or work experience to all 18-24 year olds claiming Job Seekers Allowance for 6 months or more. Estimated to benefit 5,895 people in Wales.⁹

Budget 2009 made provision for capital budgets to be brought forward from 2010-11 into earlier years, in order to provide a stimulus to the economy. It was reported that the First Minister (Rhodri Morgan) has made representations to HM Treasury requesting an additional £100 million in capital funding to be made available to be drawn forward into 2010-11.¹⁰ The PBR 2009 announced no further plans for capital acceleration.

⁸ HM Treasury, [PBR 2009, Wales Regional Press Notice](#), 9 December 2009 [Accessed 11 December 2009]

⁹ *ibid*

¹⁰ [BBC News, Ministers want £100 million a year early, 16 September 2009](#). [Accessed 11 December 2009]

Public sector spending

The PBR 2009 states:

Overall departmental spending in 2010-11 will be maintained as planned to help support the economy through recovery. But, as set out in Budget 2009, spending growth will reduce from 2011-12 onwards in order to ensure sustainable public finance over the medium term.¹¹

It also states that public sector current expenditure will grow by an average of 0.8 per cent per year in real terms from 2010-11 to 2014-15.¹² Public sector net investment is set to decrease annually from the current level of 3.5 per cent of GDP, to 1.25 per cent GDP in 2013-14 and remain at that level in 2014-15.¹³ The PBR also announces a package to protect front-line spending in the NHS, schools and the police over 2011-12 and 2012-13.¹⁴

The PBR 2009 announces details of the £12 billion a year of savings set out in *Putting the Frontline First: smarter government*¹⁵ and announces that £11 billion a year of these savings will be delivered by 2012-13; £3 billion of which are new savings identified since Budget 2009. PBR 2009 announces:

- £11 billion of efficiency savings through 'smarter government';¹⁶
- £5 billion in savings by cutting low priority budgets;¹⁷
- Public sector pay settlements to be capped at 1 per cent for two years from 2011, expected to generate savings of £3.4 billion per year by 2012-13¹⁸; and
- Contributions to public sector pensions to be cut by £1 billion per year, estimated to save £1 billion per year by 2012-13.¹⁹

With regard to how these savings may impact upon Wales, the PBR 2009 states:

At the next Spending Review, the Devolved Administrations' budgets will be determined in the normal way in line with the Barnett formula to reflect the budgetary changes made as a result of these savings...²⁰

However, there is no indication as yet as to when a Spending Review may take place, the PBR states only that:

The Government is not doing a Spending Review at this stage.²¹

¹¹ HM Treasury, *2009 Pre Budget Report Securing the recovery: growth and opportunity* (December 2009) Chapter 6 page 103 [Accessed 11 December 2009]

¹² *PBR 2009* Chapter 1 page 8 [Accessed 11 December 2009]

¹³ *PBR 2009* Chapter 1 page 4 Table 1.1 [Accessed 11 December 2009]

¹⁴ *PBR 2009* Chapter 6 page 103 [Accessed 11 December 2009]

¹⁵ *Putting the frontline first: smarter government*, (December 2009), Cm7753 [Accessed 11 December 2009]

¹⁶ *PBR 2009* Chapter 6 page 108-109 provides further details of how this £11 billion in efficiency savings is planned to be met. [Accessed 11 December 2009]

¹⁷ *PBR 2009* Chapter 6 page 109-110 provides further details of this prioritisation of projects and programmes. [Accessed 11 December 2009]

¹⁸ *PBR 2009* Chapter 6 page 112 [Accessed 11 December 2009]

¹⁹ *PBR 2009* Chapter 6 page 113 [Accessed 11 December 2009]

²⁰ *PBR 2009* Chapter 6 page 111 [Accessed 11 December 2009]

²¹ *PBR 2009* Chapter 6 page 103 [Accessed 11 December 2009]

The measures outlined above equate to total public sector savings of approximately £20 billion by 2012-13. Members' Research Service has calculated that if this is realised, and assuming the distribution of these reductions is 100 per cent comparable in Wales, this could lead to a **maximum reduction to the Welsh block of up to £1.2 billion over the period to 2012-13.**

The Institute for Fiscal Studies (IFS)²² has suggested that the total cuts in public spending required by 2013-14 will be **£35.7 billion**, thus leaving a gap in planned cuts of around £15 billion. In addition to this, the 2007 Comprehensive Spending Review committed to £35 billion in efficiency savings by 2010-11. PBR 2009 confirms that £8.5 billion of this has been met;²³ leaving a potential further £26.5 billion to be achieved prior to the end of 2010-11. The IFS suggest that this means that departmental spending could fall by as much as 3.2 per cent per year over the period to 2013-14. They go on to suggest that the protection pledged in health, education and police taken together with the cuts required, may mean that unprotected areas, such as transport, housing, higher education and defence could face cuts of up to 6.4 per cent per year.

Further information

For further information on aspects of (insert quick guide subject here), please contact **Eleanor Roy** (eleanor.roy@wales.gsi.gov.uk), Members' Research Service.

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

- [Pre Budget Report 2009](#) including microsite for summary information
- Further information on Budget 2009 can be found in the MRS research paper: [The Chancellor's Budget 2009](#)
- Independent analysis of the PBR 2009 has been conducted by the [Institute for Fiscal Studies](#).

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²² Institute for Fiscal Studies, [Pre Budget Report 2009 briefing: Public Spending](#), 10 December 2009. [Accessed 11 December 2009]

²³ [PBR 2009](#) Chapter 6 page 99 [Accessed 11 December 2009]