FEATURE

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UK – backing business

Following Chancellor Alistair Darling's Pre-Budget Report 2008, new efficiency targets and tax changes have been announced affecting both the public and private sectors. *GO* reports on all the key developments and the responses from both sectors.

2008 has been one of the most economically challenging years in recent memory. With the credit crunch and its repercussions, the UK is in recession for the first time since the early 1990s.

Prior to the publication of the latest Pre-Budget Report (PBR), speculation was rife as to Chancellor Alistair Darling's plans for injecting life back into the economy. Several announcements contained in the PBR have impacted on both the public and private sectors, and the changes have generated responses from key organisations and institutions.

Changes in the public sector

The Chancellor stated in his PBR that government departments are making good progress towards the 2007 Comprehensive Spending Review (CSR) value for money target of £30 billion savings by 2010-11 and have overachieved against the targets set by the Gershon efficiency programme, including delivering £26.5 billion in savings and reducing 86,700 civil service posts between 2004 and 2007.

However, given this overachievement against the 2004 Gershon target and the scope identified for additional efficiency savings, the Chancellor then announced an additional £5 billion value for money target for 2010-11, bringing the total up to £35 billion.

Explaining his reasoning, Mr Darling said: *"We know extra savings are achievable because independent reviewers have identified new efficiencies across public sector operations. The efficiencies will come through lowering the cost of back-office operations, better procurement, examining property holdings and asset sales.*

"By continuing to make efficiency savings, we can help fund the action needed to help families and businesses. But we will also ensure spending continues to rise from £584 billion last year to £682 billion in 2010-11.

"And in the next spending review we will continue to put money into public services and investment, to maintain the gains of the last decade, by increasing current spending by an average 1.2 per cent a year in real terms.

"As businesses and families across the country carefully watch what they spend, it is only right that the Government works even harder to make savings."

A set of devolutionary proposals are also to be agreed with local authorities in city regions on a voluntary basis, to increase their ability to drive sustainable economic growth.

These changes have sparked a heated debate within key organisations. Speaking exclusively to *GO*, James Fothergill, CBI Head of Public Services Policy, said: *"While the new targets are challenging, they remain relatively conservative by private sector standards and we hope existing business expertise can be brought to bear here.*

"Peter Gershon said his efficiency programme should be seen as the start of a process, and not an end in itself. The Government's revised targets suggest this advice has been taken on board, and we must hope that what emerges from the recession is a culture of efficiency in the public sector and not merely the notion that these are one-off gains that are needed when the books don't balance.

"Bold claims about previous savings met with widespread scepticism from the business community and it is important that there is independent auditing and agreed baselines from which to measure performance.

"The devil will always be in the detail, however, and we look forward to seeing full plans for how these operational efficiencies are to be made in the areas set out."

Business Services Association (BSA) Chief Executive Mark Fox commended the proposals made by the Chancellor, saying: *"We welcome the Government's various measures to support business – in particular the commitment to finding further efficiency savings in the public sector and the bringing forward of a number of capital infrastructure projects.*

"The UK outsourcing industry has a key role in helping the Government increase public sector efficiency and deliver major infrastructure projects because it drives choice, quality and productivity."

Steve Freer, Chief Executive of the Chartered Institute of Public Finance and Accountancy (CIPFA), highlighted the importance of a strong financial management structure in making sure government invests strategically. He stressed: *"The size and scale of public spending increases are matters for the politicians – CIPFA's concern is that extra money is invested wisely and in a manner which is sustainable for the long term.*

"It is critically important that the disciplines of good financial management are firmly to the fore. The planning of schemes and initiatives to help stimulate the economy can be expedited but it must not be compromised. Decision-making must be as rigorous and robust as possible with proper regard not only for upfront capital costs but also for downstream revenue implications."

Scottish Government Finance Secretary John Swinney expressed his concerns about the increased efficiency target. He said: "*We are extremely worried about the consequences of the reduction in UK departmental spending in 2010-11, which could see a cut of up to £500 million in the Scottish Government's Budget over and above any reprofiling of spending – just as we expect the economy to be emerging from very difficult conditions*".

The Local Government Association (LGA) said that while no part of government can be exempt from efficiency savings, there must be a recognition of the pressures on local authorities and the importance of not destabilising council tax.

The LGA will argue vigorously with government that councils, as the most efficient part of the public sector, are already contributing more than their fair share to savings and that the new targets should be weighted towards other parts of the public sector to minimise the effect on council tax and service levels.

Changes in the private sector

In order to support the private sector during times of financial hardship, the Chancellor is proposing to bring forward £3 billion of capital spending from 2010-11, including introducing a green stimulus supporting low carbon growth and jobs. Another controversial move by the Chancellor has been to temporarily reduce the VAT rate to 15 per cent with effect from 1 December 2008 to 31 December 2009.

Other measure to help the private sector, especially small and medium-sized enterprises (SMEs), through the credit crunch include:

- Measures to help SMEs facing credit constraints. The Government will launch: a new Small Business Finance Scheme to support up to £1 billion of bank lending to small exporters; a £50 million fund to convert business debt into equity; and a £25 million regional loan transition fund.
- A new Business Payment Support Service from HM Revenue and Customs to allow any business in temporary financial difficulty to pay their HMRC tax bills to a timetable they can afford.
- More generous tax relief for businesses now making losses, by allowing temporary additional carry-back of up to £50,000 of losses to be set against taxable profits from the last three years.
- The modification of a number of planned tax reforms, including vehicle excise duty, the deferral of the increase in the small companies rate of corporation tax, a temporary increase in the threshold at which an empty property becomes liable for business rates, and the reform of air passenger duty rather than proceeding with a per-plane tax. ▶

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Richard Lambert, CBI Director-General, said there were a number of measures in the PBR that the CBI had asked for that should help cashflow in small businesses, and in business overall, by reducing costs.

He stated: *“The £5 billion package comprising the Small Business Finance Scheme and loans from the European Investment Bank should, if well and speedily implemented, give critical help to small firms in need.*

“The exemption of foreign dividends from taxation is very welcome. It will help to stem the incentive to move tax domicile overseas. Small firms will gain from the deferment of the one per cent increase in corporation tax rates, together with new opportunities to reschedule tax payments.

“The fiscal stimulus through the cut in VAT has the advantage of immediacy but only time will tell whether it signifcantly increases spending by individuals.

“The Chancellor’s growth forecasts depend on his success in stimulating consumer spending and otherwise look optimistic. On them also depend his forecasts for the Budget deficit. It will be a long, hard haul to meet his deficit targets, and given this, we would have hoped for an even greater emphasis on efficiency and potential savings.”

However, Liberal Democrat Shadow Chancellor Vince Cable said: *“The new 45p income tax rate is nothing more than a figleaf to cover a £5 billion tax hike which will hit millions of low earners and businesses.*

“The Government has missed a golden opportunity to make the tax system permanently fairer which it could have done by cutting income taxes for those on low and middle incomes, paid for by getting rid of tax loopholes for the wealthy.

“Instead of increasing investment in sustainable capital projects which benefit the country tomorrow as well as today, the Government has opted for a temporary cut in VAT which will benefit big spenders the most and not give the economy the boost it needs. At a time of economic emergency, Gordon Brown has once again failed those who need help the most.”

The Forum of Private Business (FPB) believes that measures to help more small firms access finance in the short term could be offset by the failure to deliver much needed tax reforms, including a reduction in small firms' corporation tax rates.

A spokesperson for the FPB said: *“The Chancellor has announced three £1 billion initiatives to help the cashflow of small businesses. Two of these initiatives should provide accessible funds in the first quarter of 2009, one via the European Investment Bank, delivered by the high street banks, and the second via new Small Business Finance Scheme guarantees, underwritten by the Government and the banks.*

“These schemes are welcome, provided that the banks make them accessible, and that small businesses are proactive in seeking them out. The further scheme allows businesses offset losses for up to three years.

“However, we are disappointed that these initiatives are both temporary and short term, and that much of what has been given in 2008 will be clawed back post-2011. In addition to short-term liquidity solutions, we were hoping for medium- and long-term policies to provide more certainty for business owners.”

PBR 2008 outlines the next steps the Government is taking to support the economy and businesses through difficult financial times and to maintain macroeconomic stability in the long term. How far these measures succeed will become clearer in the coming months and years.

Further information...

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