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Testing times

Following Chancellor Alistair Darling's 2009 Pre-Budget Report, *GO* reports on all the key developments affecting the public and private sectors and the responses the report has generated.

Chancellor Alistair Darling's 2009 Pre-Budget Report (PBR) has confirmed that the Government will stick to planned levels of overall departmental spending in 2010-11 to help support the economy through the downturn. However, from 2011-12 onwards spending growth will reduce to help halve the deficit over the next four years. The PBR also announced an additional 0.5 per cent increase in employee, employer and self-employed rates of national insurance contributions. As a result, public sector current expenditure will grow by an average of 0.8 per cent a year from 2011-12 until 2014-15. Public sector net investment will move to 1.25 per cent of GDP by 2013-14 and will remain at that level in 2014-15.

Protecting public services

The PBR has announced new efficiencies and reforms across the public sector, including £11 billion of savings by 2012-13 through smarter government, for example through rationalising arm's length bodies, greater use of online systems for providing advice and information to the public, cutting consultancy spend by 50 per cent, and better management of government assets.

The Chancellor also outlined that £5 billion of savings by 2012-13 should be achieved from targeting and prioritising spending, including by reforming the criminal justice system and legal aid, reducing lower-priority provision within the adult skills budget, phasing out temporary employment programmes, and reducing the cost and scope of the NHS IT Programme. He further announced a one per cent cap on public sector pay settlements in 2011-12 and 2012-13, delivering £3.4 billion of savings a year by 2012-13; and reforms to public service pensions to save £1 billion a year from 2012-13 onwards.

The PBR also sets out the Government's plans to reduce borrowing to 5.5 per cent of GDP in 2013-14, consistent with debt falling in 2015-16. These plans will be embedded in legislation through the Fiscal Responsibility Bill.

Public Value Programme savings

The Government has looked at the opportunities to deliver efficiencies across the public sector by cutting lower-value or lower-priority programmes or projects. On the basis of early findings from the Public Value Programme, the PBR has announced £5 billion a year of additional savings by 2012-13, including reforming the criminal justice system and payments made to public servants posted overseas.

Smarter government savings

The PBR also announced further details of the £12 billion of savings set out in *Putting the frontline first: smarter government*, published ahead of the PBR, to be achieved through delivering services in a smarter, more effective way. £11 billion a year of these savings will be delivered by 2012-13.

The Chancellor stated that £8 billion of the £11 billion to be delivered by 2012-13 are savings identified by five external advisers as part of the Operational Efficiency Programme (OEP) through improving back-office functions, IT, collaborative procurement and property running costs. However, £3 billion of the £11 billion are additional to OEP and the Pre-Budget Report. This will be achieved by 2012-13 through more efficient waste collection and disposal, streamlining arm's length bodies and improving energy efficiency.

2007 Comprehensive Spending Review – progress so far

Departments have made good progress towards their CSR07 £35 billion cash-releasing savings targets. The PBR announced that savings of £8.5 billion have been delivered so far. This includes savings reported across all departments in 2008-09 and, where available, departmental savings reported in the first half of 2009-10.

Frontline flexibilities and Total Place

The PBR sets out how the Government will free up frontline public services to innovate and collaborate, building on the strong commitments made in *Putting the frontline first: smarter government*. The PBR includes interim findings from the Total Place pilots, launched at Budget 2009, and announces steps to increase freedoms and flexibilities for frontline staff in public services, including consulting on proposals to extend non-medical prescribing for certain allied health professionals, and working with the NHS to explore options to support GPs in referring patients to high-quality and cost-effective alternative settings.

Advisory Group on Financial and Professional Services

The Chancellor stated he will convene a new Advisory Group on Financial and Professional Services as a smaller and more focused successor to the former High-Level Group. It is hoped it will act as a critical sounding board for the Government with respect to policies pertaining to the long-term future of the sector and their cumulative impact.

The Government will continue the Business Payment Support Service that has already enabled over 160,000 businesses to spread over £4 billion of tax, extending the temporary increase in the threshold for empty property rate relief and further deferring the increase in the Small Companies' Rate of corporation tax.

The Chancellor also stressed that the Government will ensure that business has access to the capital it needs, through the legally binding lending commitments made by the Royal Bank of Scotland and Lloyds Banking Group; by making an additional £500 million of lending available to small and medium-sized enterprises through a 12-month continuation of the Enterprise Finance Guarantee; and by creating a new Growth Capital Fund, along with the £325 million UK Innovation Investment Fund.

The Government also plans to build on the unprecedented investment in infrastructure over the last decade and to ensure the UK is ready to face the challenges of the transition to a low-carbon economy by creating Infrastructure UK, which will help facilitate private sector investment in infrastructure and help ensure that publicly funded infrastructure is effectively prioritised and delivered.

They will also drive innovation by introducing a Patent Box, a reduced rate of corporation tax applying to income from patents from April 2013, to strengthen the incentives to invest in innovative industries; and through additional funding of £200 million for the Strategic Investment Fund which will include £150 million to support low-carbon investment.

End of the temporary reduction in VAT rate

As announced at PBR 2008 and confirmed in Budget 2009, the temporary reduction in the standard rate of VAT to 15 per cent will end on 31 December 2009. The temporary VAT reduction will have delivered a stimulus of around £11.5 billion into the economy.

The PBR confirms arrangements to smooth the transition for businesses back to the 17.5 per cent rate. There will be a 'period of grace' for businesses trading across the midnight deadline to charge the lower 15 per cent rate until they close (or until 6am), and plans to let shops add the extra VAT to prices at the tills for up to 28 days, giving them extra time to complete the re-pricing of their stock.

Enterprise Finance Guarantee

The Enterprise Finance Guarantee has provided targeted support for viable businesses with less than £25 million turnover who have no or insufficient security. Since its launch on 14 January 2009, nearly £1 billion of eligible applications from almost 9000 small and medium-sized enterprises have been granted, are being processed or are being assessed.

Recognising the continuing challenges that small businesses face in accessing finance, the PBR has announced that the scheme will be continued for a further 12 months, making an additional £500 million of bank lending available to SMEs.

Growth Capital Fund

The Rowlands Growth Capital Review published in November 2009 found that a structural gap exists in the provision of growth capital to small and medium-sized enterprises. There are around 30,000 growing SMEs, of which 10 per cent in any year could struggle to access capital.

> ***'The Chancellor has rightly recognised that central government needs to cut its cloth'* – Councillor Margaret Eaton, Chair, Local Government Association**

In response to the Rowlands Review's recommendations, the PBR announced the creation of the Growth Capital Fund to invest in small and medium-sized businesses, targeting growing companies seeking amounts of between £2 million and £10 million. Following an initial approach from the investment banking community and further contact with the retail banks, the Government is in discussions with a group of global and UK banks who are seeking to play a meaningful role in ensuring the UK economic recovery.

Investing in infrastructure

The PBR also announced the establishment of Infrastructure UK (IUK). IUK will be responsible for advising the Government on long-term national infrastructure priorities, including supporting a transition to a low-carbon economy. IUK will help prioritise the Government's investment in ▸

infrastructure, identify and address major cross-cutting issues affecting infrastructure, and improve the way the Government supports the delivery of infrastructure projects and programmes. IUK will develop a strategy for national infrastructure by Budget 2010 that will provide a long-term vision for UK national infrastructure.

Key responses from across the spectrum

Councillor Margaret Eaton, Chair of the Local Government Association (LGA), said it was good news that the Chancellor had recognised, in maintaining 2010-11 spending commitments, that councils need stability in order to plan ahead.

Cllr Eaton said: *"Everybody appreciates that, as the economy recovers, public spending has to be cut while striving to minimise the effect on the front line. Councils are the most efficient part of the public sector, and during these tough times they have a vital role to play if people are going to get the local services they demand and deserve.*

"The Chancellor has rightly recognised that central government needs to cut its cloth. Reducing administration and red tape could save £4.5 billion a year before local services are affected. There needs to be a bonfire of red tape so that taxpayers' money can be freed up to protect frontline services."

Commenting on proposals to cap all public sector pay by one per cent from 2011, she added: *"Local government recognises the need to keep pay settlements down during tough economic times. Town halls have led the way in showing restraint in public sector national pay settlements, and the worsening financial situation will require more difficult decisions to be taken. Many councils will find it very difficult to fund any increases in pay."*

Richard Lambert, CBI Director-General, said: *"The Chancellor has missed the opportunity to increase the UK's credibility by reducing the public deficit earlier. We are no clearer today as to how the Government plans to reduce public expenditure.*

"We applaud the Government's courage in beginning to tackle the thorny issues of public sector pay and pensions. There is also an encouraging package to support companies as they seek to exploit new low-carbon opportunities."

CBI Scotland Director Iain McMillan added: *"We believe that the Chancellor should have started to tackle the public deficit now rather than wait another 18 months. Nor is it clear how the Government will reduce future public expenditure and what its impact will be on devolved public spending through the Barnett Formula.*

"There are some welcome measures of support for business, including revisions to the oil and gas tax regime to boost exploration, and deferment of the rise in small firms' corporation tax. But the devil is always in the detail with government financial statements and we know from past experience that we need to read the small print."

Commenting on the Pre-Budget Report, Business Services Association Chief Executive Mark Fox said: *"The Chancellor 'nodded' several times in his speech in the direction of increasing outsourcing as a way of improving standards and cutting public service delivery costs – which we welcome as far as it goes.*

"However, this does not add up to the well planned, thought through and authoritatively considered plan of action that would reduce public sector borrowing and spending, drive up public sector performance and standards, and help to rebuild confidence across the private and public sector in the UK economy."

Meanwhile, three Government advisers have quit the Government in order to sit on the Conservatives' Services Productivity Advisory Board.

Shadow Chief Secretary to the Treasury Philip Hammond announced the formulation of the panel last month. The panel will have the task of advising the Conservative Party as it develops and implements its plans to improve efficiency and productivity throughout the public sector.

Announcing the make-up of the board, the Conservative Party revealed that Bernard Gray, Martin Read and Sir Peter Gershon – all senior Government advisers on efficiency and procurement – would all have senior roles advising Mr Hammond and his Shadow Treasury team. Other board members include Lord Peter Levene, Chairman of Lloyd's and General Dynamics UK; Colin Barrow CBE, Leader of Westminster City Council; and Lucy Neville-Rolfe CMG, Main Board Director of Tesco Plc.

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In summary...

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- As announced at PBR 2008 and confirmed in Budget 2009, the temporary reduction in the standard rate of VAT to 15 per cent will end on 31 December 2009

Further information...

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