



The 2010 Budget

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Section Economic Policy and Statistics Section

This note summarises the main points of the 2010 Budget relating to the economy, the public finances and taxation.

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1 Introduction

The Chancellor presented the 2010 Budget on 24 March.¹ This will be the last Budget before the General Election. It was presented against a backdrop of a fragile economic recovery and with the issue of the public finances likely to be important in the election campaign.

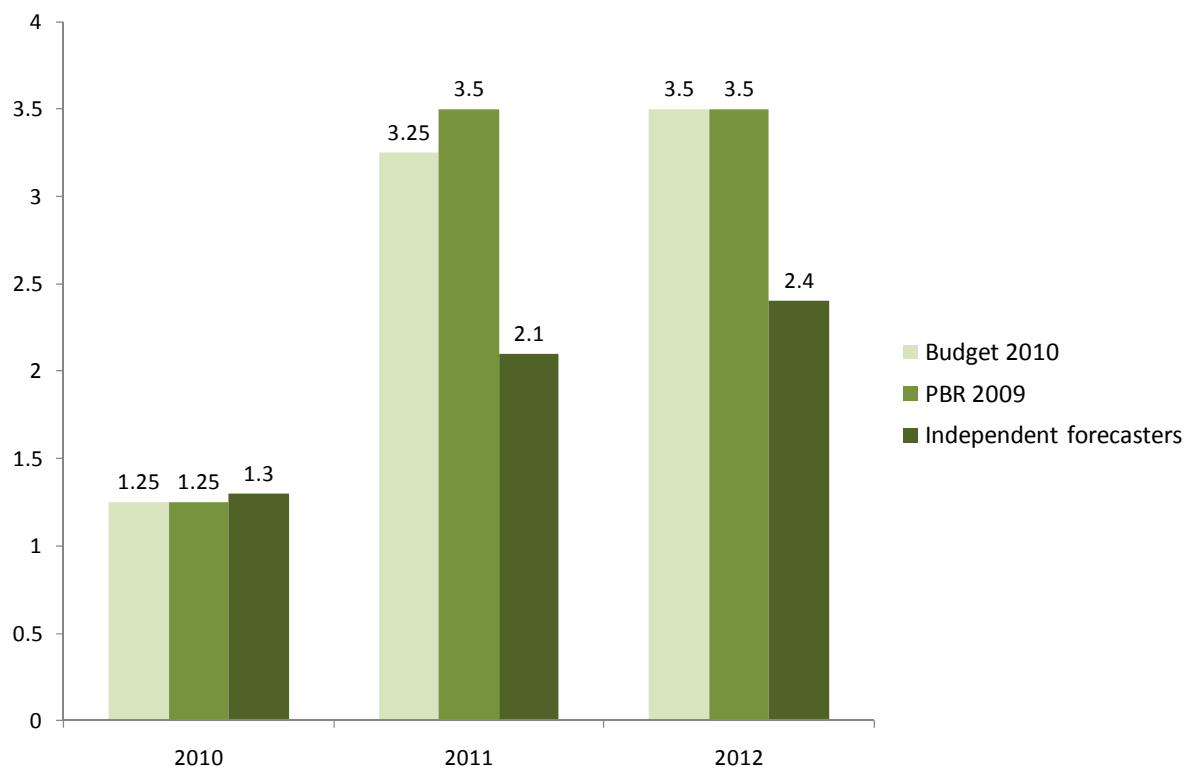
This note gives a brief summary of the main points in the Budget relating to the economy, the public finances and taxation. It also summarises some of the reaction to the Budget. This note does not attempt to summarise the wider policy announcements in the Budget. Another Library [note](#), published before the Budget, sets out the background in greater detail.²

2 Economic forecasts

The Budget updated the Treasury's forecasts for economic growth for the next few years. The Treasury forecast a range for economic growth rather than a single figure. The forecast for growth in 2010, between 1 and 1½%, was unchanged from the Pre-Budget Report (PBR). The forecast for 2011 was revised downwards to between 3 and 3½% and the forecast for 2012 was unchanged at 3¼ to 3¾%.

The chart below compares the Budget forecast with the PBR forecast and the average independent forecast. The chart takes the mid-point of the Treasury forecast range. The Treasury's forecast is very similar to that of independent forecasters for 2010 but more optimistic for 2011 and 2012.³

Chart 1: Forecasts for real GDP growth, annual % change



¹ The date of the Budget was announced in a written statement: HC Deb 10 March 2010 c14WS

² Library Standard Note, [The Background to the 2010 Budget](#), (SN/EP/5391), 23 March 2010

³ The independent forecasts for 2010 and 2011 are from the March edition of the Treasury's Forecasts for the UK economy. The forecast for 2012 is from the February edition.

3 Public finance forecasts

The Budget also made a slight downward revision to forecasts for government borrowing and debt as shown in the charts and tables below. Borrowing is forecast to fall from £167 billion in 2009/10 (11.8% of GDP) to £74 billion in 2014/15 (4.0% of GDP). The structural deficit is forecast to fall from 8.4% of GDP in 2009/10 to 2.5% in 2014/15.⁴

Chart 2: Public sector net borrowing, %GDP

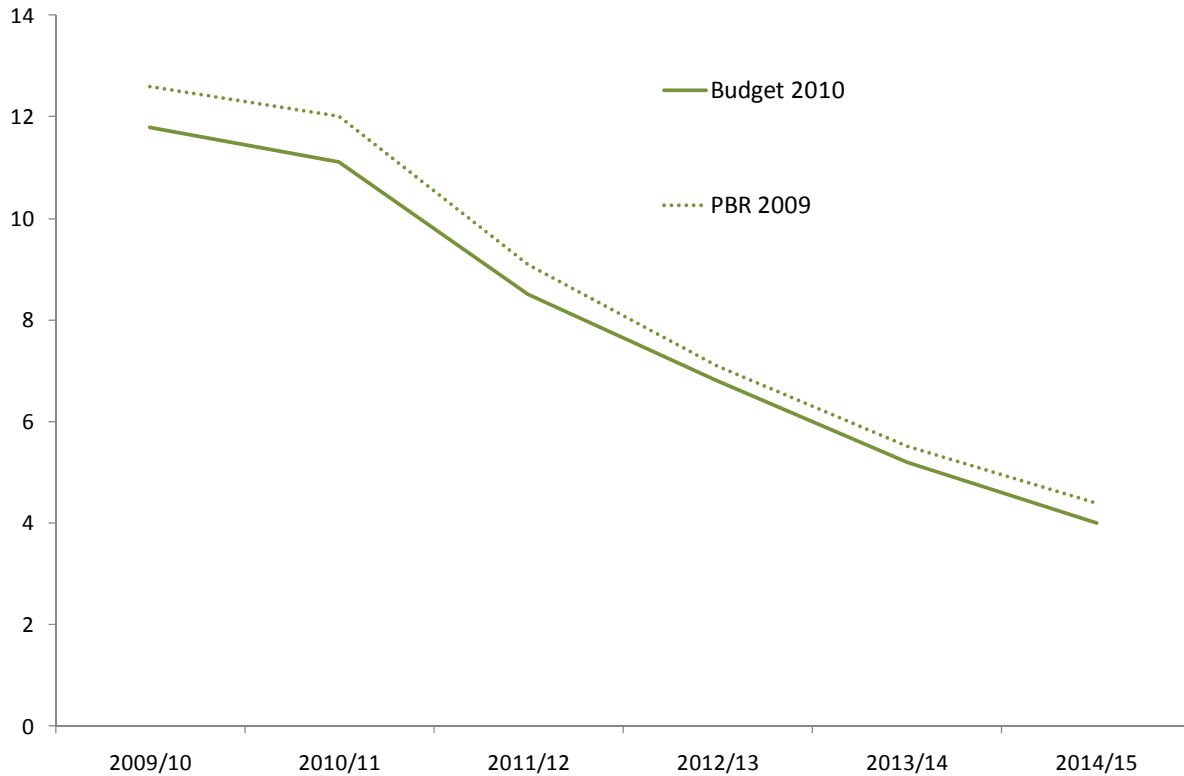


Table 1

Public sector net borrowing

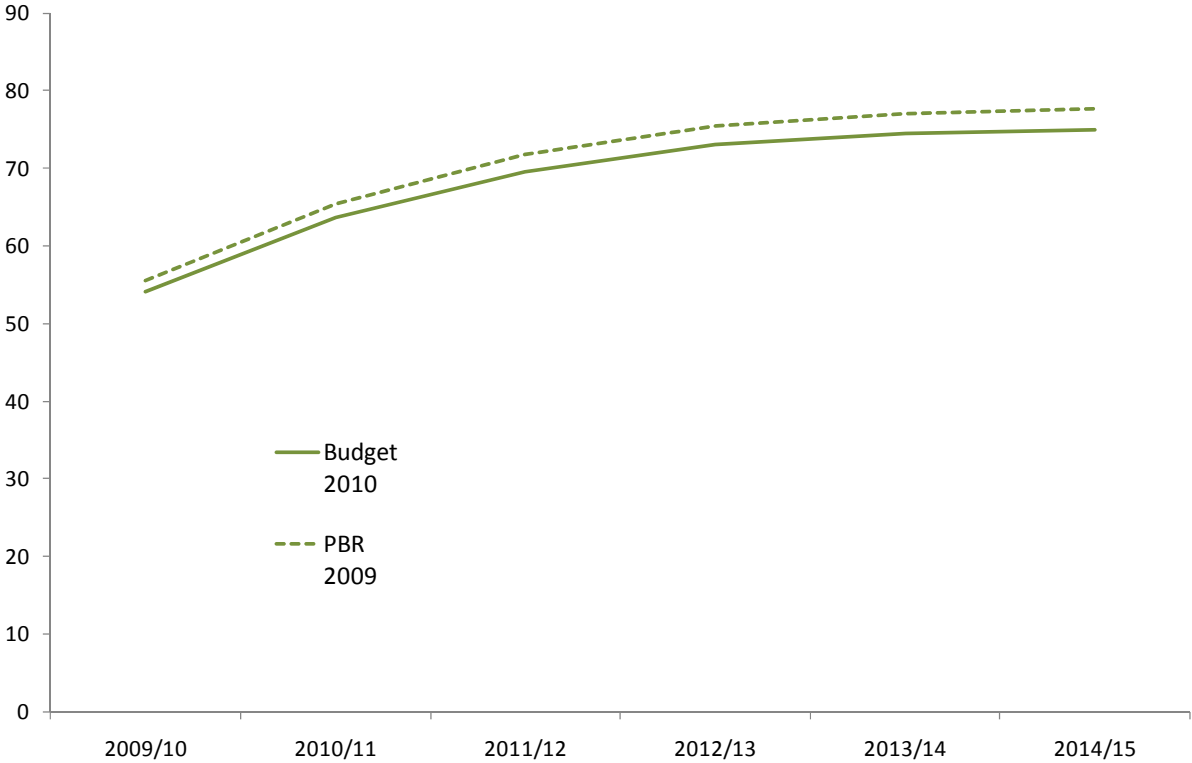
	Budget 2010 £ billion	PBR 2009 £ billion	Budget 2010 % GDP	PBR 2009 % GDP
2009/10	166.5	177.6	11.8	12.6
2010/11	163	176	11.1	12.0
2011/12	131	140	8.5	9.1
2012/13	110	117	6.8	7.1
2013/14	89	96	5.2	5.5
2014/15	74	82	4.0	4.4

Source: HM Treasury, Budget 2010, Tables C3 and C4, p189; Pre-Budget Report 2009, Tables B13 and B14, p189

⁴ HM Treasury, Budget 2010, Table C2, p186

The Budget forecasts for debt have also been revised downward slightly compared with the PBR. Debt is forecast to increase from £777 billion in 2009/10 (54.1% of GDP) to £1.4 trillion in 2014/15 (74.9% of GDP).

Chart 3: Public sector net debt, % GDP



**Table 2
Public sector net debt**

	Budget 2010 £ billion	PBR 2009 £ billion	Budget 2010 % GDP	PBR 2009 % GDP
2009/10	777	799	54.1	55.6
2010/11	952	986	63.6	65.4
2011/12	1,095	1,139	69.5	71.7
2012/13	1,218	1,270	73.0	75.4
2013/14	1,320	1,379	74.5	77.1
2014/15	1,406	1,473	74.9	77.7

Source: HM Treasury, Budget 2010, Tables C3 and C4, p189; Pre-Budget Report 2009, Tables B13 and B14, p189

Note: figures exclude impact of financial sector interventions

4 Taxation

The Budget did not announce any further changes to income tax, VAT or national insurance. The Budget did, however, confirm a number of tax changes already announced which will come into effect in 2010/11 or 2011/12. These include:

- A 1% increase in national insurance contributions rates from April 2011 with adjustments to the primary threshold to protect those on low incomes;
- A new 50% rate of income tax on taxable income over £150,000 from April 2010;
- Gradual withdrawal of the personal allowance from those with incomes above £100,000 from April 2010;⁵
- A freeze in the personal allowance in 2010/11. This is an increase in real terms as the RPI in the previous September (2009), which is normally used to uprate allowances, was negative.⁶

The first three of the above measures are forecast to raise significant sums of money (over £10 billion in 2011/12 between them).⁷ The new tax changes announced in the Budget, which involve much smaller sums of money, include:

- **Stamp duty:** Two-year stamp duty relief for first time buyers for residential property purchases up to £250,000. Additional 5% rate of stamp duty for residential property over £1 million from 2011/12;⁸
- **Fuel duty:** Budget 2009 had announced that fuel duty would rise by one penny a litre in real terms each April from 2010 to 2013.⁹ Budget 2010 announced that the increase due for April 2010 will be staged. The main fuel duty rate will rise by one penny per litre on 1 April 2010. It will rise by a further penny on 1 October 2010 and by 0.76 pence per litre on 1 January 2011. The Budget also announced an extension in fuel duty increases to April 2014 when it will rise by a further penny a litre in real terms;¹⁰
- **Inheritance tax:** the freeze in the IHT allowance extended to 2014/15;¹¹ and
- **Cider:** cider duty rates will increase by 10% above inflation on 29 March 2010 to align them more closely with the rates of duty on other alcohol products.¹²

The Chancellor also reported that the one-off tax on bank bonuses, announced in the 2009 PBR, had raised £2 billion – more than twice the level forecast.¹³

⁵ HM Treasury, Budget 2010, para 5.30

⁶ HM Treasury, Budget 2010, para 5.30, para A.7

⁷ HM Treasury, Budget 2010, Tables A2 and A11

⁸ HM Treasury, Budget 2010, para 5.27

⁹ HM Treasury, Budget 2009, para 7.51

¹⁰ HM Treasury, Budget 2010, para 7.39

¹¹ HM Treasury, Budget 2010, para 5.31

¹² HM Treasury, Budget 2010, para 5.83

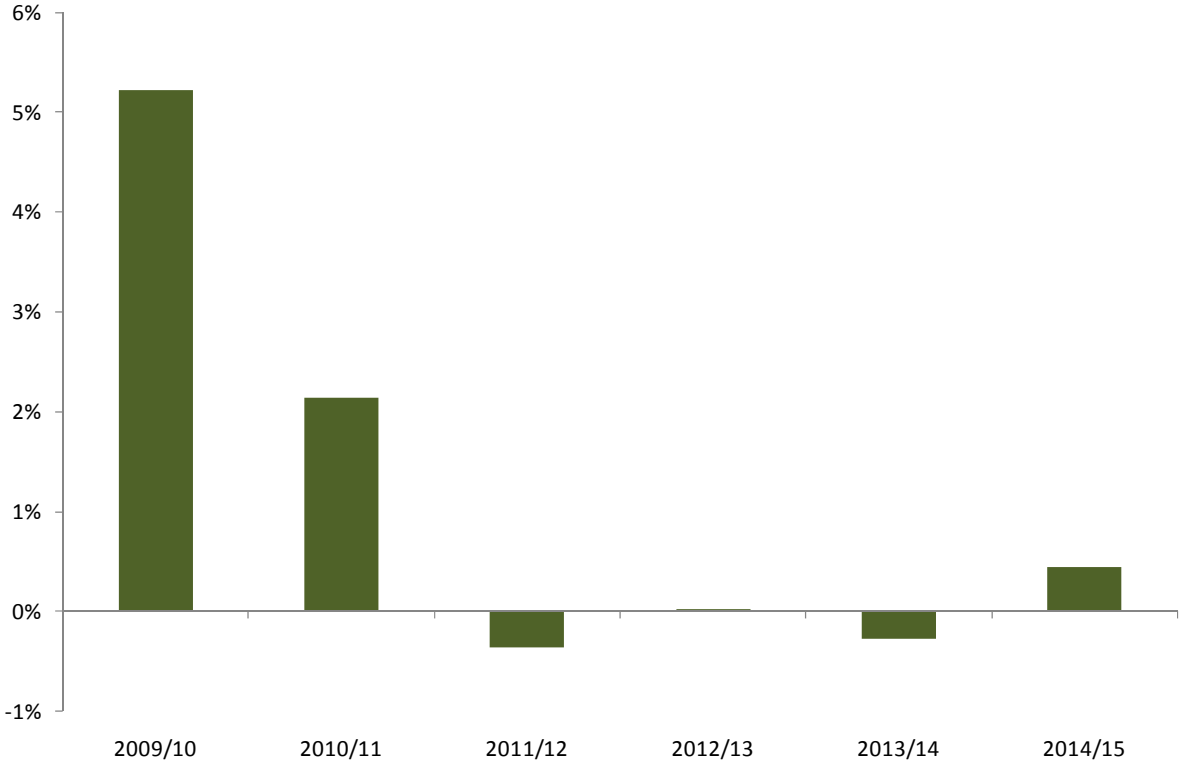
¹³ HC Deb 24 March 2010 c250

5 Public spending

The Budget updated the Treasury’s projections for total public spending and the split between current and capital spending. There is, however, no information on departmental spending totals or the split between DEL and AME beyond 2010/11. These will probably be announced in a spending review after the election. The Budget confirmed that spending on “frontline” schools and NHS, 16 to 19 education and Sure Start would be protected up to 2012/13 and that sufficient funding would be provided to maintain police officer numbers.¹⁴ These protected areas of spending had been announced in the PBR.¹⁵

The public spending totals in the Budget are very similar to those in the PBR and show a sharp slowdown in the rate of public spending growth (see chart below). In his Budget statement, the Chancellor said that “the next spending settlement from 2011 onwards will be very tough – it will be the toughest for decades.”¹⁶ The Chancellor has also admitted that the planned cuts in public spending will be “deeper and tougher” than those under the Conservative government in the 1980s.¹⁷

Chart 4: Real growth of public spending (%)



The PBR announced that the Government would achieve efficiency savings of over £11 billion by 2012/13.¹⁸ Individual departments published further details of these savings

¹⁴ HM Treasury, Budget 2010, p85
¹⁵ HM Treasury, Pre-Budget Report 2009, p97
¹⁶ HC Deb 24 March 2010 c257
¹⁷ “Darling: we will cut deeper than Thatcher”, *Guardian*, 26 March 2010
¹⁸ HM Treasury, Budget 2010, para 6.30

alongside the Budget.¹⁹ Further analysis of the Government's spending plans has been carried out by the Institute for Fiscal Studies.²⁰

6 Reaction

6.1 Opposition parties

For the Conservatives, David Cameron criticised the high level of government borrowing and debt. He said a credible plan was needed to “deal with Britain’s record debts, starting now”.²¹ Failure to deal with the deficit would endanger the recovery. Describing the Conservatives’ plans, he said:

Instead of more waste, more spending, and more taxes, what this Budget needed to do was to ease the burden on our families and businesses and let enterprise flourish. That is what a Conservative Government will bring. Let us freeze the council tax. No tax on new jobs for new businesses. Lower corporation tax rates and lower small business tax. Radical school and welfare reform. That would be real action to get our economy moving.²²

Nick Clegg of the Liberal Democrats criticised the Budget for the optimism of its forecasts for economic growth and lack of detail on the cuts in public spending needed to reduce the deficit. He said:

We needed a Budget that gave us honesty in spending and fairness in tax. We got neither. We Liberal Democrats are putting our cards on the table. We have identified a first instalment of £15 billion of cuts that can be realised by 2012-13: saving half a billion pounds a year by ending Government contributions to child trust funds; saving £1.3 billion a year by stopping means-tested benefits for the top 20 per cent. of tax credit claimants; cancelling identity cards and second-generation biometric passports, saving £2.5 billion over the next Parliament; and making longer-term savings, too, by saying no to the like-for-like replacement of Trident. Those are savings that we will need to start implementing once the economy is strong enough to take the strain.²³

6.2 Press and commentators

The Budget received a mixed response from the press. In an editorial, *The Times* said that the Chancellor’s statement “managed to say almost nothing” and lacked vision for the future.²⁴ Larry Elliott, the *Guardian*’s economics editor, described the Budget as “cautious, methodical, sensible, coherent and unflashy ... [i]t was also, all things considered, rather good”.²⁵

Robert Chote, director of the Institute for Fiscal Studies, described the Chancellor’s statement as a “treading water” Budget. Speaking at the IFS’ post-Budget briefing, he said:

In a Pre-Election Budget, perhaps the most that we can expect of any Chancellor is that he should observe the key tenet of the Hippocratic Oath and “above all, do no harm”. Judged against that modest yardstick, the broadly neutral stance of this Budget passes the test. Indeed it was a more parsimonious pre-election Budget certainly than

¹⁹ These can be accessed from: <http://nds.coi.gov.uk/content/default.aspx?NewsAreaId=2&SubjectId=1&DepartmentMode=true> (see under 24 March 2010)

²⁰ <http://www.ifs.org.uk/budgets/budget2010/emmerson.pdf>

²¹ HC Deb 24 March 2010 c267

²² HC Deb 24 March 2010 c267

²³ HC Deb 24 March 2010 c270

²⁴ “The Darling Budget of May”, *The Times* [editorial], 25 March 2010

²⁵ “Darling neuters Tory attack with carefully judged snips”, *Guardian*, 25 March 2010

those going back to 1987. But, as we will hear, some of the tax measures announced in yesterday's Budget do not necessarily pass the "do no harm" test.

Judged against the more testing yardstick of providing a detailed picture to voters and financial market participants of the fiscal repair job in prospect beyond the election, the Budget will have fallen short of many people's hopes. There are an awful lot of judgements still to be made, or revealed, notably with regards public spending over the next parliament. This greater-than-necessary vagueness allows the opposition to be vaguer than necessary too.²⁶

Oxford Economics described it as "a Budget of two halves":

This was a Budget of two halves, with the Chancellor taking the correct decisions in the short-term, but failing to address any of the concerns over the medium-term sustainability of the public finances. It was a Budget light on policies, but Mr Darling did take the opportunity to provide some carefully-targeted help, mainly to business, which is likely to be well received. That he largely avoided addressing the medium-term concerns was not unexpected given that the election looms large on the horizon, but it does mean that the next Chancellor, regardless of whom they might be, is likely to need to take some tough decisions involving further spending cuts and/or tax increases in order to regain control over the public finances.²⁷

7 Links to further information

HM Treasury: Budget 2010: <http://www.hm-treasury.gov.uk/budget2010.htm>

Chancellor's statement:

<http://www.publications.parliament.uk/pa/cm200910/cmhansrd/cm100324/debtext/100324-0004.htm#10032434000001>

Institute for Fiscal Studies analysis: <http://www.ifs.org.uk/projects/322>

House of Commons Library Standard Note: Background to the 2010 Budget:
<http://www.parliament.uk/commons/lib/research/briefings/snep-05391.pdf>

House of Commons Library, Economic Indicators Research Paper:
<http://www.parliament.uk/commons/lib/research/rp2010/rp10-020.pdf>

²⁶ Robert Chote, [Opening remarks](#), IFS Post Budget Briefing, 25 March 2010

²⁷ Oxford Economics, [UK Budget](#), 24 March 2010