
Executive Committee

TUC Budget Submission

Summary

Economic growth has returned to the UK, but the growth achieved could not be weaker. For this reason, Budget 2010 must be a Budget for Growth. A culture of enterprise is essential and further action must be taken to reduce the UK's productivity gap with its competitors. Action around skills policy and employee engagement is vital to this task.

Building on the foundations of 'New Industry, New Jobs' and 'Going for Growth', an integrated industrial strategy, under the heading of 'New Industry, New Jobs' Phase 2, should be central to Budget 2010. This should look at the state of industry in the UK, assess where we are most likely to succeed in the coming years, and develop a set of government interventions to ensure that success. Procurement policy must support UK industry and a new strategic investment fund, built on the successful French model, should be piloted after Budget 2010. A Green Investment Bank should also be announced in this year's Budget.

Action must be taken to encourage the longer term ownership of shares and we must move away from a corporate governance model that puts shareholder interests at its core.

Action to cut the deficit, in the form of swingeing public spending cuts, will threaten the economic recovery. Central and local government should be encouraged to work with public sector trade unions to find real efficiencies that do not undermine public service delivery.

The six tax options set out in the TUC's Pre Budget Report submission last year remain preferable to rises in income tax, National Insurance Contributions or VAT as a means of raising additional revenue. As well as raising serious amounts of money, these options are progressive, which means that the costs of dealing with the economic recovery falls on the shoulders of those who caused it in the first place, not low and middle income workers.

Rising unemployment and its resulting increase in poverty remain major threats to the economy in the coming months. Action to help people remain at work, notably a short-time working subsidy, remains necessary. The TUC would like to see a short-time working subsidy introduced in Budget 2010.

Introduction

26th January 2010 saw the announcement that the UK had finally emerged from recession. According to the Office for National Statistics, the British economy grew by 0.1 per cent in the final quarter of 2009. The UK was the last major economy to return to growth and that growth rate was lower than the markets had anticipated but, nevertheless, the recession was finally over.

Of course, this does not mean we are out of the woods. The danger of a double dip recession is very real. There remains an active role for politicians to play if the UK is to continue to grow. In the view of the TUC, if the growth rates of 1.25 per cent in 2010 and 3.5 per cent in 2011 and 2012 that were forecast by the Treasury in the Pre Budget Report are to be realised, intervention from No 11 Downing Street is essential. We await the revised growth forecast in Budget 2010 with interest but, in the meantime, it is essential that public spending cuts, aimed at reducing the fiscal deficit, do not begin in 2010.

What is more, Budget 2010 must be a Budget for Growth. This Budget Submission will set out a number of areas in which the government can take action to actively promote growth in the economy. Speaking on 6th January 2010, Lord Mandelson said: "Deficit reduction is a three sided triangle: spending restrictions, tax increases and economic growth and, of these three, growth is the best antidote to debt both in the short term and the long term."

The TUC supports this approach. This submission will address each of the areas described in Peter Mandelson's speech. The TUC's opposition to crude spending cuts is well known and will be restated below. Cuts lead to poorer public services and there is compelling evidence that, in many instances, those poorer services go on to cost more money than maintaining the original service would have done. Real public sector efficiencies, such as through smarter procurement or through public sector agencies working with their unions to identify improved working practices, are a much better way to safeguard public money.

The TUC is also on record as a campaigner for more progressive taxation, where evasion and avoidance is tackled and where the rich pay a fairer share. If the government wants to continue to enjoy the support of a population hit hard by an economic downturn that was not of their making, that commitment to tax justice is crucial.

This Budget Submission, as is traditional for the TUC, will include a comprehensive section on the labour market, setting out our proposals for helping the unemployed back into work. Before any of this, however, it is necessary to review the current state of the economy.

The State of the Economy

It is difficult to imagine a more confusing picture of the economy to the one we have at present. As noted already, the UK is growing once again – just. The 0.1 per cent increase in GDP in the fourth quarter of 2009 compared with a fall of 0.2 per cent in the previous

Executive Committee TUC Budget Submission

quarter. Encouragingly, manufacturing made the largest contribution to the increase, rising by 0.4 per cent. Yet the markets had expected something more robust, raising doubts about the strength of the fledgling UK recovery. Lower than anticipated growth has had political consequences, as it has strengthened those voices (including that of the TUC) calling for investment to be maintained and has thrown some confusion over Conservative plans for quick action to cut the deficit.

In the Pre Budget Report 2009 (PBR 09), the Treasury revised down its forecast for GDP last year. PBR 09 forecast for GDP to contract by 4.75 per cent in 2008-09, larger than the 3.5 per cent forecast in Budget 09. January 2010's comparison of independent forecasts, published in the last three months and brought together by the Treasury, report that the average independent forecast for GDP in 2009 was 4.7 per cent.

PBR 09 went on to forecast economic growth of 1.25 per cent this year, and a return to growth of 3.5 per cent in 2010 and 2011. The average of independent forecasts for 2010 was 1.4 per cent, but this figure was arrived at before January's unexpectedly low growth figures were announced.

The National Institute of Economic and Social Research (NIESR) forecasts economic growth of 1.1 per cent and 2.0 per cent in the next two years, significantly lower than the Treasury, especially for 2010-11. Consumer spending will be weak, falling by 0.3 per cent this year and rising by 1.0 per cent in 2011.

Meanwhile, the economy demonstrated its ability to shock again on 19th January when consumer price index inflation rose by a full one per cent in a single month, up to 2.9 per cent from 1.9 per cent. The following month, on 16th February, it rose to 3.5 per cent. The Government's symmetrical target for inflation is two per cent. If inflation rises more than one per cent above this target, i.e. to 3.1 per cent, the Governor of the Bank of England is required to write a letter to the Chancellor explaining what action he will take to get inflation down. Yet, in reality, there is little the Governor can do. Raising interest rates would be unthinkable, given the fragile state of economic growth.

What is more, the NIESR expect the surge in inflation this year to be temporary. The NIESR forecast that inflation would reach 3.5 per cent, partly as the reversion of the standard rate of VAT to 17.5 per cent feeds into prices. However, whilst underlying inflation has been raised by the depreciation of the pound, the spare capacity that has opened up in the economy will bear down on prices, causing inflation to fall below the two per cent target by the start of 2011.

Unemployment, and especially youth unemployment, remains a concern for the TUC. We discuss this in more detail below. Unemployment is currently fluctuating at around 2.5 million. Some commentators fear a rise to around three million before it starts to fall. Furthermore, well over 650,000 people have been unemployed for more than a year and 923,000 16-24 year olds who want to work are without a job.

Executive Committee TUC Budget Submission

The recession has caused huge damage to the economy. In a speech to the University of Exeter on 19th January, the Governor of the Bank of England, Mervyn King, said: "The world economy is now coming out of recession. But the cost of the banking crisis has been high. After an unprecedented period of sustained growth, total output in the United Kingdom has now fallen for six consecutive quarters. It contracted last year by around five per cent, the largest fall in output since 1931. National income is around ten per cent below the level it would have reached in the absence of the financial crisis." According to Channel 4 News, manufacturing output has fallen by 14.2 per cent during the recession.¹

Regarding the public finances, PBR 09 forecast that in 2009-10, public sector net borrowing would reach £178bn and would fall slightly, to £176bn next year. The Government's deficit reduction plans, if implemented, would reduce borrowing in successive years to £140bn, £117bn, £96bn and £82bn in 2014-15. However, concerns about low economic growth must cast doubt on the speed at which a new government of any political persuasion from June 2010 can reduce the deficit.

Furthermore, interviewed in 'The Independent' on 9th February 2010, the Nobel laureate Joseph Stiglitz has urged the UK Government not only to ignore calls to start reducing the deficit, but to keep plans for a second fiscal expansion to hand in case they are needed. Arguing against the "fiscal fetishism" would could lead to the much feared "double dip" recession, Stiglitz argues that public spending in such areas as higher education are a significant future engine of economic growth.

The World Economy

UK economic recovery depends, of course, on the economic fortunes of the rest of the world. The following table, based on the World Economic Outlook Update from the International Monetary Fund, shows growth projections for some of the world's major economies.

Actual and Projected GDP for major world economies

	2008	2009	2010	2011
United States	0.4	-2.5	2.7	2.4
Euro area	0.6	-3.9	1.0	1.6
Germany	1.2	-4.8	1.5	1.9
France	0.3	-2.3	1.4	1.7

¹ UK economy due to exit recession', 26 January 2010, www.channel4.com

**Executive Committee
TUC Budget Submission**

Italy	-1.0	-4.8	1.5	1.9
Spain	0.9	-3.6	-0.6	0.9
Japan	-1.2	-5.3	1.7	2.2
United Kingdom	0.5	-4.8	1.3	2.7
Canada	0.4	-2.6	2.6	3.6
Russia	5.6	-9.0	3.6	3.4
China	9.6	8.7	10.0	9.7
India	7.3	5.6	7.7	7.8
Brazil	5.1	-0.4	4.7	3.7

Source: IMF World Economic Outlook Update, 26th January 2010

As is well-known, China continues to drive world economic growth. The NIESR expects it to become the world's second largest importer this year and the world's largest economy by the end of the decade. Government spending in China was the driving force behind the rebound in world trade. The main beneficiaries were the rest of Asia, which supplies over half of Chinese imports. However, whilst just one per cent of

Chinese imports are sourced from the UK at present, this percentage will grow and should be borne in mind as the UK recasts its industrial strategy to take account of the global economic downturn.

The US is forecast to experience a lower drop in growth than the UK in 2009 and a higher growth rate in 2010, thanks to the massive fiscal stimulus from Washington. Germany has been hit hard by the downturn, which is unsurprising given that its economy is based on exports to countries that have not been able to afford to buy its goods. France's much more benign fall in economic growth in 2009 reflects the larger role that the public sector plays more generally in the French economy, together with France's generous automatic stabilisers, which cushion any downturn more effectively than that of comparative countries. It can be noted that the IMF, like other forecasters, expect a much lower increase in UK GDP in 2010-11 than is forecast by HM Treasury.

Apart from the BRIC economies, all countries shown in this table are forecast to enjoy economic growth of less than three per cent in 2010-11. Only Canada, along with the BRICs,

Executive Committee TUC Budget Submission

can expect growth of more than three per cent in 2011-12. It is clear that the world economic recovery is going to be slow.

The Labour Market

While Britain has recently emerged from recession, the prospects for recovery in the labour market remain highly uncertain. In PBR 09 the Treasury projected that claimant unemployment would peak in the middle of 2010, at around 1.75 million, and that it would fall back to 1.5 million by the end of 2012. Should this forecast be accurate, the Government would correctly be able to claim that relative to falls in GDP, unemployment had risen far less than could have been expected given the experience of previous recessions. However, it would also mean that unemployment would remain far above recent levels for at least three more years – prior to the previous recession, the last time that claimant unemployment was over 1.5 million was early 1997.

The TUC believe that Government investment in tackling unemployment has made a vital difference to the lives of working families. The level of 'on-flow' to JSA (the number of new claims in the month) has now fallen to the lowest level since May 2008 (during January 2010 there were approximately 327,000 new claims (seasonally adjusted)) and during January around 13 per cent of claimants moved off JSA. This compares favourably with similar periods during previous downturns - for example in January 1992 (a comparable period in the economic cycle, three months after the economy returned to growth) only 7 per cent of claimants moved off unemployment benefit.

There are multiple reasons for higher off-flow rates during this recession, including increased conditionality in the benefits system and reduced eligibility for contribution based benefits (which in the 1990s could be claimed for 12 months of unemployment rather than six). It is also important to note that not all people moving off benefit move into work and that destinations are unknown for a large proportion of claimants. Nevertheless, when the unknowns are excluded from the analysis, data suggests that around 73 per cent leave JSA to enter work or to increase their hours of work over the 16-hour JSA threshold, and nine per cent leave to participate in government training or another scheme. The scale of the difference in off-flows between now and the 1990s recession (comparable data are not available for the 1980s), suggests that Jobcentre Plus interventions, and the far wider range of services and support available to jobseekers now (including the Future Jobs Fund for young people) are making a difference.

But there are no grounds for complacency. While unemployment has not fallen by as much as could have been expected, the labour market has still been badly affected by the downturn. Between the first quarter of 2008 and the fourth quarter of 2009, ILO unemployment rose by 839,000. Overall employment levels have fallen by 585,000 since the start the first quarter of 2008 although in recent months data suggests that the falls in employment have reached a plateau (for example, between September to October 2009, employment held steady, and only fell by 9,000 between October and November). Again, employment has been affected much less than would have been the case had falls had mirrored those in previous downturns

Executive Committee TUC Budget Submission

(for example, in the 1990s employment fell by 1,648,000 over a period of eleven consecutive quarters). However, since the start of 2008, full-time work has fallen significantly more than the overall employment levels (by 3.3 per cent compared to 1.9 per cent for employment overall). There have also been substantial increases in underemployment, a trend illustrated by a 40 per cent increase in the number of temporary workers who could not find a permanent job and a 49 per cent increase in the number of part-time workers looking for full-time positions.

Long-term unemployment also looks set to remain a significant problem for many years to come, with 663,000 people currently having been out of work for over 12 months. From October to November 2009 the number of people in this position increased by 26,000, 15,000 more than the increase between the previous two months: there is still no sign that the rate of increase is starting to slow.

The regional picture demonstrates that some regions have been affected much more than others. For example, by the fourth quarter of 2009 saw unemployment had increased by 2.4 percentage points (65,000) on the year in Yorkshire and the Humber, compared to 0.7 percentage points in the North West (22,000) and Northern Ireland (6,000). In addition there is significant variation in unemployment rates within regions. In the 12 months ending June 2009, the region with the greatest contrast between local authorities was the West Midlands, with 10.4 percentage points between Sandwell at 14.6 per cent and South Shropshire at 4.2 per cent.²

Young people and people from minority ethnic groups have been badly affected by the downturn. Young people remain at extremely high risk of unemployment – in the fourth quarter of 2009, the unemployment rate for 18-24 year olds stood at 17.6 per cent, having risen from 12.2 per cent at the start of the recession. New research from the Equality and Human Rights Commission shows that over last six months the employment and unemployment gaps between white and non-white groups have begun to widen. In particular, the employment and ILO unemployment outcomes of those from the Asian and Black communities appeared to be accelerating³ - in the third quarter of 2009 unemployment among Black groups was 20.1 per cent, and had risen 6.9 points from the start of 2008.

The impacts of the recession have also varied by industrial sector. Manufacturing has been hit hard, with 10 per cent of workforce jobs in the sector being lost between the start of 2008 and the third quarter of 2009. Seven per cent of jobs have been lost in construction, and finance and business services have also been badly affected, losing four per cent of posts.

² <http://www.statistics.gov.uk/cci/nugget.asp?id=1606>.

³ http://www.equalityhumanrights.com/uploaded_files/research/impact_of_the_recession.pdf.

Executive Committee TUC Budget Submission

In these circumstances, UK policy makers must consider how to strengthen the British economy in the years ahead. The TUC believes that even to consider spending cuts at this time would be reckless. For us, the key is economic growth and for this reason, we are calling for a Budget for Growth. As a framework, this submission builds on a thoughtful contribution made by the Business Secretary, Lord Mandelson, in a speech to the Work Foundation in January 2010.

The Economics of Growth

In his speech launching the recent 'Going for Growth' document, Peter Mandelson described "long standing weaknesses in UK economic performance" that in the 1980s "were becoming chronic: an indifference to manufacturing; neglect of science, engineering, technology and skills; lack of a long-termist business culture; and an education system that paid scant attention to the needs of employment."

Mandelson argued that British business still suffers from too large a tail of poor management and low productivity. However, he highlighted the doubling of the Government's investment in science and described a renaissance of major UK cities. He also argued that, whilst it has not grown at the rate of the rest of the economy, British manufacturing did not contract in absolute terms in the decade before the recession – its output in both value and volume has remained stable. Mandelson added:

"And let me say this quite bluntly. For the past decade we allowed ourselves to become over-dependent on the City and financial services for growth and our tax revenues. That is why, without wishing the financial sector to be smaller, we need other industrial strengths and sources of revenue to grow faster."

The TUC welcomes this approach, with one or two caveats. It is true that manufacturing did not contract in absolute terms in the decade before the recession, but UK manufacturing employment did consistently fall. This experience was not shared by comparative European countries, most notably Italy, Spain and France. Manufacturing employment in Germany grew considerably.

It is also true that government investment in science has doubled, but there have still been significant cuts in science which have had a damaging effect on the UK's science capability. Nevertheless, in spite of these concerns, the TUC has supported the new industrial strategy as launched in 'New Industry, New Jobs' in April 2009 and as continued in 'Going for Growth' in January 2010. We are fully behind a pro-growth strategy.

Executive Committee TUC Budget Submission

Enterprise

A culture of enterprise is vital to the UK's economic fortunes. To that end, we believe in open markets and healthy competition. We believe that markets need to be tempered by fair rules and minimum standards and we do not believe that such rules and standards make business uncompetitive. A good example of this can be found in the National Minimum Wage. This enjoys the support of all political parties now, but it was very controversial at the time it was introduced. A National Minimum Wage, so its opponents argued, would push up employers' costs, thereby making British business uncompetitive. Many thousands of jobs would be lost as a result.

History, of course, tells a different story. The National Minimum Wage has been highly successful, helping to lift many thousands of families out of poverty, with no discernable loss of jobs.

That is not to say that we can be complacent about regulation. It is in nobody's interest for business to be tied up with excessive red tape. The issue is simply to balance the burden of regulation with the need for minimum standards, fair rules and protection for workers. For this reason, while the TUC rejects the concept of deregulation, we are happy to discuss effective and fair regulation.

We take a similar attitude towards corporation taxes. We do not support excessive taxation, but we do believe in fair taxation, with everybody, including businesses, paying their fair share. We do not accept that fair corporation taxes make British business uncompetitive.

For a culture of enterprise to be successful, it is important that the right skills are developed, that the nation's infrastructure supports the needs of business and workers and that excellent management practices are followed at firms. For many years now, the Government has been concerned to increase productivity levels in the UK and Peter Mandelson referred to this in his speech, as quoted above. He is right to be concerned.

UK Productivity

Estimates for 2008, published in October 2009, showed that UK productivity, on a GDP per worker basis, was above that of Japan, similar to that of Canada and Germany, and below that of Italy, France and the United States.

On a GDP per hour basis (which factors in the UK's long hours culture), the UK is above Japan and Italy, on a par with Canada and below France, Germany and the United States.

There have been improvements in UK labour productivity in recent years. Indeed, the Office for National Statistics points out that in terms of GDP per hour worked, UK productivity

Executive Committee TUC Budget Submission

increased by 49 per cent between 1991 and 2007. This represents the fastest rate of growth of any G7 country over the period, well above the average (excluding the UK) of 36 per cent.⁴

Nevertheless, a large gap remains. Moreover, overall efficiency growth – ‘total factor productivity’ growth – has been less impressive.⁵

According to ‘The 2008 Productivity and Competitiveness Indicators’, published by BERR in February 2009:

“HM Treasury estimates that the previous economic cycle ended in 2006. On this basis, UK productivity performance was relatively strong over the last economic cycle, averaging 2.4 per cent per annum between 1997H1 to 2006Q2. There has also been continued progress in closing the productivity gap with France and Germany and the UK has maintained pace with the US productivity performance. The evidence ... suggests that the UK retains strengths in the form of its science base, high level skills, openness to international competition and effectiveness of regulatory and competition regimes. There is scope for further improvement in areas such as business investment, R&D expenditure and leadership and management skills.”⁶

BERR’s report has identified the correct drivers of productivity growth. If the Government is serious about pursuing an aggressively pro-growth agenda, these drivers must be improved.

One major area of business investment must be in the skills of the workforce. It is this issue that we address first.

Skills

The Government announced in ‘New Industry, New Jobs’ that it intended to develop a ‘skills activism’ policy approach to complement the new industrial activism. The TUC welcomed this approach and the broad thrust of the subsequent skills White Paper (‘Skills for Growth’), which clarified the alignment of skills policy with industrial policy and set out new measures to strengthen the apprenticeship route further.

In the foreword to the White Paper, the Secretary of State confirmed that the new national skills strategy “sets out an active approach to equipping this country for globalisation by making sure we have the skills that underwrite the industries of the future”, with a particular focus on expanding higher-level apprenticeships to “create a modern class of technicians.” In order to support the funding of skills in priority sectors, the UK Commission for Employment

⁴ International Productivity: New 2008 Estimates, Office for National Statistics, 8 October 2009.

⁵ Closing the UK’s productivity gap: the latest research evidence, AIM research, 17 February 2009.

⁶ The 2008 Productivity and Competitiveness Indicators, BERR, February 2009.

Executive Committee TUC Budget Submission

and Skills has been asked to publish an annual 'National Strategic Skills Audit' to pinpoint "skills of strategic importance, for example, skills to adapt to climate change."

Whilst it is clear that the FE and HE sectors face a challenging funding environment over the coming year (a point we return to below), the Government is providing additional investment in some areas, especially apprenticeships. The White Paper confirmed additional funding to increase the number of higher level apprenticeships with £17m allocated to this in 2010-11 and £115m by 2014-15. The aim is to almost double the number of such apprenticeships over the next two years by creating 35,000 additional places. There is also a commitment to increase the 2020 target for total annual apprenticeship starts from 250,000 (the target set by Lord Leitch) to a new target of 360,000. The White Paper also confirmed that the skills funding regime would continue to underpin the important entitlements enabling all adults to achieve Skills for Life and/or a level 2 qualification and for all young adults to achieve a level 3 qualification.

The TUC also welcomed the new 'overarching ambition' that three quarters of people should participate in HE or complete an advanced apprenticeship or equivalent technician level course by the age of 30. While this does not supersede the 50% HE participation target, it does send a clear message that both the academic and vocational route matter equally if the UK is to support more young adults to achieve higher-level skills. Increased funding is also quite rightly being directed, via the 'September Guarantee', to combat the rising number of young people not in employment, education or training (i.e. the NEET group).

The White Paper acknowledges that there will need to be some 'refocusing of resources' to support the increased number of higher-level apprenticeships and increased funding for priority sectors. Some of this will be achieved by reprioritising the Train to Gain budget by removing some of the flexibilities that were introduced to channel more training subsidies to SMEs during the height of the recession. However, colleges are currently more concerned about cuts to the 'Adult Responsive' skills budget and the impact that this will have on general FE provision for adults.

The TUC has welcomed the greater emphasis in the White Paper on increasing employer investment in training, especially in light of the pressures on public spending.

For example, a new Joint Investment Scheme is to be piloted in priority sectors involving a co-funded approach with government providing £50m and an anticipated 'cash match from employers'. A wide range of levers needs to be utilised to influence employer investment in skills and it is welcome that the White Paper identified the potential for a greater regulatory approach.

The government is to build on recent developments in procurement by encouraging contractors to recruit 20,000 apprenticeship places over the next 3 years. We discuss this in more detail below. The White Paper also highlights the potential for more government regulators to use their powers to increase employer investment in training, building on positive

Executive Committee TUC Budget Submission

initiatives by Ofgem and Ofcom. Also welcome is the statement that the Government 'will be sympathetic to employer proposals for new occupational licensing arrangements', drawing on the positive experience of this approach in the gas heating and social care sectors.

The forthcoming right to request training also offers a significant opportunity to help more employees to access training at work as the economy recovers, especially those that face the greatest barriers in this respect. The TUC successfully campaigned against moves to radically dilute the framework of the new right during the passage of the legislation last year, although the Government did agree to give one concession involving phasing in the new right.

Higher Education Funding Cuts

The TUC is disappointed at the cuts proposed for higher education. For 2010-11, £135 million of cuts have been added to £180 million worth of "efficiency savings", with a further £600 million to come. The University and College Union has already identified over 6,000 jobs at risk in higher education and has reason to believe the cuts will lead to another 9,000 – 15,000 in total. Germany, France and the United States – direct competitors to the UK in the world economy – have provided extra resources for higher education as part of their economic recovery packages. And as noted above, Nobel Laureate Joseph Stiglitz has singled out higher education as a future engine of economic growth.

If Budget 2010 is to be a Budget for Growth, cuts to higher education must be scrapped. We urge the Chancellor to take this opportunity to announce that higher education will be funded to meet the needs of students of today and tomorrow, and the long term needs of the UK economy.

Employee engagement

Another of the drivers of productivity identified by BERR was leadership and management skills. The TUC was particularly interested in the following passage from Lord Mandelson's 'Going for Growth' speech:

"We need to accept that the current structure of most public companies is better at rewarding enterprise in senior management or owners than it is at giving the bulk of the workforce an incentive to innovate or commit to the business. The evidence is that companies that share rewards with their employees, like the John Lewis Partnership, are also very good at pursuing long term growth strategies."

Evidence suggests that companies which promote greater engagement with their workforce enjoy higher levels of productivity than those that do not. If enough companies could be encouraged to pursue such employee engagement, the success of the overall economy could be improved. To this end, the Government established the MacLeod Review to provide recommendations on how to deliver such higher levels of engagement.

The MacLeod Review supplies compelling evidence, through numerous case studies, of the benefits of employee engagement. It argues that there are four requirements for employee

Executive Committee TUC Budget Submission

engagement to work. Those requirements are: leadership; engaging managers; employee voice; and integrity in behaviours.

The MacLeod Review argues that the major task ahead is to raise the profile of employee engagement with industry leaders in all sectors of the economy. This means providing an understanding of the business case and ensuring that the necessary advice is available. Among its recommendations is a national awareness campaign on this issue. The MacLeod Review also calls for an aligning of the resources of organisations to which government provides support, nationally, regionally and locally, to help promote this agenda.

The TUC gave evidence to the MacLeod Review and we are represented on its high level sponsor group. However, it is clear to us that more needs to be done on the issue of employee voice. One powerful way in which employee engagement could be promoted would be if demand for it were to come from the bottom up, rather than the top down. If those who speak for employees were to call for greater engagement, its take up could be considerably higher.

The MacLeod Review highlights the value of collective machinery in the workplace and describes how some employers have extended the remit of information and consultation forums or works councils to encompass detailed discussions on the way work is carried out, including job design, production methods and so on.

The MacLeod Review is keen to highlight the role of non-union representatives, as well as union representatives, yet to the TUC, it remains self evident that the most effective employee engagement mechanisms will be those that involve independent trade unions. There is clearly an imbalance of power when a company speaks with a non-union representative. In such cases, the temptation of companies to force through changes that might not be accepted, or might be accepted with substantial caveats, by non-union representatives, could be overwhelming. For understandable reasons, such as the pressure of deadlines, the possibility of a quick fix could be very appealing. When companies work with unions, the engagement methods agreed might take a little longer to achieve, but they are more likely to be accepted by the workforce and therefore to stand the test of time, especially in a high pressure business environment.

The law and workplace representation

It is widely recognised that providing working people with a voice at work, through effective representation and consultation arrangements, can assist businesses to respond to the challenges of globalisation and to adopt innovative practices. In *High Performance Workplaces*, published in 2002, and in joint work in 2009 between the TUC, CBI and the Government on how workplaces can benefit from modern union representation, the Government has affirmed the valued role which effective trade union representation and consultation can play in the creation of successful and innovative organisations. The recently revised ACAS Code of Practice on Time Off for Trade Union Duties and Activities also recognises the importance of employers providing cover for trade union workplace

Executive Committee TUC Budget Submission

representatives in order to enable them effectively to undertake their bargaining, consultative and representative roles.

Trade unions nevertheless continue to have concerns over the effectiveness of existing workplace consultation arrangements. During the recession, employers have often failed to engage in genuine consultation on ways of avoiding job losses. This can have a detrimental impact not only on staff who are made redundant, but also on the morale of the remaining workforce who are expected to accommodate the effects of restructuring or increased workloads. As was highlighted at BMW / Rover, the inadequacy of UK rules on European Works Councils (TICE Regulations) also means that too often UK based workforces do not have the opportunity to comment on and influence decisions taken at a European level on the future of UK workplaces. Neither have the Information and Consultations Regulations (ICE Regulations), introduced in 2004, succeeded to date in facilitating a change in workplace culture where worker representatives are engaged at an early stage in discussions on future restructuring or workforce deployment.

The TUC believes that there is a clear social and economic case for reviewing and strengthening existing UK laws on workplace representation and consultation. This should involve: revisions to collective redundancy consultation legislation to ensure general consultation between employers and union and workplace representatives; the effective implementation of the 2009 European Works Council Directive; and the introduction of increased sanctions where employers fail to inform and consult properly under the ICE and TICE Regulations.

'New Industry, New Jobs'

'New Industry, New Jobs' was published in April 2009 and is described by the Department of Business, Innovation and Skills as an active industrial strategy for Britain.

'New Industry, New Jobs' described the recent economic downturn and the importance of returning to steady economic growth. It argued that Britain has significant strengths, but in order to succeed in the future, it would need continued investment in high levels of skills and creativity and it would need to consider where technological change led to demands for high levels of innovation and investment.

'New Industry, New Jobs' noted that the UK invests less in research and development than comparator countries. It also noted that our excellence in generating knowledge is not always translated into commercially successful goods and services.

'New Industry, New Jobs' included a welcome commitment from the Government to send clear and transparent signals of its strategic intentions, where these will shape the long-term investment decisions made by business. The paper highlighted a number of renewable energy technologies, such as low carbon vehicles, wind and wave power, and nuclear power generation, as examples.

Executive Committee TUC Budget Submission

In a break from previous policy, 'New Industry, New Jobs' acknowledged the need to tailor what Government does to reflect the different circumstances of different markets, sectors and places.

'New Industry, New Jobs' then highlighted a number of strategic sectors to be addressed. These included: low carbon products and services; ultra low carbon vehicles; digital industries; life sciences and pharmaceuticals; and advanced manufacturing. Other sectors and technologies to be addressed included: aerospace, in particular engine and wing design and manufacture in the low carbon age; composite materials; industrial biotechnology; and plastics electronics.

'Going for Growth'

'Going for Growth' is the successor document to 'New Industry, New Jobs'. It sets out seven themes. These are: enterprise; knowledge; people; infrastructure; open and competitive markets; industrial strengths; and Government in markets.

Under these themes, 'Going for Growth' describes Government plans to make it easier to start a business, for better finance for business growth and for help to companies expanding into export markets. Under the section on 'knowledge', it discusses plans to transform knowledge into economic growth and to offer incentives to innovate. Under 'people', 'Going for Growth' describes targeted help for those who have lost their jobs, the development of skills for the future economy and the value of skilled migrants to Britain.

'Going for Growth' describes a more strategic approach to infrastructure and planning policy. However, it is the section on industrial strengths that is the most interesting.

This announced a new UK Life Sciences Super Cluster, to bring industry together with the UK's leading researchers and clinicians to drive innovation in early stage drug and medical technology development. Other initiatives include the creation of a low carbon Economic Area, specialising in ultra-low carbon vehicles in the North East of England, and a new initiative to improve the strategic view of the automotive sector in the UK. This latter project is designed to put the UK in the best position to become a world centre for the testing, development and manufacture of low carbon vehicles. 'Going for Growth' also announces the creation of a High Performing Computing Institute in Wales, which will provide support to key industrial sectors.

Low Carbon Industrial Strategy

'Going for Growth' also takes forward a number of commitments in the Low Carbon Industrial Strategy (LCIS, July 2009), demonstrating how low carbon growth opportunities are an integral part of the Government's wider plans for economic recovery. The LCIS argues the now familiar case that the UK's environmental goods and services markets, now worth £106 billion annually, have the potential to boost employment from 880,000 to well over one million by around 2015. These are skilled, high paying jobs, with high ratios of GVA per employee.

Executive Committee TUC Budget Submission

The TUC welcomes the activist approach of the LCIS, focussed on making a difference with investment in green jobs and skills, building on natural strengths of the UK's regions, and with a strong emphasis on dialogue between government, industry and the trade unions:

- Promoting investment and jobs growth in 10 key low carbon sectors, from offshore wind and tidal power to civil nuclear and low carbon vehicles. The Government has announced a number of strategic investments from its £405 million fund for low carbon industries, including, for example, £11.5 million to the New and Renewables Energy Centre in the North East to develop a unique UK capability for the testing of wind turbine blades; and £10 million to deliver early stage test infrastructure for marine drive systems and other components;
- Creating Low Carbon Economic Areas as described above;
- Establishing the Forum for a Just Transition (December 2009), a joint Government, industry, and TUC body co-chaired by BIS and DECC Ministers, to "provide oversight on the delivery of the Government's Low Carbon Industrial Strategy and its social impact across the UK ... so that the strategic approach properly reflects short, medium and long term needs". The Forum has prioritised public procurement, smart supply chain development, and skills for a low carbon, resource efficient economy for early action.

While the LCIS rightly highlights the opportunities ahead in the low carbon transition, the UK's energy-intensive heavy industries - iron and steel, aluminium, cement and lime manufacture, pulp and paper making, basic inorganic chemicals, and nitrogen fertilisers – also face significant challenges as they adapt to the same low carbon conditions. Together these industries directly employ around 220,000 workers, many in highly skilled employment, in some 400 installations across the UK. They account directly for at least 1% of GDP.

These industries face a number of strategic challenges: energy price increases, stemming both from energy market and climate change initiatives; securing adequate quotas of free emissions allocations under the EU Emissions Trading Scheme; and the need for Government-supported investment in low carbon technologies, reducing energy usage and the carbon footprint. A fundamental concern is to avoid carbon leakage: the loss of investment, jobs and CO₂ emissions overseas to competitors not covered by climate change policies and carbon reduction targets. Here, carbon border tax measures may be necessary to ensure a level playing field, particularly in the absence of a new international agreement on climate change.

The TUC and the Energy Intensive Industry Users Group are currently undertaking a joint study to develop an evidence base for action to secure their position in the UK, both in their own right and as vital component suppliers to our low carbon industries – from UK steel for wind turbine towers to UK glass for home insulation programmes.

'New Industry, New Jobs' Phase 2: An Integrated Industrial Strategy

The TUC has supported 'New Industry, New Jobs' and we are similarly supportive of 'Going for Growth'. We are long time advocates of industrial intervention to promote economic growth.

Executive Committee TUC Budget Submission

We are sorry that it took an economic crisis to provoke such an approach and we urge the government, whatever the economic fortunes of the time, to continue with this strategy in the months and years to come.

As a first step, the TUC calls on the Government to build on developments so far with an integrated industrial strategy, under the heading of 'New Industry, New Jobs' Phase 2, to be announced in Budget 2010. The existing manufacturing strategy, 'Manufacturing: New Challenges, New Opportunities', published in September 2008, included some important policies, most obviously the Low Carbon Industrial Strategy and the development of Manufacturing Insight, on which the TUC is represented at board level. However, this strategy was developed before the Government had adopted the policy of industrial intervention and this makes a crucial difference. For this reason, a new strategy is required.

The TUC urges such a strategy that begins from first principles. Questions to be addressed include: What is the state of industry in the UK? What industries do we have? How much do they contribute to GDP? How many jobs do they provide? What is their contribution to our balance of payments? How do they promote high skills, high value, high levels of investment?

Other questions will need to be answered: What do we excel at? In what areas do our universities specialise? What natural resources do we have at our disposal? What are the traditions and culture of our industries? What value can we add, over and above the value of our competitors, which would help our industries to export?

A third set of questions must address: With the right government interventions, where could we become strong? What are those interventions? What are the economic, social, environmental, demographic, and technological trends that will determine which industries will thrive and which will die in the next 20 years?

'New Industry, New Jobs' Phase 2 must build on the answers to these questions. It must be developed with the support and participation of industry and trade unions, in order to ensure that all sections of the world of work are committed to the strategy. Most importantly, 'New Industry, New Jobs' Phase 2 must set out the key government interventions, on both sectoral and horizontal levels, that will aid the delivery of the strategy.

'New Industry, New Jobs' Phase 2 must address both traditional and new industries. It must include strategies for sectors such as aerospace and automotive, neither of which are addressed in any depth in the existing 'New Industry, New Jobs'. The situation at present is that the central government statement on industry does not address a number of key industrial sectors and this situation must be rectified as we move forward.

Once the strategy is agreed, the Prime Minister should launch it in a major speech and to the House of Commons. A public service agreement, designed to build a credible, sustainable industrial base should be developed, along with key performance indicators to underpin its development and its delivery.

Executive Committee TUC Budget Submission

Supporting industry – the role of procurement

There have been important developments in UK procurement policy in recent months. For too long, the aim of procurement policy was to drive down costs. Nobody wants government's costs to be any higher than necessary, but the role of procurement in developing industry was lost. The UK public sector, including central and local government and major public sector organisations, such as the Ministry of Defence and the National Health Service, spends £220bn on procuring goods and services. How that money is spent is crucially important.

Government policy began to develop more positively with the publication of 'Buy and Make a Difference' in June 2008. With this pamphlet, the Government endorsed the idea that purchases should be based on whole life costs and wider factors, including social considerations, not just buying the cheapest. Promoting equality of opportunity and developing a world class skills base were put forward as examples of the difference that procurement could make.

PBR 09 announced the publication of a new procurement document, 'The Policy through Procurement Action Plan'. This goes further, setting out a number of economic and social agendas that the Government intends to pursue through procurement. Those agendas are:

- Small and medium-sized enterprises (SMEs) – lowering barriers to their participation, including third sector organisations;
- Skills training and apprenticeship opportunities and tackling youth unemployment;
- Resource efficiency, focusing on carbon reduction.

A number of key performance metrics for Government have been put in place to monitor the delivery of these priorities. Those metrics are:

- The value of contracts placed with SMEs;
- The number of apprenticeships supported through public procurement, building towards the Government's aim of securing 20,000 apprenticeships over the next three years;
- The number of young unemployed people taken into the workforce as a result of public procurement;
- The number of departmental "key" suppliers that have agreed to disclose their greenhouse gas emissions, with the aim that Government will work with them to support their carbon reduction programmes.

The TUC fully supports these priorities, which we believe represent an important victory for trade union campaigning. The one other priority which is not here is that of equality, most obviously between men and women, but also on grounds of race and disability. We call for equality to be listed as a priority among the social and employment considerations to be pursued through procurement in the future.

Our main concern is that progress towards these targets is voluntary and there are no mechanisms in place to ensure delivery of these priorities if voluntarism doesn't work. The

Executive Committee TUC Budget Submission

record of voluntarism in the UK is not good. For many years, the upskilling of the workforce has been sought through voluntary measures and that upskilling has not been met. The TUC has grave doubts that these important priorities will be delivered unless there is some requirement on employers to deliver them.

What is more, if these targets are to be achieved, a change of approach is needed from the Office of Government Commerce (OGC), the independent office of HM Treasury that is responsible for government policy towards procurement. Treasury Ministers, along with Ministers from other government departments that would benefit from social and employment clauses in procurement contracts, have shown a welcome desire to use procurement more positively in recent months. The OGC must now match this commitment in its practices and decision-making.

Government departments are required to report against the new metrics for the first time in Spring 2010. **The TUC calls on the Government to set out the minimum threshold by which these metrics will be judged a success, alongside Budget 2010.** If success is not delivered, the Government must bring forward regulations to ensure that where public sector contracts are let, companies bidding will be required to employ minimum numbers of apprentices and/or young unemployed people, and make progress towards reducing greenhouse gas emissions as required.

Innovation

In his 'Going for Growth' speech, Lord Mandelson discussed innovation in the context of science, research and its contribution to economic success.

Meanwhile, delivering the Frank Whittle Memorial Lecture in June 2009, the Science Minister, Lord Drayson, said:

"The Prime Minister, Lord Mandelson and I have repeatedly gone on record to confirm that the ring-fenced science and research budget will remain intact. Indeed, we are fully committed to raising investment – and to commercialising more of the science that emerges from both pure and applied projects.

"The priority now is to focus scientific effort and research on those sectors most likely to deliver national success ... we need to concentrate where the UK has a clear competitive advantage; where growth opportunities are significant over the next 20 years; and where we have a realistic prospect of being number one or two globally."

This is exactly the approach that the TUC has advocated for industrial policy. **We warmly welcome the commitment to ring-fence the science and research budget – although this speech of Lord Drayson's is now eight months old, so it would be helpful to have it reinforced once again in Budget 2010.** Furthermore, this commitment does not mean that painful cuts are not affecting the science sector.

Executive Committee TUC Budget Submission

For example, the Wellesborough site of Warwick HRI, formerly the Horticulture Research Institute, is to be closed by the University of Warwick, with the loss of 30 per cent of staff, including principle investigators, research and support staff. WHRI was ranked as the UK's top university department for agriculture, veterinary and food science in the 2008 Research Assessment Exercise.

And at the National Physical Laboratory, discussions are currently underway to allieviate the consequences of proposals for significant funding cuts from the parent agency, the National Measurement Office. A likely funding cut of around 10 per cent could not be sustained without job losses and a corresponding loss of scientific capacity, with in excess of 40 posts at risk.

Of course, it is important to recognise that innovation is not simply concerned with science and technology, vital though that is. There are many aspects to innovation. One such aspect is innovative working practices. This links to the issue of employee engagement that was discussed above. Put simply, evidence shows that where employees are engaged, motivated and given the tools to do their job, they are more likely to be innovative than where they are subject to command and control management techniques, or where they are stressed or bored. Employees work best when they do not have their employer leaning over their shoulder. However, devolving decision making to employees can create fear among some first line managers, who are afraid that this will undermine their power. What is more, employees can only innovate if they are skilled enough to do so.

Modern trade unions have an important role to play in bringing about innovative working practices. Work organisation is a subject that is discussed by managers and trade union representatives in companies that enjoy positive employment relations. It is often recognised that independent trade unions are most likely to have the skills to negotiate better work organisation structures. Independent unions are also more likely to be in a position to tell management frankly when a well intentioned initiative on work organisation will not work in practice. For all of these reasons, a trade union presence in the workplace should be encouraged.

Finance for growth

Access to finance for industry is a well-documented problem. This issue was heightened during the economic downturn, when bank reluctance to lend money to all but the most failsafe borrowers led to some firms going under and others having to put off plans for expansion or investment. However, the issue of development funding for UK companies predates the recession. Many have looked with envy at the relationships between German companies and the banking sector, relationships that have supported companies as they made investments which might be costly in the short term but which brought real returns over a longer period.

There are many different ideas for investment banking currently being discussed and it is not our intention to consider them all here. Later in this paper, we look at the issue of short-

Executive Committee TUC Budget Submission

termism, a problem highlighted in Lord Mandelson's 'Going for Growth' speech, and the role that could be played by capital markets to promote a more long term climate. However, we would like to use this section of our Budget Submission to highlight a specific proposal for investment in industry. This proposal is based on the French Fonds Strategique D'Investissement (FSI, or Strategic Investment Fund), which was established in January 2009, under the leadership of Gilles Michel, a former Executive of Citroen.

Fonds Strategique D'Investissement

The FSI is incorporated as a company. Its funds are managed by a board of seven people, four from the government and three from the private sector. A governance body, composed of 20 people from MPs, business associations and trade unions (all three French trade union federations have a seat on the governance body) is asked to advise on investment strategies. The FSI invests in large, listed companies; in mid-sized, often not listed companies; and in SMEs.

The FSI's money is utilised exclusively through investment in the capital structure of private companies, with the FSI taking a role as a minority shareholder. The FSI seeks to be a long-term investor, investing for up to 8-10 years, possibly longer. It invests an amount of money that gives it presence and allows a say in governance (through seats on boards). It also makes a commitment to exit in a way that supports the company in question. Rather than offering subsidies, it associates itself with entrepreneurial risk. It is emphatically not nationalising companies. However, Gilles Michel told the TUC: "[The FSI] is a public body to support French companies in growth and competitiveness, to reinforce the French nature of their capital structures (i.e. to provide for a stronger proportion of their capital structure that is French) and to support SMEs."

The FSI has 20bn euros at its disposal: 6bn euros in cash and 14bn in equity stakes in companies. It is permanently established and has a permanent investment capacity of 2.5bn euros a year, by virtue of its rotating portfolio and dividends from companies in which it has invested.

Like any investor, the FSI recognises that it could lose money as well as make it. Indeed, it understands that some investments will fail, by definition. However, it wants more successes than failures overall. Given that it expects the same returns as any private sector investor, the FSI aims to make money over the long term; if it succeeds, it will be tax neutral for the French economy.

In January 2010, the FSI reported on its first year of operation. It had invested 1.4bn euros in companies such as Meccano, the construction toy maker, and Daily Motion, the internet start up that aims to rival YouTube. 800m euros have been invested directly into 21 companies and 600m euros have been invested through funds. Even its critics recognise that it had proved its credibility with its choice of investments. All are currently profitable.

Executive Committee TUC Budget Submission

The TUC calls for a pilot UK version of the Fonds Strategique D'Investissement to be announced in Budget 2010. This body should be managed at arm's length from the government, in the French style, with a budget of £5bn, which could be a combination of cash, loans and loan guarantees. This fund should make strategic investments in companies looking for a long term strategic partner. The government should expect a return on its investment over many years. However, as happens with most private sector investments of this kind, there must be an understanding that some investments will provide a poor return. The aim is not to be so risk averse as to only back winners. It is to back companies with potential, with the aim and the expectation that the government will at least get its money back (and should return a profit) over a five to ten year period).

Further details of TUC proposals derived from our study of the Fonds Strategique D'Investissement can be found in the policy paper, 'Developing UK Industrial Policy: Lessons from France'.

Finance for a low carbon economy

Meeting Government targets to cut our CO₂ emissions by one third by 2020 presents a major financing challenge to the UK economy. It will require significant, new and sustained investment in low carbon technologies for energy supply and industry. Estimates of the investment required vary: Dieter Helm suggests £434 billion⁷ for new or replacement infrastructure by 2020, with Ofgem estimating £200billion for energy alone.

If our aspiration is for the UK to be the No. 1 place for low carbon investment in Europe, with opportunities for new jobs and skills, new low carbon financing capability is needed to propel investment.

What is more, in its support for ambitious targets to cut CO₂ emissions, the TUC has argued for a just transition to a low carbon future. Just transition is about recognising and planning fairly and sustainably for the huge changes that climate change policies will have for our whole economy. In the past, significant periods of economic restructuring have often happened in a chaotic fashion, leaving ordinary people, families and communities to bear the brunt of the transition to new ways of producing wealth. The idea of 'just transition' seeks to avoid this kind of injustice, so that this crucial transformation can progress with the speed and depth required. Financing a green new deal has to be part of this package.

To address these challenges, PBR 098 established *Infrastructure UK* to leverage further investment in low-carbon projects and to "consider the case for a low-carbon investment institution" - in effect, the case for a Green Investment Bank. For immediate purposes, it was

⁷ *Delivering a 21st Century Infrastructure for Britain*, Dieter Helm, James Wardlaw and Ben Caldecott, Policy Exchange, 2009.

⁸ *Securing the recovery: growth and opportunity*, PBR 2009, para. 1.42.

Executive Committee TUC Budget Submission

tasked with investing €100 million in a European Investment Bank-led fund to deploy up to €6.5 billion of equity and debt in low-carbon infrastructure. Its overall remit is to “work with government departments, private sector infrastructure investors, contractors and operators to ensure the UK develops and delivers the national infrastructure businesses.”

The independent Committee on Climate Change (CCC) set three consecutive five-year “carbon budgets” for the period 2008-2022, leading to a 34% reduction in our CO₂ emissions. The package should avoid 700 million tonnes of CO₂ emissions over the period.

To put this in perspective, Europe’s largest power station, Drax in North Yorkshire, generates about 7% of the UK’s electricity supply, emitting 26 million tonnes of CO₂ annually. In 2009, Drax secured planning permission for a £700 million biomass-fired power unit, expected to save just under two million tonnes of CO₂ annually compared with a conventional power station.

UK carbon budget levels 2008-2022

	Budget 1 (2008-2012)	Budget 2 (2013-2017)	Budget 3 (2018-2022)
Budget level - million tonnes CO ₂ /equivalent	3018	2782	2544
% below 1990 levels	22%	28%	34%

Source: Low carbon Transition Plan, 2009, table 2.

The CCC has targeted three sectors for early action: decarbonising energy supply; low emission transport; and domestic energy efficiency. Below, we illustrate the UK investment challenges in each of these sectors.

On energy supply, the most challenging target is 30% of our electricity generated from renewables by 2020, up from 5.5% today. This will require investment of the order of £100 billion⁹ and could create “up to half a million jobs by 2020”, from wind power, on and offshore, as well as biomass, hydro and wave and tidal projects. Helm¹⁰ suggests that a further £42 billion is needed to replace ageing fossil fuel power stations by four clean coal plant with carbon capture, plus new nuclear and gas fired installations.

⁹ *The UK Renewable Energy Strategy*, HMG, 2009.

¹⁰ *Delivering a 21st Century Infrastructure for Britain*, p. 24.

Executive Committee TUC Budget Submission

Ofgem's energy review suggests that up to £200 billion may be required by 2020 to replace "large parts of our ageing energy infrastructure"¹¹. Ofgem also notes that the bulk of the investment required in the GB market is likely to be focussed on riskier activities such as investment in emergent commercial renewable energy, gas storage and smart meters and grid. Raising debt at the project level for these types of investments remains challenging, which implies that a higher degree of equity could be required to meet funding requirements, so that companies may need to resort to on-balance sheet funding – raising bonds from institutional investors – or larger amounts of equity investment from infrastructure funds to meet funding requirements. But under these challenging conditions, there may simply be a decision not to invest.

The majority of this finance will need to be delivered by the private sector during a time of economic restraint, with minimum impact of public borrowing. The Aldersgate Group¹² has argued for "an activist Government approach to ensure lending costs are minimised will remove barriers to financing low carbon projects and significantly lower the overall cost of the transition to society".

On low carbon transport, the Government is committed to assisting the decarbonisation of transport and the transition to a sustainably lower carbon vehicle fleet. In addition to incentives through the tax system and support for European wide regulation to tighten vehicle standards, the UK has committed around £400m¹³ of support to encourage the development and uptake of ultra low carbon vehicles. Elsewhere, the first stage of a high speed rail network in Britain is estimated to cost £19 billion (2008 prices), linking the North West with Heathrow and Europe¹⁴.

On homes insulation, the TUC has supported a council-led, area based national insulation programme, providing basic insulation to the 10 million homes that do not have these measures installed. The cost of the programme is estimated at £5bn – rolling it out at £500m a year would create an additional 20,000 jobs¹⁵.

A Green Investment Bank

A number of issues will need to be resolved in creating a Green Investment Bank:

- With public debt now at unprecedented levels, new financing institutions will be needed,

¹¹ *Project Discovery: Options for delivering secure and sustainable energy supplies*, Ofgem 2010.

¹² *Financing the transition*, Aldersgate Group, 2009.

¹³ <http://www.dft.gov.uk/pgr/sustainable/olev/>

¹⁴ *Fast Forward: a high-speed rail strategy for Britain*, Greengauge21, 2009.

¹⁵ *Creating Green Jobs, Developing Local Low Carbon Economies*, LGA, 2009.

Executive Committee TUC Budget Submission

- perhaps semi-independent from Government and with minority public shareholding.
- A GIB will need to decide on its potential client group, and preferably be capable of responding to a wide range of investment requests, from major national power projects to regional and local green initiatives.
 - Also, what investments would qualify as “green”? A key test would be projects that support the carbon budget objectives of the Committee on Climate Change.
 - In terms of access to new, significant funding, one option for Government is to use the GIB to consolidate a range of current public investments strands. Another potential source of income could be the National Employment Savings Trust (NEST), the new low cost pension scheme, effective from 2010. Estimates suggest that the reforms could increase annual total pension contributions by £5 billion from 2012¹⁶. Another is to hypothecate revenues from the EU Emissions Trading Scheme to the Treasury, estimated at £2 billion from 2013-14¹⁷.

The TUC would argue that a Green Investment Bank, in some form, is the missing element in Government’s policy package to meet its low carbon transition plan. If the UK had its own public investment bank, as many other European countries do, then not only would it be easier to set the criteria for how that capital should be deployed, but it would give a greater certainty to industry that capital would be available when they needed it¹⁸. The new green finance facility would therefore help the UK tackle the long-term investment and innovation challenges involved in a just, low carbon transition strategy.

The TUC therefore calls for action to establish a Green Investment Bank in Budget 2010.

Infrastructure

A modern, low carbon and resilient infrastructure will lay the foundations for a robust recovery and sustainable long-term growth.

The TUC supported the Government’s focus on intermediate measures to bring forward infrastructure development in the wake of the recession, and the more strategic approach to infrastructure set out in ‘Going for Growth’.

The capital spending brought forward as part of the 2008 Pre-Budget Report helped to mitigate the impact of the recession, but the process has also generated some lessons for the

¹⁶ http://www.pensionspolicyinstitute.org.uk/uploadeddocuments/Briefing%20Notes/PPI_Briefing_Note_42.pdf

¹⁷ PBR 2009, Box 7.2.

¹⁸ Green Alliance, op. cit.

Executive Committee TUC Budget Submission

way future infrastructure spending should be managed and delivered, which the TUC believes should be built into the Infrastructure UK strategy expected as part of Budget 2010.

The central place given to national infrastructure in 'Going for Growth' is a welcome move towards a better planned and more centrally co-ordinated approach to developing the infrastructure needed to support economic growth. A new high speed rail network, low carbon energy supply and fast broadband must all be developed with an unabashed focus on jobs, skills, supply chain opportunities and climate change budgets. Transparency about planning and delivery is essential to meeting these aims and should be supported by an enhanced role for Infrastructure UK in bringing together social partners to ensure that developments benefit the areas and communities in greatest need, maximising the impact on the wider economy.

Brought Forward Capital Spending

In 2008, as the scale of the credit crunch became clear, the TUC called on the Government to step up public investment in order to maintain demand for goods and services during the downturn and to prevent a double-dip recession. Spending on capital projects such as transport improvements, housebuilding and flood defences helps to keep people in work and maintain skills as well as improving provision for the long term.

At PBR 2008, the Chancellor announced that £3 billion of capital spending would be brought forward from 2010-11 into the 2008-09 and 2009-10 financial years, as a central plank of Government efforts to stimulate the economy. This included £700 million for transport, £775m for housing and regeneration, £800m for schools and over £400m for further and higher education and research.

In welcoming the brought forward package, the TUC called for the stimulus to be delivered regionally and locally, with local social partner input to ensure that those communities and industries in greatest need would benefit. Ahead of Budget 2009, the TUC again called for transparency about the delivery of the stimulus, to ensure accountability and to build public support. In the USA, the Obama administration set up the www.recovery.gov website, where members of the public can see how spending has been allocated to industrial sectors, geographical areas and even specific projects within their state. The site also estimates the numbers of jobs created by the fiscal stimulus in each area. Although accurate estimates of job impacts are difficult, the site at least provides a tangible sense of the effect of the recovery package.

Given that the period of brought forward spending is now coming to an end and no equivalent mechanism has been set up in the UK, the TUC has attempted to determine the extent to which the funds have been allocated and how this has helped mitigate the effects of the recession.

Anecdotal evidence from the TUC in the regions suggests that the funding has had a mixed effect, sometimes keeping larger projects ticking over without a major impact on jobs, as they

Executive Committee TUC Budget Submission

were at the stage of feasibility studies and planning applications rather than construction. It was difficult, however, to distinguish the effect of the brought forward funding as opposed to ongoing planned investment. Overall, there was a striking lack of publicly available information about the brought forward investment, with little available from RDAs, Government Offices in the Regions and other agencies.

In November 2009, the TUC General Secretary wrote to the Chancellor and to the Secretaries of State at all the Government departments which had capital spending brought forward, seeking an update on the brought forward spending. At the time of writing, responses had been received from all departments except the Home Office, and the detail of the responses are provided in the table attached at Annex A.

In response to the TUC's approach, the Chancellor advised that £365m had been successfully brought forward into 2008-9, concentrated on housing repairs, insulation and schools. For 2009-10, the majority of the rest of the brought forward money had been allocated, and further details on this were provided in the information provided by each department. Analysis of the figures supplied by Government departments suggest that as much as £2bn of the £3bn brought forward had been spent or allocated by the end of 2009, although the lack of detail on the status of some of the spending means this is a somewhat generous interpretation. PBR 09 estimated that £1.7 billion of the £3 billion brought forward had actually been "delivered"¹⁹. The first detailed data on the outcomes of the brought forward spending will be published by the Treasury in summer 2010.

In terms of the jobs impact, the Chancellor said that the £3 billion of brought forward spending was expected to directly employ around 50,000 people in 2009-10. It is difficult, however, to determine actual local impact in terms of jobs maintained or created by the stimulus package. We hope that the figures that will be provided in summer 2010 will be comprehensive and will provide fuller estimates of the jobs impact of the stimulus.

The TUC believes that greater transparency and a role for social partners in delivering the brought forward spending would have helped to maximise its impact. For the major infrastructure projects expected over the coming years such an approach will be vital. It is to some of these projects that we now turn.

High Speed Rail and transport infrastructure

Strengthening and modernising the UK's transport infrastructure can reduce the sector's 21 per cent contribution to domestic carbon emissions, promote economic growth and tackle regional disparities. The TUC has been a vocal supporter of Crossrail, the expansion of Heathrow within strict environmental criteria, the modernisation of the rail network and investment in low carbon vehicles.

¹⁹ PBR December 2009, section 6.12, page 100

Executive Committee TUC Budget Submission

Developing a high speed rail system for the UK is perhaps the most ambitious and eagerly anticipated infrastructure project of the coming decades. It will be a lengthy and expensive process, but the estimated benefits to the national and regional economies are significant, as are the carbon reductions achievable through transferring car journeys and short-haul flights to rail. A White Paper is expected in March 2010 and we understand that work is underway within Government to analyse the jobs and supply chain opportunities. Industrial activism must be at the heart of the high speed rail strategy, with procurement and planning used to maximise the opportunities presented by the construction and operation of the line. The fare structure will also require early attention to make sure that high speed rail is accessible to all.

Estimates of the economic benefit vary and depend upon the eventual route and extent of the network, but Network Rail predict that the revenue and benefits generated by a high speed line between London and Scotland would approach £55 billion and the line would pay for itself 1.8 times over within 60 years²⁰. High speed rail specialists Greengauge 21 propose a 25 year high speed rail programme which would deliver a national network with wider economic benefits worth £125 billion²¹. And the British Chambers of Commerce have conducted further research predicting the economic benefits to Scotland, Wales and the English regions²².

However, there are important lessons to learn from the experience of high speed rail in other countries. In France, for example, whilst the TGV network has been hailed as a success, smaller commuter and regional railways lines were neglected as investment was poured into the high speed network, leaving a gulf in the quality of the infrastructure on the lower-profile lines. It is essential that high speed rail in the UK is developed alongside the modernisation of the existing network, including the electrification of key routes announced last July. Failure to do so would leave the new network in danger of exacerbating social and geographical exclusion, particularly if fares were set at high levels. It is only through a co-ordinated approach that the benefits of high speed rail can be fairly shared and fully realised.

Digital infrastructure

Another core theme identified in 'Going for Growth' is the importance of developing the UK's digital infrastructure to bring next generation broadband to 90 per cent of the population by

²⁰

http://www.networkrail.co.uk/documents/About%20us/New%20Lines%20Programme/5886_NewLineStudy_synopsis.pdf

²¹ http://www.greengauge21.net/assets/FastForward_Greengauge21.pdf

²² <http://www.britishchambers.org.uk/topics/transport>

Executive Committee TUC Budget Submission

2017. An OECD report published in December highlighted the pivotal role that broadband networks now play in promoting innovation in the economy.²³

There is also a clear link to meeting carbon reduction targets, with better access to fast broadband enabling greater flexible and home working and video conferencing. It also has the potential – with work on widening access – to bring significant benefits for people with disabilities through new information technologies, as the RNID²⁴ and RNIB²⁵'s responses to the 2009 Digital Britain²⁶ report make clear.

The limits of an approach that looks exclusively to the market to deliver the digital infrastructure Britain needs are clear, for instance in the lack of provision by the market in more isolated rural areas. The Digital Britain report made a welcome recognition of this. The Digital Region project in Yorkshire and Humberside²⁷, announced at the last Budget, could present an alternative model. It is part-financed by the European Regional Development Fund as well as the Regional Development Agency, local authorities and private sector partners in the region.

A welcome new duty on Ofcom to promote investment in the industry is contained in the Digital Economy Bill currently working its way through Parliament. Government recognition that the market has failed to deliver has brought about this positive change in emphasis, and regulatory clarity and stability will be essential to underpin future investment.

Resilient infrastructure in the face of climate change

Investment will also need to be targeted at ensuring our critical infrastructure – energy, utilities and transport – is resilient to climate change. The UK Climate Projections published in 2009 demonstrate that, whatever happens to global emissions, a certain amount of climate change is now trapped in the system. In the UK this will mean more frequent stormy weather and flooding as well as hotter summers and more frequent heatwaves. New infrastructure must be developed to be resilient to these changes and existing infrastructure adapted. The UK Climate Change Risk Assessment that is now underway under Defra's leadership must keep a close focus on the risks posed to infrastructure and inform future policy to adapt and protect it.

²³ http://www.oecd.org/document/58/0,3343,en_2649_34223_44245946_1_1_1_37441,00.html

²⁴ http://www.rnid.org.uk/mediacentre/press/2009/digital_britain.htm

²⁵ http://www.rnib.org.uk/getinvolved/campaign/publicpolicy/Pages/digital_britain.aspx

²⁶ http://www.culture.gov.uk/what_we_do/broadcasting/5631.aspx

²⁷ <http://www.digitalregion.co.uk/whatisdr.html>

Executive Committee TUC Budget Submission

A strategic approach to building Britain's infrastructure

At the outset of this section we argued that the experience of the intensified infrastructure work prompted by the brought forward capital spending should inform the strategy for larger infrastructure projects in future.

In practice, the TUC believes that this means greater transparency, accountability, input from social partners and proper national strategic planning.

In this spirit we welcome the establishment of Infrastructure UK and look forward to the strategy it is expected to publish at Budget 2010. Building a central strategic focus on infrastructure should generate a longer term approach to infrastructure planning, funding and delivery. We would, however, question IUK's apparent focus on PPP and PFI, which can lead to higher long term costs to the public purse than direct public funding. Recent research by GMB showed that PFI projects are not delivering good value for money, with debts incurred typically around four times higher than the value of the assets delivered²⁸. IUK will, however, develop proposals for a Green Investment Bank and, as set out earlier in this submission, we believe that this could be an important tool to co-ordinate investment streams.

The TUC also welcomes the other element of this new approach, the Infrastructure Planning Commission. Whilst it will only deal with large, "nationally significant" projects, the combination of clear policy frameworks and a strong IPC will help to chip away at the NIMBYism that has led to delays or refusals for many developments, particularly in on-shore wind. Indeed, when wind turbine manufacturer Vestas closed its Isle of Wight factory in 2009, one of the reasons it cited was the way in which the British planning system was too easily hamstrung by local opposition.

We therefore recommend that Infrastructure UK's national strategic co-ordinating role should include tracking and monitoring ongoing infrastructure planning and spending, with input from social partners. IUK should be tasked with working in partnership with the IPC, BIS, regional development agencies, unions, employers and other partners to maximise the jobs, skills and supply chain opportunities offered by infrastructure projects. It is this strategic approach that will see UK opportunities maximised rather than seeing them taken by better-prepared, better-supported competitors overseas and provide a route to addressing regional disparities through specialised support and development.

Long Termism v Short Termism

There is widespread agreement between unions, companies and Government that companies flourish when their managers and investors take a long-term approach to their success, developing long-term, committed relationships with employees and suppliers based on respect and trust, investing in research and development and staff training to facilitate innovation, expanding through organic growth achieved through earning a good reputation with

²⁸ <http://www.gmb.org.uk/Templates/Internal.asp?NodeID=99389>

Executive Committee TUC Budget Submission

customers, and through this delivering sustainable returns to their investors. Yet too many UK companies take a short-term approach to their development, squeezing both employees and suppliers, cutting quality to compete on price alone, with low rates of investment in research and development and training and expanding through mergers and acquisitions rather than through organic growth.

There are many complex reasons for the UK's tendency to pursue what could be called the 'low-road to growth', as opposed to a 'high-road to growth', and previous TUC publications have examined these in more detail. The TUC has long been concerned that short-termism is encouraged by the UK's corporate governance system, which we believe is urgently in need of review. The Companies Act 2006 put in place some improvements in corporate governance, but fell short of the fundamental reform that the TUC had argued for. It is now clear that the reforms that were put in place have not had the impact that it was hoped they would bring. The financial crisis and consequent recession was not caused by corporate governance failings alone, but poor corporate governance was a significant factor in allowing banks and other financial institutions to follow risky and inappropriate strategies based on chasing high short-term gains rather than concentrating on delivering sustainable, long-term growth.

At the heart of the UK's corporate governance system is the assumption that shareholder interests and a company's interests are synonymous, and that it therefore makes sense to require company directors to serve the interests of shareholders as they carry out their job of running companies. This basic concept is at the centre of the whole corporate governance system in the UK, from company law through to the Combined Code of Corporate Governance. A clarification was added in the Companies Act 2006 to remind directors that in serving shareholders they should have regard to the interests of employees, suppliers, customers and community and environmental impacts. It is far from clear that this has had any impact on company behaviour to date.

Following on from the requirement for directors to serve shareholder interests, major areas of corporate governance, from decisions on mergers and takeovers through to directors' remuneration, are left to shareholders, rather than to regulation or wider, more participative bodies to determine.

However, a declining proportion of UK company shares are held by long-term shareholders and a still smaller proportion are held by UK long-term shareholders. An increasing proportion are held by hedge funds and other short-term shareholders whose strategies are based on share-trading rather than long-term shareholding. So called long-term shareholders (such as fund managers with pension funds clients) are also making increasing use of share trading as a means of raising revenue from their equity holdings, rather than basing their strategies on the expectation of long-term, sustainable dividends.

Shareholders whose strategies are based on share trading will have neither the capability nor the motivation to engage with companies to ensure that directors are carrying out their duties appropriately. In some instances, such as when shares are subject to short-selling, shareholder

Executive Committee TUC Budget Submission

interests may actually be opposed to the long-term success of the company. This at best leaves a vacuum at the heart of UK corporate governance and at worst binds UK companies with a set of rules and incentives that hamper their ability to flourish.

Even so-called long-term shareholders often exert short-term pressure on companies. This is in part a rational response to the mandates they are given: even when the ultimate investment beneficiaries such as pension funds have a long-term time horizon, this is often not reflected in the mandates that they give their fund managers, who are usually on short-term contracts and who will be compared on the basis of quarterly and annual returns with a benchmark of peers. This puts an immediate pressure on fund managers to deliver high annual and indeed quarterly growth, which leads them to look for high annual and quarterly returns from their investments, regardless of whether or not the strategies behind such returns are sustainable or beneficial for the long-term success of the company. While there remains a residual convergence between the long-term interests of, for example, pension fund beneficiaries and the companies whose shares they hold, the chain of contracts and command in between acts to distort this convergence of interests so that at times fund managers may actually be acting against the long-term interests of beneficiaries.

There are also practical barriers for shareholders in carrying out effective engagement across the range of companies whose shares they hold. Most fund managers currently simply do not have the resources in terms of personnel to carry out a sufficient level of engagement with all the companies in which they invest. Collaboration between shareholders could, in theory, generate efficiencies and economies of scale, but in practice collaboration is relatively rare. Effective company engagement would require far greater investment of resources in this area than is currently in place, and to date the vast majority of fund managers have not believed such investments to be worth their while.

The contradictions encompassed by this system are crystallised by mergers and takeovers. It is extremely hard for any UK company other than the very largest to insulate itself from a takeover bid, including a hostile one - even very large companies can be vulnerable, as the 2007 bids for Sainsbury's illustrate. It is in a merger or takeover situation that the assumed convergence between shareholder and company interests breaks down most dramatically, because institutional shareholders will, along with hedge funds and other short-term share traders, sell their shares if they are offered a high enough price, regardless of the likely impact of the takeover on the company concerned. With the recent Kraft bid for Cadbury, the difference between the hedge funds and the long-term shareholders was the price at which they were prepared to sell their shares, not their consideration of the company's long-term interests. In the 2007 Delta 2 bid for Sainsbury, despite the fact that most commentators were concerned about the likely impact of the Delta 2 bid on Sainsbury's prospects²⁹, Sainsbury's share price dropped once it became clear that the deal was off.

²⁹ Concerns included levels of debt and the proposal to sell off its store sites to a separate company from whom Sainsbury's would then have had to lease back its stores.

Executive Committee TUC Budget Submission

This means that, in the UK, the best protection against a hostile takeover is a high share price, and this encourages company directors to maintain high payments to shareholders, even when these are not justified by company performance, putting pressure on other areas such as research and development, training and so on that are key to a company's future prospects. In the case of Sainsbury's, it was only the concentrated share of the Sainsbury brothers that prevented the deal going ahead. While directors are required to set out their view of the bid on the company's prospects, their over-riding obligation is to their shareholders, and it is clear from the Cadbury takeover that directors believe that this means that once a sufficiently high purchase price has been agreed, their duty is to recommend the bid to shareholders. The irony here is that while shareholders want to obtain the highest price possible for a bid, this may go directly against the interests of the company, if the result of the higher price is a higher debt tag round the company's neck. If the long-term Cadbury shareholders had achieved the price for their shares that they were seeking, Cadbury would have been saddled with even larger amounts of debt going forward than is already the case.

The TUC believes that there is an urgent need for the Government to recognise and address the problem of short-termism within the UK's corporate governance system and its impact on long-term company performance. Changes in the structure of share ownership and the reduction in the proportion of UK company shares held by long-term shareholders have exacerbated an existing problem illustrated graphically by the problems currently faced by private equity portfolio companies struggling with debt repayments and the financial crisis.

The TUC believes that addressing these issues requires a mixture of both long-term and short-term measures.

In the longer-term, the TUC believes that the UK needs to move away from a corporate governance model that puts serving shareholder interests at its core. Continental Europe provides a range of alternative models that work better in terms of promoting long-term company success and also provide better protection for stakeholder interests. The main barrier to far-reaching reform, as illustrated by debates during the Company Law Review, is cultural resistance rather than reasoned argument.

However, there is also considerable scope for improvements to the current system of corporate governance. It is essential that measures to distinguish between long-term and short-term investors in terms of their corporate governance role are established. **The TUC believes that voting rights should be restricted to shareholders who have owned shares for a minimum period of six months and that this change should be introduced in Budget 2010.**

There is also a need to strengthen the incentives for long-term investors to carry out responsible engagement with companies. The TUC believes that it should be mandatory for all institutional investors to report publicly on their voting records at company AGMs and also to make public their policies and activities on company engagement, including the outcome of engagement that has taken place. In addition, we believe that the new Stewardship Code

Executive Committee TUC Budget Submission

being developed by the Financial Reporting Council (FRC) should be subject to a monitoring and enforcement regime, which could be carried out by the FRC.

Mergers and takeovers should be subject to a long-term company interest test. This should be carried out by a Mergers and Takeovers Commission, operating at arms length from Government, who would assess potential bids for their impact on the long-term success of the company concerned.

Tackling Unemployment

Unemployment³⁰ began rising in spring 2008, and by the autumn of 2009 had grown by 839,000; since then it has been fluctuated just short of the 2.5 million mark. Long-term unemployment has risen, if anything, even more sharply; the number of people unemployed for more than 12 months has grown from just over 400,000 to over 650,000. The other danger signal is the growth of youth unemployment; unemployment rates for young people were already high at the start of the recession and the increase has been higher than for other age groups:

Unemployment by age, from the start of the recession to late 2009, UK, seasonally adjusted

	16-17		18-24		25-49		50 and over	
	000s	Rate (%)	000s	Rate (%)	000s	Rate (%)	000s	Rate (%)
Mar-May 2008	184	25.2	496	11.8	706	3.9	228	2.8
Oct-Dec 2009	198	33.6	725	17.6	1,139	6.2	395	4.7
Increase	14	8.4	229	5.8	433	2.3	167	1.9

The TUC's priorities for labour market policies are designed to deal with these realities:

- Firstly, we look for policies that will help prevent workers losing their jobs in the first place, in particular a short-time working subsidy. The ideal time to introduce this policy would have been last year, but it is still not too late to do good by introducing it now. If unemployment starts to rise again it will then be an urgent necessity.
- Secondly, if long-term and youth unemployment are to be brought down quickly, it is vital that Government policies should address the lack of demand in the economy. Supply-side programmes can help support this policy, but they can never be a sufficient response. The

³⁰ Data in this para are from the Labour Force Survey and compare figures for March – May 2008 with those for October – December 2009.

Executive Committee TUC Budget Submission

Future Jobs Fund has been an excellent response to the recession. Cancelling it would be disastrous; instead it should be made the model for continuing labour market interventions.

- Thirdly, it is impossible to survive on current rates of benefit. The reality of today's unemployment is that hundreds of thousands of men and women, through no fault of their own, have to cope with extended periods of unemployment. As a nation we owe them something better than current rates of Jobseeker's Allowance. At a minimum, it should be raised by £10 a week.

Preventing unemployment

In late 2009 and January 2010, unemployment stabilised and fell slightly, but there is a very strong possibility that it will grow again. The weak recovery in output as the UK officially emerged from recession is a worrying sign: if GDP growth continues to be feeble, businesses that held on to valued staff in 2009 may re-consider this strategy. Those operating in globally competitive markets may worry that US businesses, which have been quicker to make people redundant, will gain a competitive advantage, due to higher labour productivity.

If the general election results in a government committed to tighter and earlier fiscal constraint, these outcomes will be much more likely.

According to the latest Treasury round up of economic forecasts, the average prediction for claimant count unemployment in the fourth quarter of 2010 is 1.76 million, up from the current level of just over 1.6 million.³¹ Reinhart and Rogoff's famous paper on *The Aftermath of Financial Crises*³² notes that "the aftermath of banking crises is associated with profound declines in output and employment. The unemployment rate rises an average of 7 percentage points over the downphase of the cycle, which lasts on average over four years." So far, the UK unemployment rate has risen less than 3 points.

Furthermore, even if there are few large redundancies, the labour hoarding of the past two years may mean that there are fewer opportunities for those currently unemployed – a 'jobless recovery.'

This means that preventing further unemployment is still important. In the year from October 2008 to September 2009, 1,034,000 workers were made redundant – about twice the annual number for the five years.

³¹ *Forecast for the UK economy: a comparison of independent forecasts*, HMT, Jan 2010, p 1, downloaded from <http://www.hm-treasury.gov.uk/d/201001forcomp.pdf> on 05/02/2010 13:04. Current claimant count taken from ONS *Statbase*.

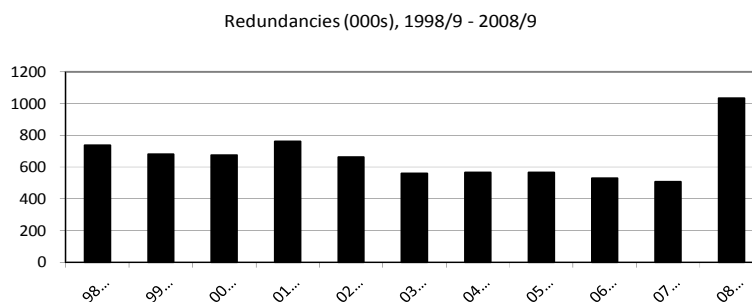
³² CEPR Discussion Paper 7209.

Executive Committee TUC Budget Submission

The Government must respond to the risk of a second wave of job losses. The Government must build on the foundations that were laid earlier in the recession - extra resources were found for the services provided Jobcentre Plus, especially the Rapid Response Service, which provides extra support for workers threatened by impending redundancies. There is a real risk that early public spending cuts would undermine the effectiveness of these services.

But, useful though they are, these initiatives only help people who have lost their jobs. It would be much better to help prevent these redundancies in the first place. That is why last year the TUC joined with business organisations, including the Federation of Small Businesses, the British Chamber of Commerce, and the Engineering Employers' Federation to call for the creation of a wage subsidy for private sector employers who make short-term reductions in staff hours or temporary lay-offs. Schemes like this maintain workers' wages whilst reducing firms' wage bills for a short period.

Short-time working subsidies are common responses to the recession in continental Europe - they exist or are being introduced in Austria, Belgium, Bulgaria, Denmark, France, Germany, Hungary, Italy, Lithuania, Luxembourg, the Netherlands, Norway, Romania, Slovenia and Sweden.³³



This policy has been particularly effective in Germany. A Eurofound study of restructuring in the automotive sector noted that, "given the prominence of this sector in Germany, it is very striking that job loss in Germany has been significantly lower than in, for example, France, the UK and even Sweden. ... The relatively positive development in Germany is mainly attributable to the extensive use of short-time working..."³⁴

³³ *Tackling the recession: Employment-related public initiatives in the EU Member States and Norway*, Irene Mandl and Lidia Salvatore, Eurofound, 2009, p. 7, downloaded from <http://www.eurofound.europa.eu/docs/erm/tn0907020s/tn0907020s.pdf> on 2/5/2010 6:40 PM.

³⁴ *Recent restructuring trends and policies in the automotive sector: Background paper*, Irene Mandl, Donald Storrie and Magdalena Bober, Eurofound, 2009, p. 7, downloaded from

Executive Committee TUC Budget Submission

Comparing different countries' increase in unemployment levels between January 2008 before the recession and October 2009, when it was fully established across the world, Germany's performance has been outstanding:

Unemployment (%) in 7 countries, 2008 – 9³⁵

	Jan 08	Oct-09	Increase
USA	4.9	10.2	5.3
Canada	5.8	8.6	2.8
UK	5.2	7.8	2.6
France	7.7	10.1	2.4
Italy	6.6	8.0	1.4
Japan	3.8	5.1	1.3
Germany	7.8	7.5	-0.3

Two linked criticisms of short-time subsidies are that they reduce a nation's average level of productivity and they interfere with the 'creative destruction' necessary for economic renewal. These criticisms may have some force when subsidies are offered throughout the economic cycle, but our proposals are strictly designed to help firms that are basically sound – firms that were successful before the recession and will be successful afterwards, but need help to get from here to there. That is why we have proposed a subsidy that is available on a time-limited basis, targeted at firms both in need and with strong long-term prospects and only to subsidise a proportion of workers' previous wages.

This support would make it possible for employers to avoid immediate redundancies and to retain essential staff and skills. Such a subsidy would also prevent the personal and social

<http://www.eurofound.europa.eu/pubdocs/2009/41/en/2/EF0941EN.pdf> on 2/5/2010 6:29 PM. There were 228,000 redundancies in UK manufacturing last year.

³⁵ Data taken from *Treasury Pocket Databank*, HMT, 2-2-10, table 22, downloaded from <http://www.hm-treasury.gov.uk/d/pdb.xls> on 05/02/2010 18:52. These countries entered recession at different times; we have used January 2008, a date before the recession as our starting point, and October 2009 – the latest date for which we have data for all seven countries – as our starting point.

Executive Committee TUC Budget Submission

damage that can be caused by long-term unemployment. We would hope that it could also be linked to participation in training, so that individuals and their employers could emerge from the recession even better able to compete than they had been before. Even though a year has been missed, the experience of the Welsh Assembly government's ProAct scheme shows that it is not too late – ProAct went from design to implementation in three months.

The TUC therefore calls for a short-time working subsidy to be introduced in Budget 2010.

Demand-side policies

Employment policy comes in two varieties: supply-side and demand-side. They reflect different analyses of why people can find themselves unable to get paid work.

Unemployment may essentially be the result of a mismatch – there are enough jobs in the economy, but the people without jobs are either unsuited for them or employers may be unwilling to recruit them. Supply-side policies address this mismatch by dealing with these problems – outlawing unfair discrimination by employers, raising the skills and qualifications levels of non-employed people, increasing their motivation or removing barriers (for instance by providing childcare).

Unemployment can also be seen as the result of there being insufficient demand for labour. Macro-economic policy – fiscal and monetary stimulus – is by far the most important response to this problem, but demand-side employment programmes can also be a useful supplement. During a recession, job programmes and short-time working subsidies are designed to help cope with the fact that there simply aren't enough jobs for all the people who want to work and the government must intervene to protect or create jobs.

The TUC has always argued that a balanced employment policy will emphasise the demand-side during a recession, with supply-side programmes taking more of the strain during the upswing of the economic cycle. A sensible approach will, however, always provide a mix of both types:

- During the recession there are still jobs being created and it is a good idea to equip disadvantaged people to compete for them;
- The UK's pronounced regional and district-level inequalities mean that, even when most of the country is close to full employment, there are substantial populations living in towns and cities that are still in recession.

Over the past thirty years there has been an international trend to giving greater emphasis to supply-side programmes as the normal policy response to labour market problems, but in the UK this trend has been taken to an extreme. At the start of the recession, Jobcentre Plus had almost forgotten how to run job creation programmes.

Executive Committee TUC Budget Submission

But it quickly became apparent that relying on the supply-side would not be enough. Just before the start of this recession, in a typical month there were just short of 700,000 vacancies notified to JCP; last summer this had fallen to about 430,000, though this picked up to about 450,000 at the end of the year.³⁶ During the same period, the number of unemployed people has risen from 1.6 million to just short of 2.5 million.³⁷ The ratio between the unemployed people JCP knows about and the vacancies it knows about has risen from about 2.3 to 5.5.

As a rule of thumb, about one vacancy in three is notified to JCP – at the start of the recession, reliance on supply-side measures could be justified (though there were still parts of the country with concentrations of unemployment where this was not reasonable) but that is not possible now: there aren't enough jobs for all the people who want them and the Government has a duty to step in.

It is to the current Government's credit that they recognised this. The Future Jobs Fund marks a significant shift to the demand side. The Young Person's Guarantee, offered to people under 25 who have been unemployed for six months, consists of a mix of supply-side and demand-side measures. It includes extra resources for training, a work experience programme called the Community Task Force, help with self-employment and a special pre-employment programme to help people move into jobs in expanding industries, called Routes into Work.

The targeting of the Young Person's Guarantee is important: it directs resources to young people, who have been the main victims of this recession, and it is designed to help make sure that another generation of young people is not abandoned to long-term unemployment.

On the demand side, the Young Persons Guarantee includes the Future Jobs Fund (FJF), a programme designed to create 170,000 jobs for young people, mainly in the public sector. FJF jobs are real jobs with normal employment rights: they are paid a wage (at least the minimum wage) and laws against discrimination, on health and safety at work, unfair dismissal, rights to holidays and maximum working time all apply: employers should not treat FJF workers any worse than their other staff. The Future Jobs Fund only provides enough money to pay for six months' employment, but some organisations are combining the FJF with other funding sources to provide jobs that will last for longer than this.

The TUC has strongly supported the Future Jobs Fund. It not only marks a welcome return to balanced employment policy, but the emphasis on quality and on real jobs is a welcome change after 20 years of dreary work experience schemes with no wage or employment rights.

³⁶ Vacancy data from ONS, Statbase. Downloaded from <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=13310&More=n> on 05/02/2010 20:00.

³⁷ Unemployment data from ONS, Statbase. Downloaded from <http://www.statistics.gov.uk/statbase/product.asp?vlnk=8272> on 05/02/2010 20:00.

Executive Committee TUC Budget Submission

The experience of TUC nominees on the regional panels assessing bids to the FJF is that the highest quality proposals are the national bids from large third sector organisations and those from county councils and unitary authorities – the combination of community value and support to help individuals become more employable is very impressive. We hope that authorities that have not yet established FJF projects will do so and that those who have will submit supplementary bids to increase the numbers who are recruited.

There are a number of TUC concerns, however. Firstly, the FJF is not large enough to meet demand - more than 300,000 young people aged 18-24 have been out of work for over six months, and this figure will grow even if overall unemployment continues to fall.

Secondly, it is likely that the largest element of the Young Person's Guarantee will be the Community Task Force (CTF), not the Future Jobs Fund. The Community Task Force is the only compulsory element of the Guarantee, and it offers work experience, with participants paid only their benefits plus a supplement. The CTF is very similar to the Environmental Task Force of the 'old' New Deal and we fear that it will face the same problems: it will be unpopular with young people, have the worst record of helping participants to get real jobs, have disproportionately high levels of participants from disadvantaged groups and that there will be young people effectively with no alternative. We want the Department for Work and Pensions to monitor the CTF for these problems, but the best way to minimise the risk of these outcomes is to increase the number of places on high quality alternatives to the CTF, especially the Future Jobs Fund.

Thirdly, the TUC wants the Government to extend the principle of Job Guarantees. A survey of relevant research, carried out for the DWP in 2008,³⁸ clearly shows that the most effective approach is to emphasise transitional job programmes offering real work paying a real wage. The TUC has supported the use of Intermediate Labour Market programmes since the mid-1990s, arguing that they can perform a useful role across the business cycle – when employment levels are rising they can provide job opportunities for disadvantaged groups and when unemployment is a more pressing issue they can provide a buffer for everyone affected by the recession.

The creation of the Future Jobs Fund marked the Government's recognition of the need for demand-side policies.³⁹ It was absolutely right to prioritise young people when introducing

³⁸ *A comparative review of welfare programmes in the United States, Canada and Australia*, R Crisp and D Fletcher, DWP, 2008.

³⁹ As Secretary of State, James Purnell recognised this: "This is a departure for this government. Since 1997, we have relied on supply side measures, building an active welfare state, supporting people to take up opportunities to work. In contrast, this is a demand side measure, to provide opportunities for people to work whilst the economy is in recession." Lecture to the RSA, 21-5-09, downloaded from <http://www.dwp.gov.uk/newsroom/ministers-speeches/2009/21-05-09.shtml> on 05/02/2010 23:40.

Executive Committee TUC Budget Submission

this new approach, but the TUC believes that the Government should now extend ‘job guarantees’ like the Future Jobs Fund to all unemployed people aged 25 and over.

In January, the TUC joined with the Work Foundation, the Open Left Project, the Resolution Foundation and professors Paul Gregg and Richard Layard in calling for a universal job guarantee, available to all adults who have been unemployed for more than 12 months – continuing after the recession in those areas where there continue to be significant numbers of long-term unemployed people. We argued that guarantee participants should have sufficient time for effective jobsearch, with placements clearly focused on enabling participants to identify sustained work in the longer-term. It is very important that the Future Jobs Fund, not the Community Task Force, should be the model for the extended guarantees, and that participants should therefore work on tasks that are useful to the community, have full employment rights and be paid at least the minimum wage.

By contrast, the Conservative Party’s proposals fall short of what is needed. Some of the individual elements of their plans are harmless: ‘Work for Yourself’ (a scheme to promote self-employment) and ‘Work Together’ (a volunteering scheme) are hard to distinguish from provision already introduced by the Government.

But others are genuinely positive – investment in education, training and apprenticeships, for instance, would be very worthwhile and the revival of Job Clubs as ‘Work Clubs’ is long overdue. Unfortunately, these positive elements cannot bear the weight of all that they are expected to do.

Take, for instance, the proposal that any new business started in the first two years of a Conservative Government will pay no Employer National Insurance Contributions on the first ten employees it hires during its first year. When George Osborne announced this policy at last year’s Conservative conference, he predicted that it would create 60,000 jobs over two years and boasted, “This is just another example of the Conservatives being the party of jobs at a time when Labour are the party of mass unemployment.”⁴⁰

This is a well-intentioned policy and it will open up some job opportunities to unemployed people, but the TUC does not accept that the total would reach anything like 60,000. This is not guesswork – the Major government ran a very similar policy, called the “National Insurance Holiday” from 1996 to 1999. Businesses were exempted from employers’ National Insurance Contributions if they recruited someone who had been unemployed for more than 2 years; at the time, the government announced that they expected 130,000 people to benefit.

There were, in fact, about 4,000 ‘beneficiaries’ of the NICs holiday. Even this may over-state its effectiveness: many observers suspected that employers hadn’t changed their behaviour as

⁴⁰ “Abolishing tax on the jobs created by new businesses”, Conservative Party press release, October 5 2009, downloaded from http://www.conservatives.com/News/News_stories/2009/10/Abolishing_tax_on_the_jobs_created_by_new_businesses.aspx on 06/02/2010 12:16.

Executive Committee TUC Budget Submission

a result of the scheme. Instead, when they knew that the person they would have recruited in any case qualified for the holiday, they took advantage of it.⁴¹

The difficulty was that the NICs holiday was too small to make much difference to large employers and didn't offer enough to overcome small employers' worries that long-term unemployed people might not be reliable. DWP evaluations⁴² found that only a quarter of employers had heard of NICs holiday. Of them, only a fifth could remember anything about its scope or benefits. Of 1,011 employers interviewed, 65 had recruited someone eligible for the scheme and, of these, only five had applied to the scheme. As a result the holiday only cost £1.5 million, while the government had budgeted £50m for it.⁴³

A NIC holiday is a weak substitute for demand-side policies, because it does nothing to address the major weakness during a recession: the absence of effective demand. This is not to say that these small initiatives are harmful in themselves – some people will be helped into jobs – but what is harmful is the fact that they provide political cover for the abandonment of the fiscal stimulus. This will cost thousands of jobs, far outweighing the numbers who will be helped by the Conservatives' alternatives.

Young long-term unemployed people will also lose out when these initiatives are paid for by the abolition of the Future Jobs Fund: "We do not believe that subsidised temporary 'make-work' jobs – which Labour is providing through the Future Jobs Fund – can conceivably address the failure of the education system to prepare a generation of young people for the future."⁴⁴

Higher benefit rates

It is shocking that, in the current recession, the value of Jobseeker's Allowance relative to average earnings is substantially less than in the 1980s and 1990s recessions. UK benefits for unemployed people are low by international standards. They are incapable of preventing claimants from falling into severe poverty and this position is gradually worsening year-by-year.

⁴¹ *Employment and Training Programmes for the Unemployed*, House of Commons Research Paper 98/111, December 1998, p. 69, downloaded from <http://www.parliament.uk/commons/lib/research/rp98/rp98-111.pdf> on 2/6/2010 7:53 PM.

⁴² *Recruiting long-term unemployed people*, Dawn Snape, DSS Research Report 76, 1998 and *Employers' Awareness of the NIC Holiday Scheme*, K Bunt, S Marwaha and V Moulton, IFF for DSS, In-house Research Report 76, 1997.

⁴³ *Employment and Training Programmes for the Unemployed*, House of Commons Research Paper 98/111, December 1998, p. 69, downloaded from <http://www.parliament.uk/commons/lib/research/rp98/rp98-111.pdf> on 2/6/2010 7:53 PM.

⁴⁴ *Get Britain Working*, Conservative Party, 2009, p. 17.

Executive Committee TUC Budget Submission

Unions have always argued that benefits for unemployed workers have two functions. The first is to cushion families from a large drop in incomes and this is actually more important today than it was in the early days of the welfare state. The days when most workers budgeted from week to week with few long-term commitments are long gone; most workers now have mortgages and other responsibilities that demand a regular income - such as hire purchase loans and regular activities for children and other family members. The sudden drop in income that follows unemployment, will often leave unemployed people unable to meet these obligations.

Benefits for unemployment should provide some protection from this experience, at least for an initial period. They can only do so if the benefit rates do not become too detached from the norms set by wages and salaries.

Comparing increases in average earnings and unemployment benefit rates since 1970, the change in relative values in each of the recessions is dramatic. During the 1980s recession, Unemployment Benefit was worth around one-sixth of average earnings; by the time of the early 90s recession, this had fallen to around one-seventh; in the noughties, Jobseeker's Allowance was one-ninth of average earnings.

Benefits and wages, 1970 - 2008⁴⁵

Date	Weekly out-of-work benefit rate	Weekly Average Earnings	Benefits as proportion of earnings
1970	£5.00	£26.10	19%
1973	£6.75	£36.40	19%
1976	£11.10	£64.20	17%
1979	£15.75	£89.60	18%
1982	£22.50	£136.50	16%
1985	£28.45	£171.00	17%

⁴⁵ Unemployment benefit levels since 1968 can be found on the Institute for Fiscal Studies' fiscal facts page at <http://www.ifs.org.uk/fiscalFacts/taxTables> The weekly average earnings figures are taken from *The Abstract of Statistics for Benefits, National Insurance Contributions, and Indices of Prices and Earnings*, 2008 Edition, DWP, table 3.2, downloaded from <http://research.dwp.gov.uk/asd/asd1/abstract/Abstract2008.pdf> on 2/7/2010 11:16 p.m. except for 2009, which is taken directly from the Annual Survey of Hours and Earnings, downloaded from http://www.statistics.gov.uk/downloads/theme_labour/ASHE-2009/2009_all_employees.pdf on 2/7/2010 11:18 PM.

**Executive Committee
TUC Budget Submission**

1988	£32.75	£218.40	15%
1991	£41.40	£284.70	15%
1994	£45.45	£325.70	14%
1997	£49.15	£372.60	13%
2000	£52.20	£425.10	12%
2003	£54.65	£487.10	11%
2006	£57.45	£534.90	11%
2009	£64.30	£587.30	11%

One objection to these figures would be to point out that JSA is paid at a higher rate for couples and families with children and that there are other benefits unemployed people can claim, such as Housing Benefit. When these are taken into account, the proportion of average earnings that benefits represent is higher, but UK benefits are still low by international standards.

The following tables were taken from the Organisation for Economic Co-operation and Development's Tax Benefit Calculator.⁴⁶ They show the net replacement rates,⁴⁷ first for a couple with two children and second for a couple with no children. They show replacement rates for these family types in a number of countries the UK is commonly compared to, and assume one worker, earning the average wage.

Replacement rates for married couple with two children, 2008

Country	Replacement rate
Canada	80%
Netherlands	75%

⁴⁶ Accessed at http://www.oecd.org/document/3/0,3343,en_2649_34637_39617987_1_1_1_37419,00.html on 07/02/2010 23:30.

⁴⁷ A family's net out of work income as a percentage of net in work income.

**Executive Committee
TUC Budget Submission**

Denmark	73%
Germany	72%
France	71%
Italy	69%
UK	69%
Australia	60%
Ireland	59%
Japan	53%
USA	51%

Replacement rates for married couple with no children, 2008

Country	<i>Replacement rate</i>
Netherlands	74%
France	67%
Canada	64%
Denmark	63%
Italy	62%
Germany	59%
Austria	56%
United States	55%
Japan	53%
Ireland	48%

**Executive Committee
TUC Budget Submission**

Australia	47%
United Kingdom	45%

The second union concern about the value of benefits for unemployed people is that they should prevent poverty – as a minimum, they should be adequate to prevent deprivation and ill health. They are not.

In 2000, a report from researchers at the London School of Hygiene and Tropical Medicine estimated the cost of a healthy diet, home and other necessities for a healthy, single, working man aged 18 - 30. The minimum cost (in April 1999 prices) was £131.86 a week. At the time, the relevant rates of Income Support and Jobseeker's Allowance were £40.70 for young people and £51.40 for over 25s.⁴⁸

Using the official Expenditure and Food Survey, Peter Kenway has compared⁴⁹ JSA with the amount of money people in the poorest fifth of the population actually spend:⁵⁰

Average weekly expenditure for a single adult in the poorest fifth of households, 2007

Areas of weekly expenditure	Cost
Food & non-alcoholic drinks	£18.60
Alcoholic drinks, tobacco & narcotics	£6.10
Clothing & footwear	£5.20
Fuel, power and housing related	£39.30

⁴⁸ Morris J N, Donkin A J M, Wonderling D, Wilkinson P and Dowler E A (2000) 'A Minimum Income for Healthy Living', *Journal of Epidemiology and Community Health*, vol. 54, pp885-889.

⁴⁹ *Should Adult Benefit for Unemployment Now Be Raised?*, P. Kenway, JRF, 2009, downloaded from <http://www.jrf.org.uk/sites/files/jrf/benefits-unemployment-poverty.pdf> on 07/02/2010 23:59.

Executive Committee TUC Budget Submission

Household goods & services	£8.80
Health	£1.10
Transport	£13.60
Communication	£5.60
Recreation, culture, hotels and restaurants, miscellaneous goods and services and other expenditure	£52.00
Total	£150.30

As he points out, even if we exclude the final line, that standard would require £98 a week, 50% more than the current rate.

The explanation for how this state of affairs came about is quite simple. In 1980, the uprating policy was changed. If benefits for unemployed people had been increased in line with earnings over the last 30 years, JSA for a single person over 25 would not be £64.30; it would be worth over £100 a week.

If the government elected in 1997 had reversed this policy and reintroduced uprating in line with earnings JSA would now be worth more than £75 a week - over £10 more. **That is why the TUC is renewing its call for an increase in JSA to at least £75 a week, to provide more of a cushion for the newly unemployed. This change should be implemented in Budget 2010.**

Public Spending

More than any other issue, the debate over public spending has been allowed to dominate economic policymaking in recent months. Confusion about whether to cut or not to cut, and if so, how much to cut, has broken out across the major parties.

Last summer, with the UK still in recession but with signs that we were moving towards growth, the Conservatives began to talk about the need to cut the fiscal deficit. Running a deficit was irresponsible, it was argued. In fact, cutting the deficit was necessary to bring about the economic recovery.

Let us state from the outset that nobody wants a higher deficit than is necessary. Debt must be serviced by interest payments that we would all prefer to go to schools, hospitals and vital public services. However, when private sector demand is flat, the economy relies on public spending to stimulate demand. Withdrawing that demand too soon could threaten to choke off the recovery.

Executive Committee TUC Budget Submission

The argument that public sector spending is necessary at times of private sector contraction – so called ‘counter cyclical demand management’ – is a basic tenet of Keynesian economics. The TUC has consistently argued that deficit reduction is not the immediate priority. This position has received the backing of many highly respected economists, notably in a letter to the Financial Times signed by 12 such economists, including David Blanchflower, William Brown, Richard Freeman and Steve Machin, ahead of the Pre Budget Report in December 2009. We make this point to challenge the argument that maintaining public spending now is somehow economically reckless.

What is more, in practice, rapid deficit reduction risks massive cuts in public services – the very public services that are required more than ever during and in the aftermath of an economic downturn.

Nevertheless, journalists picked up the case for deficit reduction and the Labour Government came under pressure to show it would manage the nation’s debt. As a consequence, PBR 09 included a commitment to reduce public sector net borrowing to 5.5 per cent of GDP in 2013-14, more than halving the 2009-10 level of the deficit over four years. Government borrowing will fall year on year over the forecast horizon. PBR 09 set out plans consistent with debt falling as a share of GDP in 2015-16. These plans were to be embedded in legislation through the Fiscal Responsibility Bill.

The impact of spending cuts

The TUC strongly cautions against spending cuts, in Budget 2010 and for at least the whole of the next year. There is a wealth of evidence to show that this would cause great harm to the economic recovery.

There are a number of reasons for this. First, there is a direct interdependency between the public sector and key parts of the private sector that is highly sensitive to levels of public expenditure. Public service providers spend significant sums with private sector companies. The last decade has also seen private provision of public services extend into areas of provision traditionally the preserve of direct public provision.

TUC analysis shows that a notional ten per cent cut on 2007-08 spending levels would lead to a reduction of around 200,000 public sector posts. And since around 29 per cent of public sector expenditure goes directly to the private sector, a ten per cent cut in these budgets would mean a reduction of around £16.8 billion in private sector investment from public funds. This would have an inevitable impact on private sector as well as public sector employment.⁵¹

Second, unemployment, social exclusion and poverty have a massive cost to the public purse. According to the Institute for Fiscal Studies (IFS), in 2008-09 the £169bn bill for benefits

51 <http://www.tuc.org.uk/extras/publicspendinganalysis.pdf>

Executive Committee TUC Budget Submission

expenditure was almost the same as the public sector pay bill. Professor Paul Gregg of Bristol University estimates the cost to the Treasury of unemployment to average around £8,000 per unemployed person per year – a figure that includes lost tax revenues to government (around £3,000 per person per year) – as well as the direct costs of unemployment and other benefits. He also estimates that long periods of unemployment reduce life-time earnings by around 10-12 per cent, as many unemployed people resume employment in low paid jobs with less secure tenure.⁵² Analysis by Richard Murphy of the Tax Justice Network reveals that 92 per cent of the cost of cutting public sector jobs when we have less than full employment is paid by the state, making it counter-productive economically.⁵³

A reduction in public sector employment would clearly exacerbate these problems. As Professor Colin Talbot, special adviser to the Treasury Select Committee, told us: “If too many public sector jobs are lost, that will have political implications. The savings you make from losing jobs in the public sector are far less than the amount you pay out because that then shows up in rising ill health and extra benefit payments.”

Professor Talbot makes an important point. A Treasury Select Committee report predicts that unemployment is likely to rise about three million at its peak in the current downturn. A study by Oxford University and the London School of Hygiene and Tropical Medicine shows that a three per cent rise in unemployment is linked with a 2.7 per cent increase in heart attacks among men aged 30-44 and increases of 2.4 per cent in murders and suicides in people under the age of 64. Deaths from alcohol abuse rise substantially by 28 per cent.⁵⁴ The mental health charity, Mind, also presents evidence that the recession is having an adverse effect on mental health. Mind’s You Gov survey, conducted in May 2009, found almost 40 per cent of men were worried or despondent, with the top three issues playing on their minds being job security, work and money.⁵⁵

Public employment and services act as an anchor in maintaining social and economic stability. Cuts in the public sector will have a negative impact on key social objectives, such as: reducing health inequalities and improving life chances; improving educational attainment; addressing social inclusion and poverty; and creating more sustainable communities. Ensuring resources are targeted to prevent the knock-on consequences of unemployment, ill-health, a rise in crime, social breakdown, homelessness and the cycle of poverty this creates will provide better value for the public pound in the long-term than reducing services at a time when they are most needed.

⁵² Gregg P, BBC Radio 4, PM Programme, 27 January 2009

⁵³ www.taxresearch.org.uk/Blog/2009/07/08govspend/comment-page-1/

⁵⁴ “Recession Increases Suicide”, Nursing Times, 13 July 2009

⁵⁵ ‘Men and Mental Health: Get it off your Chest’, Mind, May 2009

Executive Committee TUC Budget Submission

Fair pay for public service workers

Budget 2010 provides an opportunity for the Government to right a wrong that has been committed against public sector workers.

PBR 09 states, quite correctly, "Public sector workers are at the heart of delivering world-class public services and supporting long-term economic growth, prosperity and fairness."⁵⁶ PBR 09 then goes on to say that the Government will seek a one per cent pay cap on basic pay uplifts across the public sector for 2011-12 and 2012-13, generating savings of £3.4 billion a year by 2012-13.

The Conservatives have promised to be even more unfair, announcing that they will impose a public sector pay freeze in 2011 on all public sector workers earning above £18,000.

With CPI inflation running at 3.5 per cent and RPI currently at 3.7 per cent, public sector workers face a real terms pay cut under either a Labour or Conservative Government. This is clearly unfair. Public sector workers, many of whom are low paid in the first place, did not cause the economic downturn. In fact, many of them offer services and support to those who have suffered the most as a result of the downturn. Their reward for this service is to suffer a reduction of income.

A public sector pay cap or pay freeze also undermines long-established independent pay review systems, which already take affordability into account.

What is more, those who argue that public sector workers have done well in recent years have got their facts wrong, as the Institute for Fiscal Studies recently made clear. In its 'Green Budget', published on 10th February 2010, the IFS says: "Overall, pay levels in the public sector are probably not significantly out of line with those of similar workers in the private sector, once you take into account factors such as their age, education and qualifications."⁵⁷

The Green Budget goes on to show that public sector pay tends to "catch up" after periods of pay restraint. This happens because a loss of morale among public sector workers leads to recruitment and retention issues. So not only are public sector workers not earning more than their private sector equivalents, but if their pay is squeezed, it will simply have to be uprated at a later date.

Budget 2010 offers the Chancellor an opportunity to remove the public sector pay cap that was unfairly introduced in December 2009. Such a move would be both fair and popular. In an election year, it would allow a public debate in which the

⁵⁶ 'Pre Budget Report - Securing the recovery: growth and opportunity', Cm 7747, HM Treasury, December 2009

⁵⁷ Institute of Fiscal Studies 'Green Budget', 10th February 2010, p. 213

Executive Committee TUC Budget Submission

competing political parties could show whether they will respond to the economic downturn in a way is just, by supporting highly respected public sector workers.

Public sector pensions

It is also essential to protect public sector pensions. It is important to highlight this point, as public sector pensions are regularly castigated for being both unaffordable and an unfair, cushy perk for public sector workers.

On affordability, the TUC highlights a report produced regularly by the Treasury, entitled 'The long term public finance report: an analysis of fiscal sustainability'. This, quite properly, looks at whether the government can afford its future commitments. On public sector pensions, the Treasury report has this to say:

"Expenditure on public service pensions is projected to increase from 1.5 per cent of GDP to 2 per cent by 2027-28, remaining just under 2 per cent thereafter."

A rise of half a per cent of GDP over nearly 20 years is easy for the government to plan for. What is more, as the population ages, it is inevitable that we are going to spend more on pensions and on the older population in general. But the Treasury itself clearly demonstrates that public sector pensions are affordable.

Yet affordability is not the only issue. Decent pensions help to recruit and retain staff. Pensions reward long-term commitment and loyalty in a way that pay does not. That is what we want from public sector staff. It takes time – and is not cheap – to train a teacher, a nurse or a doctor. We want them to make a life-long commitment to working to provide excellent public services. A decent pension is the best way to do this.

To those who compare public sector pensions with private sector pensions, and note that there is a gap between the two, this is because pension provision in the private sector has collapsed. Drawing the conclusion that public sector pensions must also be undermined is completely wrong. The challenge is to provide decent pension for all, by levelling up private sector pensions.

The TUC calls on the Chancellor to ensure that public sector pensions are protected in Budget 2010.

Real efficiency in the public sector

Public sector unions and the TUC have always been committed to real efficiency in the public sector. There are real efficiency savings to be gained and PBR 2009 highlights many of them. It is important to add the caveat that these savings must be made through dialogue and co-operation with public sector unions. Not only can the independent representatives of the workforce on the ground spot potential pitfalls that management or consultancy services might overlook, but the best way to introduce change is always for management to take the workforce with them.

Executive Committee TUC Budget Submission

Within this caveat, efficiencies identified in PBR 09 include:

- £650m from cuts of 50 per cent in consultancy spend and 25 per cent in marketing and communications spend across government;
- £300m by improving energy efficiency across the public sector to reduce energy demand and costs, cutting bills by around 10 per cent and contributing to climate change goals;
- £600m from greater use of on-line systems and streamlining contact with the public, including: £35 million from providing business services and advice online and charging for schemes with the greatest benefit to business, and £500m from more efficient use of automation, e-channels and telephony and greater risk profiling within HM Revenue and Customs (HMRC) and the Department for Work and Pensions (DWP);
- £500m from reduced spend on IT, including by reducing the cost and scope of the NHS IT programme;
- £250m from reducing variation in spend on residential care, including greater use of preventative approaches to care for older people allowing people to stay in their own homes for longer;
- £170m from smarter procurement of new rail franchises and additional trains, and by generating higher passenger revenues by increasing station car parking capacity and clamping down of fare evasion.

Measuring the costs of cuts

None of these arguments are particularly new. TUC Budget Submissions going back over several years have made the case against spending cuts, partly for moral reasons but also because they tend to be inefficient over the longer term.

However, given the feverish atmosphere around the issue of deep spending cuts, this issue is particularly important at the moment. For this reason, we make the following proposal: an economic modelling body independent of the Treasury must be appointed to assess the impact of spending cuts.

A range of factors must be included in the measurement of cuts. For example, evidence was quoted above to show that a three per cent increase in unemployment leads to an increase in heart attacks of 2.7 per cent among men aged 30-44 and a rise of 28 per cent in deaths from alcohol abuse. With unemployment at approximately 2.5 million, a three per cent increase would entail 75,000 job losses. Therefore, if proposed government spending cuts were to lead to the loss of 75,000 public sector jobs, it should not be difficult to assess the cost to the NHS of a 2.7 per cent increase in heart attacks among men in the age range mentioned above. Furthermore, what would be the cost in lost tax revenues if these men were then not able to seek work for some time to come (i.e. while they were convalescing), assuming that some would live and some would die from those heart attacks? How much does it cost the NHS to treat the additional 28 per cent of people before they die but while they are abusing alcohol? What are the costs to social services? How many additional people abuse alcohol due to unemployment, but not to the extent that it kills them, and how much does that cost to treat?

Executive Committee TUC Budget Submission

Economic modelling could only realistically arrive at an approximate figure, but if its findings were published, it could provide enough information to allow a political and public debate on the real cost of spending cuts. Meanwhile, figures to demonstrate the percentage of government savings made through real efficiency, such as through smarter procurement, compared to the savings made (or costs endured) by arbitrary cuts should also be provided. Once this information is available, a proper public debate about the desirability of spending cuts could take place.

Taxes

As stated at the outset of this submission, the TUC believes that the pursuit of economic growth is the best way to reduce the fiscal deficit and secure the recovery. We reject spending cuts as a method of deficit reduction, while supporting real efficiency in the public sector.

This leaves the issue of tax. Where does the TUC stand on tax increases? The TUC submission to PBR 09 centred on tax policy. In that submission, we expressed doubt about the role of increases in income tax, National Insurance Contributions or VAT. As a supporter of progressive taxation, we have never liked VAT, because VAT hits the poor hardest. Poorer people spend a higher proportion of their income than richer people. In fact, many poor people spend all of their income. VAT takes no account of the different levels of wealth among consumers. For all of these reasons, it is the least progressive solution.

National Insurance Contributions are more progressive and income tax, based on earnings and therefore ability to pay, is the most progressive form of taxation of all. However, 90 per cent of taxpayers pay only the standard, rather than the higher, rate of income tax. To raise enough money to make a major difference to the fiscal deficit, tax rises at the level of the basic rate would be necessary. This would mean that the burden of paying for the economic crisis would fall on ordinary workers who bear no responsibility for bringing it about.

Moreover, it is generally assumed that a one per cent rise in income tax raises about £4 billion for the Treasury. Since £30 billion to £40 billion is needed to significantly reduce the deficit, the only way income tax could make a meaningful difference would be if it was increased to an extent that could well undermine consumer confidence, stifle demand and threaten to derail the recovery.

Six Tax Options

But that is not the end of the story. In fact, in our PBR 09 submission, the TUC identified six tax options which we believed could play a key role in deficit reduction. We did not suggest that any Government would want to introduce these simultaneously or indeed over the medium term. However, this menu of options did show how central innovative tax policy can be to a deficit reduction strategy.

It is not our intention to describe those six tax options at the level of detail that was set out in our Pre Budget Report submission. We assume that Treasury Ministers and officials read that submission and it can be found at (insert weblink) by any reader that wishes to see it again.

Executive Committee TUC Budget Submission

What is set out below is a brief review of the options put forward in November, which retain all of their relevance four months later.

The six options set out below were proposed by the TUC because:

- they would be effective in generating significant revenue streams to address the deficit;
- they are broadly progressive taxes with the burden of payment falling more heavily on those most able to pay;
- they represent a considered and prudent reaction to the fiscal challenge and hence are proportionate;
- they are just in that the burden of payment would be borne heavily by the individuals and institutions that created the recession and resulting fiscal problems;
- they have very limited economic consequences and certainly represent no systemic challenge to the UK economy and in some cases actually have beneficial economic consequences.

The six options, with estimates of the likely revenue they could raise over the course of one year, are:

- A Major Financial Transactions Tax (£35 billion);
- A General Anti-Avoidance Principle (£1 billion);
- A Tax Relief Cap (£10 billion);
- An Empty Property Tax (£5 billion);
- Collecting tax that is due by improving HMRC resources (£20 billion);
- Abolishing the Domicile Rule (£3 billion).

A Major Financial Transactions Tax

There has been much discussion in recent months regarding so called 'financial transaction taxes', which can be charged on the speculative activities of banks. The Prime Minister, Gordon Brown, has advocated such an approach, which also enjoys the support of Christine Lagarde, the French Finance Minister, and many others.

A tax on financial transactions should not be adopted solely for its dampening effect on financial speculation, but as a highly effective revenue raiser which could make a major or even the primary contribution to reducing the deficit.

As well as being effective, we also believe that such a tax would meet the other four criteria, detailed above, more closely than any of the other options which currently dominate public debate.

It is proportionate in that it is a considered measure that allows the deficit to be reduced within a reasonable, rather than urgent, time frame and without causing deep damage to other aspects of the state's functions.

Executive Committee TUC Budget Submission

It is progressive because, by its very nature, it raises revenue from those with the wealth to undertake large, and often very large, transactions.

Its negative economic consequences are almost certainly very limited. While many in The City will undoubtedly argue that such a tax will weaken London's attractiveness as a business centre, it is clear that any of the other options (higher VAT and income tax, weakened public services and infrastructure) would also have the same impact. And, as noted above, many would argue that providing a disincentive to some of the more volatile and destabilising transactions is a positive rather than negative outcome. However, it should be kept in mind that such a tax could generate very high revenues when set at a very low rate, thus having a very limited economic impact.

It is a just measure because the great burden of this tax would be borne by the very institutions which created the financial crisis and resulting recession and which thus are the main causes of the current public deficit.

A General Anti-Avoidance Principle

The TUC has estimated that tax avoidance of various sorts costs the UK at least £25 billion a year. Piecemeal attempts to tackle this issue are resisted by the business community.

Indeed, it is becoming apparent that there is no prospect of voluntary restraint in this area. Legislative action is therefore needed to tackle abuse that originates within these professions. This could be done by enacting what is called a General Anti-Avoidance Principle (GAAP). The idea behind a GAAP is simple: if a step is added to a transaction with the sole or principal aim of securing a tax advantage (which is defined as a saving in tax) then that step in the transaction is ignored for tax purposes. In other words, it tackles pre-meditated attempts to subvert the intention of the tax system.

The result would be simpler, and better, law and a significant reduction in the level of tax avoidance. Estimating by how much that abuse will be reduced is hard to do, but each year it seems that the government seeks to close at least £1 billion of tax loopholes, and more must slip through the net because of a lack of time to create law to tackle them. It is, therefore, quite reasonable to think that as much as this should be saved a year by a GAAP, making at least £5 billion over the life of a parliament, and maybe somewhat more if, as is likely, behaviour changes as a consequence of such a law, the like of which has proven successful in other locations, such as Australia and South Africa.

A Tax Relief Cap

By restricting total allowances and reliefs for those earning over £100,000 to the maximum average level claimed by those earning less than £100,000, the total tax saving each year would exceed £10 billion. This would not only generate large sums to help pay off the deficit, but would achieve greater equity in the allocation of

Executive Committee TUC Budget Submission

expenditure on tax reliefs (much of which goes on pensions), and by replicating this restriction in national insurance reliefs and reliefs for employer contributions to pension funds.

This change would have the added benefit of significantly simplifying the tax regime by making many smaller allowances and reliefs redundant.

An Empty Property Tax

A recent report⁵⁸ has suggested that there are at least one million vacant properties in the UK. The same report suggested that the owners of many of these vacant properties were offshore, tax haven companies registered in locations such as the British Virgin Islands, Jersey, Guernsey and Switzerland. Anecdotal evidence from HM Revenue & Customs also suggests that, although there is a requirement that a non-resident landlord company be registered with HM Revenue & Customs⁵⁹ this scheme has become a virtual rubber stamping exercise: enquiry is not made as to the beneficial ownership of the companies that apply to receive rent from the UK without taxes being deducted at source and a list of properties the landlord owns is not demanded.

This combination of circumstances suggests a considerable problem exists within the UK housing market, that a problem exists with the taxation of offshore landlords and that the two issues might coincide, especially when landlords have kept properties empty, holding them purely for speculative purposes, on which no tax will arise. These issues need to be tackled and in combination.

We propose three changes to taxation as a result. Firstly, we suggest that there be an annual tax on empty homes. This tax should be designed to force the property back into the housing stock available for use i.e. the rate should be designed to encourage those facing the charge to avoid it by selling or letting the property.

The second tax we propose is that, unless an overseas landlord who is an individual is willing to prove that they have paid tax in their place of residence on the rent they will receive from a property in the UK, then tax at basic rate should be deducted from all payments of rent made to them, either by their tenant or, with much greater likelihood, by their letting agent.

In the case of the non-resident landlord being a company, there should be a different requirement. In every such case tax should be withheld at source, on the grounds that the property in the UK represents a taxable branch of the company in the UK. That tax withheld should be required to be paid to HM Revenue & Customs at least quarterly, but with the right to make applications for repayment at the year-end if it can be shown that the tax due on a properly computed profit was less.

⁵⁸ <http://www.guardian.co.uk/society/2009/oct/16/empty-houses-london-wealthy-owners>

⁵⁹ <http://www.hmrc.gov.uk/CNR/nrl2.pdf>

Executive Committee TUC Budget Submission

The third tax would apply in the case of landlord companies that had not proven the identities of their owners: in such cases capital gains tax should be assessed on sale by requiring that 20% of all sale proceeds be paid as tax, unless full beneficial ownership of the offshore owners of the company are provided and tax computations submitted, with tax still then being due on the resulting profit.

Collecting Tax That Is Due by Improving HMRC Resources

Arrears of tax due to HM Revenue & Customs are rising fast and are well in excess of £20 billion. Despite this, HM Revenue & Customs persists in cutting staff. One consequence is that tax debts of less than £10,000 are rarely chased, but are commonplace.

There is a total tax gap in the UK of about £70 billion, based on £25 billion of avoidance and about 14% total evasion. If 4% of that gap could be collected by employing 25,000 extra staff, the recovery would be £20 billion at a cost of, maybe, £0.6 billion. The investment of that sum at this time seems to make complete sense.

Indeed, such an approach should also be taken in local government. Large amounts of council tax go uncollected, because of a shortage of staff among councils to follow up unpaid tax. This is money that is desperately needed by local authorities that are struggling to provide local services. With public spending cuts becoming a major topic of political debate, the next government must ensure that local authorities are not put in a position where their staffing levels become even lower and even more tax goes uncollected.

Abolishing the Domicile Rule

The non-domicile rule allows those living in the UK (including UK citizens) who can claim some close personal or business association with another country to pay no tax on their earnings outside the UK. PBR 07 changed the rule so that those claiming non-domicile tax status would have to pay an annual charge of £30,000. In 2007, the TUC estimated that the domicile rule might cost the UK as much as £4.3 billion a year in lost revenue.

There can be no doubt that the changes to the rule introduced by PBR 07 will have reduced this loss, but given they will affect the lower paid using the rule and given that the £30,000 fee to continue using it affects only tens of thousands of the highest earning beneficiaries, for whom such a sum is insignificant, it is likely that the amount recovered is no more than £1 billion. This leaves £3 billion or so of tax that might be recovered by abolishing the domicile rule.

False self-employment in the construction sector: taxation of workers

The TUC welcomed the decision by the HM Treasury and HMRC to consult on the issue of 'false self-employment in the construction sector: taxation of workers'.

The TUC and construction unions have for many years highlighted the problems of false self-employment in the sector and pressed for reform of the construction industry tax schemes

Executive Committee TUC Budget Submission

(CIS). There is concern that the CIS has encouraged and facilitated fraudulent declaration of status.

A recent report commissioned UCATT '*The Evasion Economy: false self-employment in the UK construction industry*' estimated that around 400,000 individuals in the construction sector may be falsely classified as self-employed, with a potential loss for the Exchequer, in the region of £1.7 billion per year (due in large part to non-payment of NICs by employers). While the Government's own estimates of the potential problems within the sector are more conservative, nevertheless it was very welcome that the consultation document acknowledged the failure of numerous reforms of the tax regime for the construction industry to address the problem of false self employment and set out a number of routes to address the issue.

The TUC believes that the Government should take urgent steps to reform the CIS in Budget 2010. In our response to the consultation we argued that under the scheme all workers should be deemed to be in receipt of employment income **unless** they fulfil the following criteria:

- VAT registration – this should be the primary requirement for self-employed status and self-employed individuals should register even when their turnover falls below the statutory threshold, **plus:**
- Two out of the three criteria proposed in the consultation paper must also be met. These are:
 - Provision of plant and equipment
 - Provision of all materials
 - Provision of other workers

The TUC also proposes that statutory guidance should be introduced alongside primary legislation in the Finance Bill. This guidance would include factors that should be taken into account when assessing genuine self-employment and HMRC and employment tribunals would be required to have regard to these when making decisions. The TUC also believes that there is a need for rigorous and effective enforcement of the scheme. In our view, the engager and the payer should be jointly and severally liable for applying the statutory criteria, in order to avoid the possibility of coercion of the payer, with the engager offloading the risks onto them, if they alone are responsible for applying the criteria, as the consultation paper proposes. It is essential that HMRC has adequate resources to monitor compliance with the new regulations and take enforcement action for breaches. Penalties should be sufficient to deter offenders from repeat offences.

Conclusions

This is the last Budget before the General Election and, inevitably, interest in it is high. Many of the themes that it contains will dominate policy debate during the General Election campaign.

Executive Committee TUC Budget Submission

Economic growth is clearly the major challenge facing the nation. For many years, there has been an assumption that growth will happen and economic policy making can focus on other priorities. We no longer live in such luxurious times. In these circumstances, the TUC fully supports the joined up efforts of many different policy strands towards the shared aim of high growth. The fact that industry policy dovetails with skills policy, science policy and, increasingly, procurement policy, is particularly important. Peter Mandelson identified the correct elements of growth in his speech of 6th January 2010. Themes around enterprise, innovation, finance for growth, infrastructure and long-termism are essential.

The TUC wants British industry to be successful. That can only happen if we focus on what has been called the 'high road' to growth. 'New Industry, New Jobs' and 'Going for Growth' are important documents. The sense of momentum that they have created must now be followed up with a 'New Industry, New Jobs Phase 2', mapping out the future of British industry and the role that government will play to support it. This is a major recommendation of the TUC for Budget 2010.

In this context, higher education funding cuts are a grave mistake. The TUC recognises the urgency of the immediate financial crisis, yet cutting such a serious investment in the country's future is deeply damaging.

Financing the investments of the future are vital and we commend recommendations in this submission around a new strategic investment fund, borrowing from the success of the French model, and around funding for low carbon technologies, in the run up to Budget 2010. Similarly, the role of corporate governance in promoting longer term investment is vital.

Yet the TUC has always believed that a strong economy can only be underpinned by a strong society and a strong society needs a properly resourced public sector, staffed by a workforce that is properly rewarded and has high morale. If economic growth is the greatest challenge that we face, a scramble among the major parties to cut the fiscal deficit, at a huge cost to public services, in the name of so-called sound economics, is the greatest threat. We must not abandon Keynes at the very time we need him most.

At a time of financial crisis, the threat of unemployment is inevitable. In these circumstances, it is essential that we prevent, as far as possible, any rise in unemployment leading to a new crisis of poverty. Action to help people remain in work, to help them find work if they do lose their job, and to provide them with proper benefits during the transition, is essential in the fight against poverty.

Finally, at times like these, the trade union movement is more important than ever. The route from economic downturn, back to growth and ultimately to prosperity, will only be travelled by harnessing the best from the UK's workforce. Trade unions argue the case of that workforce. We support their skills development, which is good for their own prospects, but without which the UK cannot bridge the productivity gap with its competitors. We defend them when their pay or their pensions are under attack. In the workplace, or on government

**Executive Committee
TUC Budget Submission**

bodies, we support the best interests of that workforce. We urge the government to keep working with us. In particular, when initiatives such as employee engagement are discussed, we wish the government to recognise the particular and distinctive role that trade unions have to play. But sometimes, to play that role, our rights need to be upheld. Rights to facility time and proper support, so that trade union representatives have the tools they need to do their job, are essential.

We hope that, whoever wins the next election, themes around economic growth, social justice and fair pay and protection for working people will remain at the heart of government. We look forward to working with our elected representatives on these issues in the months and years ahead.

ANNEX A

Department	Amount brought forward at PBR08	Breakdown of spending announced at PBR08	Progress reported December 2009
Department for Transport	£700 million of transport spending brought forward from 2010-11 into 2009-10 to increase capacity on motorways and other critical highways and accelerate delivery of new rail carriages.	£300 million allocated to buy 200 rolling stock units £400 million for the Highways Agency	<p>The £300m for rolling stock was put on hold when the Government announced the decision to go ahead with the electrification of the London-Swansea and Liverpool-Manchester lines in July 2009, which Ministers said altered rolling stock requirements.</p> <p>The £411m brought forward Highways Agency spending was spread across regions. Projects included road resurfacing, widening, lighting improvements and bridge works.</p> <p>The brought forward funding enabled the HA to maintain full employment of the existing workforce and provide some new jobs in planning, design and</p>

**Executive Committee
TUC Budget Submission**

			construction, although numbers were not specified.
Communities and Local Government	£775 million of housing and regeneration investment brought forward from 2010-11 into 2008-09 and 2009-10 to help offset the impact of economic shocks on priority programmes.	<p>£200 million on Decent Homes programmes to fund improvements and improve energy efficiency in 24,000 council homes.</p> <p>£150 million on social rented housing to deliver up to 2,000 more social rented homes.</p> <p>£175 million for major repairs to council housing stock.</p> <p>£100 million to support key regeneration and housing infrastructure projects</p> <p>The RDAs will also consider the scope for bringing forward up to £100 million nationally to provide a fiscal stimulus to regional and national economic development.</p>	<p>£250m was in fact brought forward to accelerate Decent Homes Standard work to improve social housing. According to CLG and Treasury, £130m was invested in 2008-9 (bringing 13,000 homes up to standard ahead of plans) and £120m is available for 2009-10, the bulk of which (£100m) has now been allocated, to bring another 10,000 homes up to the standard.</p> <p>The £150m for new social housing was reallocated to the 2010-11 financial year at Budget 2009, following other announcements about new funding for social housing in summer 2009. The lower level of brought forward spending in this department was balanced by extra brought forward in the Department for Children, Schools & Families.</p> <p>£100m was earmarked for transport projects in areas undergoing regeneration and growth. £80m of this will be spent in 2009-10.</p> <p>The majority of the other brought forward investment was brought</p>

**Executive Committee
TUC Budget Submission**

			into the current financial year and is being monitored, according to the department, but details were not supplied.
Department for Innovation Universities and Skills (now part of BIS)	£442 million from 2010-11 to 2008-09 and 2009-10.	<p>To accelerate the Learning and Skills Council's Building Colleges for the Future programme.</p> <p>To support Higher Education building projects and to bring forward the development of scientific research facilities and improvements to university research infrastructure.</p> <p>£200 million to fund the acceleration of HE building projects in 2009-10.</p>	<p>£80m was brought forward for capital works at Research Councils and university research sites. The Laboratory of Molecular Biology in Cambridge began construction in April 2009 as a result of this, and in December 160 construction workers were employed on the site.</p> <p>In FE, £110m was brought forward into 2008-9, supporting around 25 capital projects.</p> <p>The £50m for HE brought into 2008-9 was fully allocated via the usual HEFCE funding mechanism in January 2009.</p> <p>The £200m for HE brought into 2009-10 has been allocated to 144 projects in 107 institutions, such as a new arts building at Sussex and chemical engineering facilities at Sheffield. Two-thirds of the projects are already underway and all are on target to complete this year.</p>

**Executive Committee
TUC Budget Submission**

<p>Department of Energy and Climate Change</p>	<p>£50 million of investment brought forward from 2010-11 into 2009-10.</p>	<p>£50 million brought forward for the Warm Front programme</p>	<p>The Treasury advised that the £50m for the Warm Front programme had benefitted 30,000 households.</p> <p>The money was used to enable the scheme to target vulnerable households earlier.</p> <p>The impact of bringing forward the funding was negated by the announcement in PBR 2009 of an extra £150m for the scheme in 2010/11, which should benefit 75,000 households.</p>
<p>Department for Children, School and Families</p>	<p>Over £800 million brought forward from 2010-11 into 2009-10 in the priority schools capital programmes.</p>	<p>To fund accelerated renewal of the primary school estate and boost local authority capital funds for modernising school infrastructure.</p>	<p>In total £969m was brought forward from 2010-11 to 2009-10. This figure, which is larger than that originally announced for the department, is balanced by the £150m for social housing that was put back to 2010-11 at Communities and Local Government.</p> <p>£549m was for locally authority led capital projects (80% of all LAs bid for and received funding). Local authorities and schools have discretion about how the brought forward money is invested, but the Department has urged them to spend it by the end of the current financial year.</p>

**Executive Committee
TUC Budget Submission**

			<p>£390m was distributed direct to every school</p> <p>£30m investment for play facilities</p> <p>DCSF figures indicate that 74 per cent of capital allocated in 2009-10 (except for IT) will be spent by LAs by March 2010.</p>
Home Office	£20 million to improve the estates of the Serious Organised Crime Agency and the National Police Improvement Agency.	To develop and install high technology systems and enhancing intelligence gathering against serious organised crime.	At the time of writing a response had not been received from the Home Office.
Department for Environment Food and Rural Affairs	£25 million brought forward from 2010-11 into 2009-10.	<p>£20 million for Environment Agency investment in flood defences, delivering earlier protection for over 27,000 homes</p> <p>£5 million of improvements to the British Waterways</p>	Around half of the £20m for flood defences has been spent so far, providing flood defences for 27,000 homes 1 year earlier than planned and the early completion of some small projects, as well as putting a number of larger projects on course for early completion, such as in Sheffield and the Thames Estuary.

**Executive Committee
TUC Budget Submission**

		network infrastructure.	<p>Defra estimates that the additional funds will create or support 400 jobs for one year.</p> <p>The British Waterways work will be carried out between October and March and so in November Defra advised the TUC that it was mainly preparatory work that had taken place so far. The work includes dredging the Ribble Link in Lancashire and repairs to a number of bridges, embankments, locks and piers across England & Wales.</p>
Department of Health	£100 million brought forward from 2010-11 into 2009-10.	To advance the upgrading of up to 600 GP surgeries to training practices, targeting funding on those areas that have historically had a lower provision of doctors.	<p>DH advised the TUC that the full £100m has been granted to over 800 GP practices (as opposed to the 600 announced in the PBR), providing 1400 extra training places. At the PBR 2009 it was reported that 200 of the projects were under construction or complete.</p> <p>The Department estimates that this has supported 1,500 new jobs in construction, primarily in inner-city areas of high deprivation.</p>

Source: Pre Budget Report 2008 section 6.13, and TUC correspondence with relevant Secretaries of State

**Executive Committee
TUC Budget Submission**