PRE-BUDGET REPORT 2009 AND LOW EARNERS

Overview

This analysis reflects on policy measures set out in the Pre-Budget Report (PBR) 2009 from the perspective of low earners – those households on below average incomes that are largely independent of state support. The group includes 14.3 million adults living in 7.6 million households.

The PBR acknowledges that any economic recovery in the UK remains a fragile one. It therefore retains the focus of both PBR 2008 and Budget 2009 on providing targeted and time-limited support for those suffering most from the effects of recession while putting in place medium-term plans for reducing the Government's budget deficit. This approach is a sensible one, helping to protect the economy from the possibility of a double-dip recession and ensuring that low earners receive the assistance they need to avoid falling into crisis.

There is much to welcome from the low earner perspective, from the general support provided to businesses that employ low earners, to the continuation or extension of a number of existing initiatives and the introduction of some new ones. Highlights include:

- a bringing forward of eligibility for a guaranteed job, work placement or training place for all 18-24 year olds on JSA from one year to six months;
- the extension of free school meals to households with incomes below £16,190;
- a reduction in the threshold for Working Tax Credit eligibility among those aged 65 and over from 30 hours to 16 hours;
- the six-month extension of the Support for Mortgage Interest scheme; and
- a £20 million funding pledge for the national roll-out of the Money Guidance service.

However, some of the measures set to be introduced over the medium-term will create potential difficulties for some members of the group. The PBR highlights that, while measures can be taken to protect low earners from bearing the brunt of adjustment pain, the next few years will nevertheless be tough for everyone. Low earners are likely to be particularly disadvantaged by:

- the end of time-limited recession policies such as the VAT cut and the Stamp Duty Land Tax holiday;
- the 1 per cent increase in National Insurance rates in 2011 for those earning more than £20,000;
- a 1 per cent pay cap for public sector workers for the next two years;
- a delay to the full roll-out of auto-enrolment in private pensions; and
- real-terms departmental expenditure cuts from 2011-12 which will reduce the availability of public services.

Economic outlook

The PBR sets out a GDP growth forecast for 2009 of -4.75 per cent, representing a downward revision of the -3.5 per cent estimate presented in Budget 2009. However, the Government expects the economy to recover from Q4 2009. Growth of 1.25 per cent is forecast for 2010, rising to an above-trend rate of 3.5 per cent in both 2011 and 2012.

While the 2010 forecast is in line with the consensus view among independent analysts, the Government has received some criticism for basing its medium-term policy approach on figures which appear somewhat optimistic.[1] The forecasts are within the range of projections set out in the Bank of England's most recent *Inflation Report*[2] but there is significant uncertainty around these. The PBR itself notes a number of downside risks related to uncertainties over the pace and balance of the global recovery, the availability of credit, the extent of private sector deleveraging and the impact of the credit crunch on the UK's trend output level. If growth proves to be lower than set out in the PBR forecasts, then reducing government borrowing is likely to be even harder and therefore more painful than current plans suggest.

The PBR notes that the Bank of England expects inflation to rise in the near-term due in part to the effects of the pre-announced reversal of the cut to VAT from January 2010, and in part to higher fuel costs. After peaking in early-2010, inflation is expected to decline through 2010 and into 2011, to a position well below target. Retail Prices Index (RPI) inflation is expected to rise faster than Consumer Prices Index (CPI) inflation because of rising house prices and the large reductions in mortgage interest payments falling out of the annual comparison after more than a year of historically low interest rates.

Fiscal stimulus and consolidation

PBR 2008 announced a £25 billion one-off stimulus to the economy in reaction to the recession. It also identified a structural budget deficit (the gap between tax revenues and government spending that would exist even without an economic downturn) of 3.2 per cent of GDP, or £45 billion in today's money. It set out a six-year period of tax rises and spending cuts from 2010-11 designed to repair this deficit by raising the surplus of government receipts over expenditure by the required amount by 2015-16.

In reaction to an economic performance and outlook that proved significantly worse than expected at the time of PBR 2008, Budget 2009 added a further £5 billion stimulus. It also described a sharper and more prolonged fiscal tightening in the years from 2010-11. The Government revised upwards its estimate of the size of the structural budget deficit to 6.4 per cent of GDP, or £90 billion. The Budget set out an eight year consolidation plan to close this deficit, producing the required surplus by 2017-18.

Wednesday's PBR suggested that the size of the deficit problem is slightly lower than previously thought, with the structural budget deficit estimated to be

[1] See for example, *Financial Times*, "Needed: a clear plan for cutting the deficit", 9 December 2009

[2] Bank of England, *Inflation Report*, November 2009, Chart 1

5.2 per cent of GDP, or £73 billion. This means that the total additional money required from fiscal consolidation is also lower. Despite this, the Government has retained an eight year plan for returning the budget to balance. Instead of maintaining the pace of tightening set out in Budget 2009, the PBR presented a modest fiscal loosening in the short-term. Planned spending in 2011-12 and 2012-13 is £15 billion higher than set out in the Budget, with around £9 billion of this offset by the introduction of new tax rules.

The decision not to publish detailed proposals for public spending beyond 2010-11 alongside the PBR, but to instead rely on the broad trajectory set out in the Fiscal Consolidation Plan contained in the Fiscal Responsibility Bill, has meant that the Government has faced accusations of not setting out a clear and credible vision for deficit reduction.

While capital markets did not show much of a reaction in the immediate aftermath of the PBR,[3] the yield on 10-year government bonds rose by 0.14 percentage points to 3.8 per cent the day after the report. This is one of the biggest daily rises this year and signals that investors are demanding a higher return for funding government borrowing. Similarly, the interest rate on UK gilts is rising compared with German government bonds. The difference in the interest rate widened to 0.62 percentage points the day after the PBR, the highest in a year. It is expected that yields and interest rates will be pushed higher still once the Bank of England's quantitative easing policy comes to an end: a large portion of the £200 billion programme has been used to buy government debt, thereby keeping servicing costs artificially low.

The *Financial Times* has reported that there are fears that, unless the Government acts more quickly than the PBR suggests to reduce its budget deficit, the UK will lose its triple-A sovereign debt rating.[4] The result would be that the costs of servicing the debt burden would rise rapidly and any planned tax rises or spending cuts would have to be tougher to compensate for the additional interest costs.

It is difficult to gauge how likely such an outcome is, and it is probable that market reactions will moderate over time. However, their initial response suggests that the trajectory of deficit reduction set out in the Fiscal Consolidation Plan may represent the outside limit of what investors are prepared to accept. Given uncertainties over the strength of the recovery and the reaction of investors, the decision on how quickly the Government should pay down its debt is largely a political one, based on assessments of the trade-off between the demands of capital markets and the ongoing need for support for the economy, businesses and individuals.

Public spending

Public sector current spending is set to increase by an annual average of 0.8 per cent in real-terms in the period from 2011-12 to 2014-15. In the first two years of this period, the PBR details that the 95 per cent of NHS spending that supports patient care will rise in line with inflation, spending on front-line schools

[3] *Financial Times*, "UK Public Finances", 9 December 2009
[4] *Financial Times*, "Investors take fright at 'fiscal fiction'", 10 December 2009

will rise by 0.7 per cent a year in real terms and spending on 16 to 19 participation will rise in real terms by 0.9 per cent a year. Similarly, spending on Sure Start Children's Centres will be maintained in line with inflation and "sufficient funding" will be provided to police authorities to enable them to maintain the number of police officers and community support officers. Spending on overseas aid will remain on track to reach 0.7 per cent of Gross National Income by 2013.

Despite the overall 0.8 per cent real-terms increase, costs relating to social security and debt interest payments mean that funds available for public services and administration are likely to fall in real terms. The IFS has estimated that that these spending cuts will amount to 3.2 per cent in the three years from 2011-12. Moreover, the decision to protect real spending growth in some areas implies real-terms spending cuts for non-protected departmental budgets of around 5.6 per cent a year on average. This represents a little under 16 per cent in total and would be even higher if the ring-fenced services listed above were similarly protected in 2013-14.[5]

Given that low earners consume more public services than higher earners, they are likely to be more affected by such cuts in spending. However, the lack of detailed spending plans and the Government's decision not to undertake a Comprehensive Spending Review before the election means that it is not possible to assess the extent of these impacts.

Taxes and benefits

A range of measures relating to taxes and benefits have been set out in PBR 2008, Budget 2009 and PBR 2009. They have detailed both a fiscal stimulus in response to the recession and, increasingly, a fiscal tightening in reaction to the budget deficit.

A number of the tightening policies have been designed to raise revenue from higher earners while protecting those on lower incomes, although the impacts of some of the measures are more mixed. Overall, the IFS estimates that the effect on low earners[6] of tax and benefit changes announced in the PBR and earlier will be broadly neutral in April 2010. In April 2011 and April 2012, low earners will be negatively affected, though less so than higher earners. The richest 10 per cent of the country will experience the biggest negative impacts.[7]

Temporary measures

The PBR confirms that VAT will return to 17.5 per cent in January 2010, following its temporary reduction, and that the Stamp Duty Land Tax holiday for houses costing up to £175,000 will also end as planned at the end of December.

Although it was always clear that these measures were time-limited, their reversals will cause some discomfort for low earners. Most obviously, the

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[5] Robert Chote, IFS PBR 2009 briefing, "Introductory remarks", 10 December 2009

[6] Income deciles 3-5.

[7] David Phillips, IFS PBR 2009 briefing, "Personal tax and benefit changes", 10 December 2009

increase in VAT will increase the costs of goods in the shops. The end of the stamp duty holiday adds a further barrier for low earners wanting to enter the housing market. CML research suggests that 80 per cent of first time buyers receive assistance from friends and families to meet deposit costs; the addition of a further charge is likely to push this figure still higher.

National Insurance

PBR 2008 announced a 0.5 per cent increase in National Insurance rates payable by employers, employees and the self-employed from April 2011, partially offset for the lowest earners by increasing the primary threshold by £600. PBR 2009 set out a further 0.5 per cent increase, along with an additional £570 increase in the primary threshold. As such, National Insurance rates are set to increase by 1 per cent from April 2011. The overall increase in the primary threshold is designed to offset the higher rate for the 15 million people earning less than £20,000. While this protection is welcome from the perspective of many low earners, it will exclude members of the group who earn more than £20,000 but still live in households with below average income.

In addition, analysis from the IFS suggests that many employers will pass on the higher rates they face in terms of lower wages. As such, the IFS estimates that the National Insurance increase could affect all those with salaries above £14,000, thereby including many more low earners than is immediately apparent.[8]

Income tax

For 2010-11, the basic and higher rates of income tax will remain at 20 pence and 40 pence respectively and the personal allowance and basic rate limit will be maintained at their 2009-10 levels. Given the negative level of September's RPI, this represents a real-terms increase, meaning that low earners should be able to afford to buy more with their disposable income than they could in the previous year. However, given that inflation is set to increase in early-2010, this may not be the case come April.

As set out in Budget 2009, a new 50 per cent rate on income tax will be introduced in April 2010 for people earning above £150,000. The personal allowance will also be phased out for people earning above £100,000. Budget 2009 also detailed a reduction in pension contribution tax relief from 50 per cent to 20 per cent in April 2011 for those earning between £150,000 and £180,000. PBR 2009 has tightened these rules.

For 2011-12, plans were already in place for a freezing of the basic rate threshold and a real-terms reduction in the personal allowance level, which will result in low earners paying more tax, particularly where they experience modest pay increases. PBR 2009 detailed a further freezing of the higher rate income tax threshold in 2012-13. This will potentially draw more low earners[9] into this band, but the numbers are likely to be relatively small.

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[8] David Phillips, IFS PBR 2009 briefing, "Personal tax and benefit changes", 10 December 2009

[9] Defined on an equivalised basis to take account of family size and composition. For example, an adult earning £40,000 would be considered to live in a low earner household if they lived with another adult earning less than £10,000 and three teenage children.

Benefits and tax credits

Index-linked benefits and tax credits are usually up-rated in April on the basis of the preceding September RPI rate. Given that the RPI in September 2009 was -1.4 per cent, this would imply cuts in the level of many payments. The Government announced in PBR 2008 that the cash level of rates would be maintained as a minimum (representing a real-terms increase in a deflationary environment).

PBR 2009 goes further by bringing forward a portion of expected increases in April 2011 in order to provide a 1.5 per cent cash increase in the level of indexed benefits and tax credits. Thus the real-terms growth is even more substantial. This is a real benefit to those low earners who are, or may become, eligible for such payments. It also represents a boost to the economy by providing those who are most likely to spend additional income – lower income families – with extra resources.

There has been some controversy as to what the measure will mean in April 2011, with the Conservatives arguing that the Government has brought payments forward for political reasons. The PBR makes clear that the April 2010 increase represents an acceleration of increases from the following year. That is, rates will be increased in April 2011 by RPI minus 1.5 per cent. Overall however, benefit recipients should gain from the acceleration of planned increases during a period of ongoing economic difficulty. The Chancellor has stated that the April 2011 level would be reviewed in the light of underlying economic conditions.[10]

Some other benefits have been increased above inflation. For example, Budget 2009 set out that Child Tax Credit would be increased by £20 above indexation from April 2010 and PBR 2009 confirms that the Basic State Pension will rise by 2.5 per cent next year, in line with an existing Government commitment. Since PBR 2009 was published, it has also been announced that Job Seekers Allowance and Incapacity Benefits will rise by 1.8 per cent in April 2010.

Again, above-inflation up-ratings are of significant benefit to those low earners claiming such payments already or becoming eligible for them in the future, particularly as inflation is set to increase in early-2010. Given that average earnings have grown even during the recession, above-inflation increases in benefits also help prevent the gap between those in-work and out-of-work growing.

The PBR highlights the importance and flexibility of tax credits in helping people deal with changed circumstances. Low earners are the biggest beneficiaries and could be further helped by the announcement in the PBR that HMRC will improve its service for people whose relationship status changes. For people who start living together or separate who report the changes late, HMRC will take into account what they would have been entitled to receive had they reported the change promptly in determining any overpayment from their old tax credits award.

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[10] *BBC website*, “Alistair Darling denies benefit rise pre-election ‘con’”, 10 December 2010

The PBR also announces that a new online service that brings together information on a whole range of benefits and entitlements will be introduced in 2010, in order to allow front-line staff and advisers outside Government to direct families to relevant services. Given that low earners are defined on the basis of their relative independence from state support, they are likely to be particularly unfamiliar with what help is available to them. With many low earners expected to face unemployment in the next 12 months, this service is welcome.

Free school meals
The PBR sets out plans to extend free school meals to 0.5 million primary school children in England living in families with incomes below £16,190. Half of those families eligible will be able to access the award in September 2010, and full roll-out will take place in September 2011. Just over two-fifths of low earner households with children have earned incomes below the £16,190 threshold.[11] While some of the children in these households will be too old to be eligible, many should qualify for the scheme. It therefore represents a welcome extension of state support to include those in work but squeezed, and will help ease transitions into and out of work for some. Given that the support is not tapered, it will produce a cliff-edge which could represent a significant marginal deduction rate for some low earners. Nevertheless, it is a positive move.

Taxing the rich
PBR 2009 sets out details of a temporary bank payroll tax of 50 per cent, applicable to discretionary bonuses above £25,000 awarded in the period from PBR to 5 April 2010. In addition to the bank paying 50 per cent tax, the employee will remain liable for income tax on the amount as appropriate. The PBR also announced that the inheritance tax threshold will be frozen at £325,000 in 2010-11, rather than increasing to £350,000 as announced in PBR 2007. Alongside these measures, the PBR stated that the Government would introduce a package of anti-avoidance measures designed to protect around £5 billion a year in tax revenues.

The Government intends to achieve two-thirds of the fiscal consolidation it has set out by 2013-14 through spending cuts. Given that it is likely that such cuts will cause greatest suffering among lower income households, it is important that the tax measures intended to achieve the remaining one-third of consolidation are designed so as to fall predominantly on higher income households. It is important also that these measures are made visible, in order to secure support for fiscal tightening from low earners. Therefore, while measures such as those detailed above are unlikely to raise much money, they are important for the perception of fairness.

Other measures
PBR 2009 also specifies a reduction in the threshold for Working Tax Credit eligibility among those aged 65 and over from 30 hours to 16 hours from April 2011. This move will improve outcomes for some older low earners wanting to continue to work on a part-time basis. Given the inadequacy of pension provision among many low earners, this provides a useful opportunity for them to boost their incomes.

[11] Based on analysis of *Family Resources Survey 2007-08*.

Policy measures

In addition to changes in tax and benefits rates and rules, the PBR sets out details of a number of policy measures that will impact on low earners.

Business support

The PBR announces a number of measures designed to support businesses which should benefit low earners both in terms of their impact on the strength and sustainability of the economic recovery and in terms of the employment implications.

PBR 2008 launched HMRC's Business Payment Support Service to help viable businesses facing temporary financial difficulties to spread tax payments over an agreed timetable. PBR 2009 notes that the service has supported over 160,000 businesses and that HMRC will continue to offer this service as part of its 'time to pay' arrangements. The PBR also extends for a further year the temporary increase in the threshold at which an empty property becomes liable for business rates and defers for another year the planned increase in the Small Companies' Rate of corporation tax.

The Enterprise Finance Guarantee (EFG), launched in January 2009, provides participating lenders with a 75 per cent Government guarantee on individual loans to viable businesses with turnover of less than £25 million. The PBR states that nearly £1 billion of eligible applications from almost 9,000 SMEs have been granted, are being processed or are being assessed and that the scheme will be extended for a further 12 months. The report claims that this will enable £500 million of additional bank lending to SMEs between April 2010 and March 2011. The PBR also announces the creation of a Growth Capital Fund that will target SMEs for which traditional bank finance is either inappropriate or unavailable. Given the high proportion of low earners who work in SMEs, these measures are likely to be of particular benefit to the group.

Unemployment

Budget 2009 announced a guaranteed job, work placement or training place for all 18-24 year olds on JSA for one year, available from January 2010. PBR 2009 brings forward the guarantee, so that young people qualify after six months on JSA and are obliged to take up the offer after ten months. This is good news for those younger low earners suffering job loss during the recession.

The PBR also includes a pledge to provide new support for the over-50s, with support available through Jobcentre Plus and specialist providers to ensure members of the age group move back into employment quickly. Again, this is positive for low earners. However, the Foundation had called for an extension of the Future Jobs Fund to all workers in recognition of the difficulties faced by low earners in returning to work.[12] In the absence of such an extension, it is important that 'work for your benefits' schemes for older workers and the long term unemployed should focus on real experience with the possibility of a real job at the end of a period of training.

[12] Resolution Foundation, *Closer to Crisis? How low earners are coping with the recession*, November 2009

Pay

The PBR includes a commitment to roll-out the 'Better Off in Work' credit, which will ensure that all claimants who have been receiving benefits for six months will be entitled to a top up payment so that their in-work income is greater than their benefit income. This should help improve transitions back into work for low earners.

For public sector workers, the PBR announces that the Government will seek a 1 per cent cap on basic pay uplifts for 2011-12 and 2012-13 as part of its efforts to reduce the budget deficit. The Government estimates that this will produce savings of around £3.4 billion by 2012-13.

Pay levels in the public sector have increased more rapidly than in the private sector in recent years and low inflation expectations means that this cap is likely to represent a relatively small real-terms decrease. In addition, by limiting pay awards, some jobs in the public sector may be saved. However, low earners in the sector are still likely to find it difficult to cope with an effective pay cut, and the imposition of a 1 per cent cap across all jobs means that members of the group will receive much lower salary increases (or bigger real-terms cuts) than their higher earning colleagues: clearly a 1 per cent rise for someone earning £9,000 a year is worth much less than a 1 per cent rise for someone earning £40,000.

Skills

The PBR notes the main announcements from the recently published *Skills for Growth* White Paper,[13] several of which could benefit low earners. For example, the decision to prioritise more funding within Train to Gain at Levels 2 and 3 is likely to be particularly relevant for low earners who tend to have intermediate skills. Similarly, the renewed commitment to Skills Accounts and the increase in the number of providers where entitlements can be used goes some way to meeting the Foundation's request that low earners be given genuine purchasing power in relation to skills training.[14]

The PBR goes on to pledge a Government contribution of £8 million for a financial support scheme providing bursary-style support for up to 10,000 undergraduates undertaking short unpaid internships in professions with historically poor access. The measure is designed to reduce barriers for students from lower income backgrounds. It should therefore benefit undergraduates from low earner households. Details are still to be finalised, but it is expected to be available from summer 2010.

Housing

In response to the recession and the contraction of the housing market, the government widened the help available via the Support for Mortgage Interest (SMI) scheme, which is available to workless households. The size of the mortgage homeowners could claim for was boosted from £100,000 to £200,000 and the waiting time for new claimants was reduced from 39 to 13 weeks.

[13] *Skills for Growth,* BIS, November 2009.
[14] Resolution Foundation, *Closer to Crisis? How low earners are coping in the recession*, November 2009

The PBR announces that the standard interest rate used to calculate SMI will be maintained at 6.08 per cent for a further six months, which the Government claims will benefit around 220,000 homeowners. Once the freeze ends, the Government intends to move towards an approach that more closely reflects mortgage interest rates.

Given the likelihood of unemployment and repossessions lagging the economic recovery, it is good news for low earners that the Government has extended this support. However, it is possible that a further extension will be required. The Foundation also called recently for an expansion of the scheme to include households in which one person is working.[15]

The PBR announces a delay to implementation of the policy presented in Budget 2009 to scrap excess Housing Benefit payments because of "disadvantages" identified during consultation. The Government has therefore launched an immediate consultation on Housing Benefit reform and affordability. Around 16 per cent of low earners who rent are in receipt of Housing Benefit. The consultation provides an opportunity to improve the support for low earners during periods of transition into and out of work by speeding up processing, improving run-on time and reducing the sensitivity of the benefit to changed circumstances.

Younger low earners have found increasingly difficult to enter homeownership in the last decade because of affordability issues and, more recently, the lack of available credit. Over the same period, low earners have found it more difficult to gain access to social housing, because of a lack of supply. Therefore, the private rental sector is of growing importance for the group. The Foundation has suggested that the Rugg Review of the sector, conducted in 2008, should be built upon, particularly in relation to developing a National Register of Landlords. The PBR reaches a similar conclusion, and promises a consultation document early in 2010 to consider the contribution the private rented sector could make to addressing demand and increasing housing supply, along with any barriers to investment.

HomeBuy Direct, introduced in 2009, is a shared equity scheme designed to help first-time buyers to purchase a new build property from participating developers with the aid of an equity loan for up to 30 per cent of the property price. The Government expects that there will be 2,500 sales by the end of the year. The PBR announces the Government will, through moving £100 million forward from this year to 2010-11 and prioritising housing for first-time buyers within the Kickstart Housing Delivery programme, increase the development of HomeBuy Direct homes in 2010-11. This will deliver an investment of over £150 million in HomeBuy Direct that year and an increase of around 3,000 homes above the original 10,000 target, while sustaining delivery of the *Building Britain's Future* housing pledge of 112,000 affordable homes over two years.

Notwithstanding the difficulty many low earners face in accessing mortgage credit, the lack of flexibility associated with the shared ownership tenure and the

[15] Resolution Foundation, *Closer to Crisis? How low earners are coping in the recession*, November 2009

fact that government Low Cost Home Ownership schemes have typically benefitted higher earners more than low earners, this extension is likely to provide some members of the group with a means of accessing homeownership.

Financial inclusion

The PBR includes a commitment from the Government to explore options with banks to improve the information available on services delivered in deprived communities in order to ensure that banks play their role in supporting communities and tackling financial exclusion. The report also makes reference to a number of Growth Fund contracts established since Budget 2009 with third sector lenders, designed to extend affordable credit to financially excluded individuals. It also promises to take forward further work towards the creation of a new Social Investment Wholesale Bank, which would aim to leverage in investment for organisations with social impact, such as Community Development Finance Institutions and credit unions, and improve their access to finance. By Budget 2010, Government will finalise the model for the Bank. To fund its initial capitalisation, the Government will commit up to £75 million of the funds expected to be released through the Dormant Accounts Scheme in England.

Reduced availability of credit and the withdrawal of a range of mainstream banking products mean that such measures are of increasing importance for low earners. The Foundation has called for the Government to take a pro-active role in encouraging and shaping a more diverse affordable credit market that draws in the capital required to build sustainable models.[16]

Money Guidance

The PBR notes that interim evaluation findings from the pathfinder Money Guidance service show that the scheme is proving effective in helping people deal with their finances, from making an informed decision when choosing financial products to dealing with debts before they get out of hand. The report pledges £20 million in funding for the national roll-out of the service in 2010-11, with the national scheme expected to help one million people. It will be of particular benefit for those low earners falling into an "advice gap" between the commercial focus on the better-off and the third sector and Government focus on the most vulnerable. Foundation research shows that a low earner in receipt of money guidance could be £60,000 better off by the age of 60 by making sound financial decisions throughout their life.

Debt advice

The Government has been working to improve debt advice capacity for a number of years, allocating £130 million in England and Wales between 2006 and 2011 for free face-to-face services. In response to the shock to personal finances caused by the recession, PBR 2008 provided an extra £10 million to allow Citizens Advice to recruit and train more volunteers and extend opening hours in the period February 2009 to March 2010, and an extra £5.85 million for National Debtline to increase frontline staff levels by 50. The PBR announces a

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[16] Resolution Foundation, *Closer to Crisis? How low earners are coping in the recession*, November 2009

further £5 million in funds in 2010-11 for Citizens Advice to meet increased consumer demand for help with debt. Housing minister John Healey announced on 15 December that the Government is setting aside a further £4 million to extend services offering free advice to people facing repossession hearings into 2010.

Foundation research shows that low earners were experiencing growing problems with debt in the years immediately prior to the start of the current recession. They are also more likely than other members of society to be in negative equity and to be facing difficulties with mortgage arrears. This extension of debt advice capacity is therefore likely to be beneficial for low earners. However, overall capacity is still expected to be insufficient to meet demand for help.

Auto-enrolment

The DWP announced in September 2009 that private pension reform implementation would be delayed, with employee contribution levels phased-in over four years from 2012. The Department said that contributions would start at 1 per cent in 2012, rise to 2 per cent after three years and only reach 3 per cent in 2016. The PBR indicates that there will be further changes to the timetable. Details will not be published until early-2010, but it appears that auto-enrolment will now not be fully operational until 2017.

Low earners frequently make insufficient pension provision, and are less likely than higher earners to either be offered a pension by their employer or join one where it is made available. Auto-enrolment is therefore a key means of improving long-term saving among low earners and the further delay in full implementation risks impacting negatively on some members of the group. The Foundation has recently called for employers to be enabled to participate in auto-enrolment voluntarily prior to the official roll-out.[17]

Fuel costs

Fuel costs represent a significant part of low earners' total expenditure and, following substantial price rises in 2008, domestic bills are expected to continue to grow in the coming years. In order to counter this trend, it is important that low earners are able to improve the efficiency of their homes.

The PBR announces £150 million funding for the Warm Front Scheme in 2010-11. The programme, which provides grants for vulnerable households wanting to improve the energy efficiency of their homes, has been accessed by around two million households since it was launched in 2000. Given that low earner households tend not to meet the official definition of fuel poverty, they have largely been ineligible for Warm Front assistance. The provision of extra resources is expected to benefit an additional 75,000 households and could therefore help some low earners, but resources will again be targeted on the most vulnerable households.

[17] Resolution Foundation, *Closer to Crisis? How low earners are coping in the recession*, November 2009

Low earners may be better placed to take advantage of the greener boiler incentive announced in the PBR. Under the programme, up to 125,000 households will be able receive up to £400 to upgrade their old boilers for the latest, most efficient models.

The PBR also set out an increase in the amount of help provided by energy companies to consumers from £150 million currently to £300 million a year by 2013-14. The Government states that these resources could provide discounts for an additional one million households. New legislation will be brought forward to mandate the provision of this support from the end of the current voluntary agreement in March 2011. Around 750,000 households are already being helped through the voluntary agreement. As with Warm Front, low earners have largely been unable to access this assistance because they tend not to be in fuel poverty. Again, the extension of help may mean that some low earners qualify, but the focus will continue to be on the most vulnerable households.

The PBR confirms that households that use renewable technology to generate electricity mainly for their own use will not be subject to income tax on feed-in tariffs.[18] This will save households paying the basic rate of tax £180 in 2010. Given the relatively high upfront costs of installing the appropriate technology, such incentives are likely to be taken up predominantly by higher earners. The Government therefore announced in the PBR that it will consult next year on measures to help low-income households take advantage of clean energy cash-back. Depending on how such measures are designed, low earners could subsequently benefit from the opportunity to secure future savings.

Social care

The PBR includes a Government commitment to bring forward more detailed proposals in 2010 for a “fair” and “fiscally sustainable” social care system that addresses rising demand in the coming decades. Although it is not yet clear what exactly this will set out, it is to be welcomed because the recent Green Paper, *Shaping the Future of Care Together* lacked detail on funding options. Given older low earners’ current position on the cliff-edge of means-testing for care, increasingly tight local authority eligibility conditions, and the relatively high proportion of low earners who provide either informal or formal care, the issue is of considerable importance to the group.

15 December 2009

[18] Feed-in tariffs provide a financial incentive to install renewable technologies, allowing homes to generate around half of their own electricity