

WIRRAL COUNCIL

CABINET

14 JANUARY 2010

REPORT OF THE DIRECTOR OF FINANCE

CHANCELLOR OF THE EXCHEQUER'S PRE-BUDGET REPORT – 9 DECEMBER 2009

1. EXECUTIVE SUMMARY

- 1.1. The Chancellor of the Exchequer presented his Pre-Budget Report (PBR) on 9 December 2009. This report provides a summary of the key implications for local authorities.

2. THE MACRO ECONOMIC FRAMEWORK

- 2.1. To understand the reasoning behind a number of the initiatives it helps to consider the overall economic framework detailed in the PBR.
- 2.2. In 2008 the global economy entered the most severe recession since the Great Depression. By the end of 2008 both advanced and emerging market economies were contracting and output continued its steep decline in the first quarter of 2009. In the UK, Gross Domestic Product (GDP) has contracted sharply, by 5.8% and Public Sector Net Borrowing (PSNB) is forecast to peak at 12.6% of GDP in 2009-10.
- 2.3. The Government has taken action to deliver a package of support to the economy including;
- a. Intervention to support the stability of the financial system;
 - b. A substantial macroeconomic stimulus including delivering fiscal support worth 5% of GDP, the Bank Rate being lowered to 0.5% and authorising the Bank of England to use the Asset Purchase facility for monetary policy purposes in order to support economic demand.
 - c. Targeting support to businesses and individuals facing cash flow problems.

3. THE ECONOMIC OUTLOOK

- 3.1. The 2009 PBR economic forecast is for GDP to contract by 4.75% in 2009, compared with the 2009 Budget forecast of 3.5%. However, growth is forecast to rise by 1.25% in 2010, 3.5% in 2011 and 3.5% in 2012.

- 3.2 Consumer Price Index inflation is expected to continue to rise in the short term due to VAT reverting to 17.5%. However, it is forecast to fall to below target in 2010 and 2011. The Retail Price Index is expected to rise at a greater rate with the additional upward pressure resulting from increased house prices and the large reductions in mortgage interest payments falling out of the annual comparisons.
- 3.3 At present it is essential that these forecasts are not looked at in isolation from a number of major risks and uncertainties. In particular the size and timing of the impact of the financial shock on output; the pace of global recovery; the availability of sufficient credit to support a recovery and the extent of private sector deleveraging (experienced where an organisation increases the share of its income devoted to debt repayment as opposed to output resources).
- 3.4 Despite weaker than expected economic growth the forecast for public sector borrowing is broadly unchanged from the 2009 Budget forecast, with PSNB estimated at 12.6% of GDP. The Government is putting measures in place to reduce this to 5.5% by 2013-14. In total measures announced in the 2009 Pre Budget Report will reduce borrowing by £57 billion in 2013-14. Of this, around two-thirds derives from lower spending plans, while around one-third is driven by tax increases.

4. PROPOSALS AFFECTING LOCAL GOVERNMENT

- 4.1 Alongside the PBR the Government is introducing a Fiscal Responsibility Bill which requires it to set out at all times a statutory fiscal plan for delivering sound public finances. Furthermore it places a binding duty on the Government to meet that plan. This Bill in many ways, therefore, provides the context for the PBR.
- 4.2 As is the case with any PBR the actual detail to enable financial planning is unavailable, in many ways it is more of an indicative document for what lies ahead. However, as far as local government is concerned the following would appear to be the key issues.
- Financial support for 2010-11 remains unchanged but spending growth will reduce after 2011-12 to help halve the deficit over the next four years.
 - Public sector current expenditure will grow by an average of 0.8% per year in real terms from 2011-12 to 2014-15.
 - No breakdown of future spending plans post 2011 is available, but the Chancellor did make commitments to protect some services in 2001-12 and 2012-13.
 - Cash funding for front line schools will rise by 0.7% per year in real terms.
 - Cash funding for 16-19 participation will rise in real terms by 0.9% per year.

- Cash funding on Sure Start children's centres will be maintained in line with inflation.
- An additional £202 million will be provided in 2010-11 to ensure that the September guarantee of a place in education or training to every 16 and 17 year old who wants one is met in full.
- Alongside this additional investment there is a comprehensive programme in place to identify value for money savings in schools, 16-19 participation and Sure Start children's centres. The intention is to achieve £800 million of efficiency savings in front line areas by 2012-13, from collaborative procurement of goods and services and rationalising back office costs
- On top of the existing efficiencies already identified in the Public Value Programme and Smarter Government report (£11 billion a year by 2012-13) a number of additional efficiencies have been identified that would appear to come from local government including:
 - **£550 million** from;
 - more efficient waste collection and disposal;
 - reduced reporting, inspection and assessment requirements;
 - reducing duplication and inefficiency between different tiers of government
 - **£180 million** from improvements to the administration of concessionary travel
 - **£340 million** by prioritising regeneration and housing growth programmes, concluding the New Deal for Communities programme and by assessing the efficiency and effectiveness of interventions to tackle worklessness. There may be implications for the Working Neighbourhoods Fund.
 - **£250 million** from reducing variations in spending on residential care, including greater use of preventative approaches to care for older people allowing them to stay longer in their homes.
 - **£160 million** from clamping down on fraudulent access to social housing tenancies, rationalising the Department for Communities and Local Government (DCLG) community programmes and ending time limited schemes.
 - **£300 million** by improving energy efficiency across the public sector. It is unclear how much of this applies to local government.
 - **£300 million** by reducing funding not directly supporting learner participation.
- A 1% cap on public sector pay settlements in 2011-12 and 2012-13
- All public sector organisations making appointments in excess of £150,000 will have to publicly justify this salary.

- It is proposed to implement a cap and share scheme for teachers, local government, NHS and Civil Service pension schemes. Cost increases below the cap will be shared equally by employers and employees with those above the cap met solely by the employees. In addition it is expected that those earning the highest salaries will pay a greater contribution towards their pension. No capping criteria have as yet been announced.
- There will be an additional 0.5% increase in national insurance contributions for both employee and employer from April 2011. The threshold below which individuals will not be subject to national insurance is being increased to £20,000. Based on current spend and an average rate for Wirral this could result in an additional budget requirement in 2011/12 of around £1,200,000 for the General Fund (compared with £600,000 reported last year) and £150,000 for the schools.
- For 2010-11 the Government is maintaining the increased threshold at which an empty property becomes liable for business rates (£18,000). Because of the pooling arrangement there will be no financial implication for the Authority.
- The PBR states that the Government will shortly publish a revised Planning Policy Statement for economic development, to ensure planning applications that secure sustainable economic growth are considered favourably.
- The vagaries of the Local Housing Allowance introduced in 2008 have driven up the costs of Housing Benefit, by enabling some claimants to live in more expensive property that would not be affordable for low income earners. To try to control these costs the 2009 Budget announced that claimants would no longer be allowed to claim more in Housing Benefit than they paid in rent. After consultation the Government is delaying any reform until April 2011 and is launching a further consultation on Housing Benefit reform and affordability.
- Eligibility for free school meals is to be extended to primary school pupils in working families with a household income below £16,190.
- Legislation will be introduced to allow fathers of children due on or after 3 April 2011 to take up to 26 weeks leave once the mother has returned to work.
- The average guideline rent increase for local authority housing tenants for 2010-11 is being reduced from 6.1% to 3.1%.
- To ensure an adequate land supply for housing the Government intends to improve local authorities five year land supplies by undertaking comprehensive checks, publishing results and withholding incentive funding where a viable land supply is not in place. Details as to how this will be achieved are to be published in the 2010 Budget.

- A scale back of Section 106 requirements will be introduced as part of the Community Infrastructure Levy implementation to help provide local infrastructure in support of development.

4.3 The PBR repeated the commitments set out in the White Paper “Putting the Frontline First: Smarter Government” to reduce the burden of reporting and inspection, Government micro-management and duplication across quangos.

5. FINANCIAL AND STAFFING IMPLICATIONS

5.1 Further details are awaited on the many proposals for reducing spending plans after 2010-11.

5.2. The potential change in National Insurance Contributions in 2011-12 will add £1.2 million to General Fund costs.

6. EQUAL OPPORTUNITY IMPLICATIONS

6.1 There are none arising directly from this report.

7. COMMUNITY SAFETY IMPLICATIONS

7.1 There are none arising directly from this report.

8. HUMAN RIGHTS IMPLICATIONS

8.1. There are none arising directly from this report.

9. LOCAL AGENDA 21 IMPLICATIONS

9.1. The Pre-Budget Report contains a number of measures supporting low carbon growth notably around heating, energy efficiency and vehicles.

10. PLANNING IMPLICATIONS

10.1. There are none arising directly from this report but there may be future implications arising from the proposed Planning Policy Statement.

11. MEMBER SUPPORT IMPLICATIONS

11.1. There are none arising directly from this report.

12. BACKGROUND PAPERS

12.1. Pre-Budget Report – Chancellor of the Exchequer – 9 December 2009.

13. **RECOMMENDATION**

- 13.1. That continuing support be given to the Local Government Association; in presenting the case that as local authorities are the most efficient part of the public sector and are already contributing more than their fair share to savings, any increased efficiencies should be weighted towards other parts of the public sector.

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