

## **WIRRAL COUNCIL**

### **CABINET**

**15 APRIL 2010**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **CHANCELLOR OF THE EXCHEQUER'S BUDGET 2010**

##### **1. EXECUTIVE SUMMARY**

1.1. The Chancellor of the Exchequer presented his Budget 2010 on 24 March 2010. This report provides a summary of the main issues from the Chancellor's speech together with the key implications for local authorities.

##### **2. MAINTAINING MACROECONOMIC STABILITY**

2.1. In response to the global economic downturn, the Government took comprehensive action to support the economy. However significant uncertainty remains and macroeconomic policy will continue to support the economy throughout this year. It is expected to provide an ongoing stimulus.

2.2. A key part of this policy is to set a credible fiscal consolidation plan to ensure sustainable public finances, which in turn provides the conditions for growth, helps to maintain low long-term interest rates and gives businesses the confidence to plan and invest for the future.

2.3. In recent months tax receipts have been higher than expected. As a result public sector net borrowing (PSNB) in 2009/10 is projected to be £11 billion lower than forecast in the 2009 Pre-Budget Report and now stands at £167 billion. This in turn has contributed to the fall in the net financing requirement in 2009/10 and 2010/11.

2.4. The policies announced in the Budget 2010 are fiscally neutral, providing further support for growth in 2010/11, balanced by measures that raise revenue in later years. The budget forecast shows:

- i PSNB declining to 5.2% of Gross Domestic Product (GDP) in 2013/14 and 4% in 2014/15;
- ii Net debt projected at 74.5% of GDP in 2013/14, £100 billion lower than the Budget 2009 forecast, and peaking at 74.9% of GDP in 2014/15.

2.5 The Fiscal Responsibility Act sets a ceiling for PSNB in 2013/14 and a requirement for debt to be falling in 2015/16. The Budget 2010 provides a margin of flexibility against these requirements should future revenues turn out to be lower than expected.

### **3. UK GROWTH PROSPECTS**

3.1 The economy stabilised in the second quarter of 2009 with growth estimated to have risen in the final quarter by 0.3%.

3.2 Consumer Price Index (CPI) inflation has increased from its lowest point of 1.1% in September 2009, reaching 3.5% in January 2010 before falling back to 3% in February. In the near future CPI is expected to remain above target, reflecting the impact of the VAT change. It is expected to weaken and reach 2% by the end of 2010, then fall further through the first half of 2011 and is then expected to rise back to target by the end of 2012.

3.3 The Budget 2010 economic forecast is underpinned by the following assumptions;

- i The G20 continues to deliver on policy commitments that support a robust recovery in the world economy;
- ii Fiscal policy supports the level of economic activity through 2010 before tightening in 2011 onwards to ensure sound public finances;
- iii Throughout 2010, the price of credit continues to return closer to historical norms and that credit availability continues to improve;
- iv The positive impact of the monetary policy stimulus continues to support demand in the economy throughout the forecast horizon.

3.4 Reflecting recent developments, the GDP forecast for 2010 remains unchanged from the 2009 Pre-Budget Report, with GDP forecast to rise by 1% to 1.5%. The forecast for 2011 is a rise of 3% to 3.5%. This is slightly lower than in the 2009 Pre-Budget Report, reflecting a weaker outlook for the UK's largest trading partner, the euro area. The Bank of England mean forecast for 2011 and 2012 is 3%.

3.5 The economic forecast remains subject to significant uncertainty across a broad range of factors, including: the resolution of the global financial crisis and its impact on confidence and activity; the effectiveness of the global policy response to the economic downturn; the strength and sustainability of private sector demand. There are also risks to the forecast related to the availability of credit and the restoration of business and consumer confidence.

## 4. PROPOSALS AFFECTING LOCAL GOVERNMENT

4.1 The following would appear to be the key issues.

- Financial support for 2010/11 remains unchanged but spending growth will reduce from 2011/12 to help halve the deficit over the next four years. To quote from the Chancellors speech “the next spending settlement from 2011 onwards will be very tough – the toughest for decades”.
- Public sector current expenditure will grow by an average of 0.8% per year from 2011/12 to 2014/15 and public sector net investment will fall to 1.25% of GDP by 2013/14.
- No breakdown of future spending plans post 2011 is available, but the Chancellor did make commitments to protect some services in 2011/12 and 2012/13.
- Cash funding for 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.
- Free child care will continue to be available for 3 and 4 year olds.
- Sufficient funding will be available to enable Police Authorities to maintain the current level of warranted Police Officers, PCSOs and other staff exercising police powers
- 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.
- The 2009 Pre-Budget Report announced over £800 million of efficiency savings in education front line areas by 2012/13, of which schools would have to deliver £650 million. The report “Investing for the Future, Protecting the Front-line: School Funding 2010/13”, published on 15 March 2010 announced that schools could potentially deliver a total of £950 million efficiencies to be recycled to improve educational outcomes. These will be delivered from collaborative procurement of goods and services and rationalising back office costs. £150 million of efficiencies will also be delivered in 16 to 19 education and Sure Start Children’s centres.
- A 1% cap on public sector pay settlements in 2011/12 and 2012/13 which it is estimated will generate savings of £3.4 billion a year by 2012/13.

- The Government has accepted the results of the Senior Salaries Review Body (SSRB) review of senior staff pay in the public sector, including committing to a new Code of Practice on senior pay setting. All public sector organisations will have to explain, publicly, how they intend to comply with the Code by the end of the year. The SSRB is to recommend new benchmarks in Non-Departmental Public Bodies (NDPB) and the Prime Minister is to extend that remit to include the wider public sector. As part of this the SSRB will report on local authority chief executives and senior managers in the health service.
- It is proposed to implement a cap and share scheme for teachers, local government, NHS and Civil Service pension schemes. This will limit the liability of the employer in contributing towards employee pensions.
- 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 £1.2 million 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 level of small business rate relief will be temporarily increased for one year, from October 2010, to give full relief for eligible businesses occupying premises with a rateable value of up to £6,000 and tapering relief to £12,000.
- The Young Persons Guarantee will be extended until April 2012. This will ensure young people continue to be guaranteed a job, training or work experience placement if they cannot find work within six months.
- The approach to calculating Local Housing Allowance rates has resulted in very high payments to a small number of claimants living in the most expensive areas. As a prelude to further reform, with effect from October 2011, the highest rents across the country, including the most expensive 8% of properties in London, will be excluded from the Local Housing Allowance in each area.
- A package of administrative reforms to Housing Benefit will be introduced from April 2010. This will include measures to reduce the scope for fraud and error. Other reforms are delayed until April 2011.
- Currently employers have the legal right to require individuals to retire at 65. The Government intends to launch a consultation on reforms to the Default Retirement Age, although no changes will be made before April 2011.
- There will be an increase of £8 per tonne in the standard rate of landfill tax on 1 April 2014 and a freeze in the lower rate in 2011/12.

- Fuel duty will increase by 1p per litre from 1 April 2010 followed by a similar increase on 1 October 2010 and by 76p on 1 January 2011. It will subsequently increase by 1p in real terms in each April to 2014.
- Eligibility for free school meals is to be extended to primary school pupils in working families with a household income below £16,190. This will be staged, with the first roll out to eligible primary school pupils in Key Stage 1 from September 2010 and the remaining pupils from September 2011.
- Fathers of children due on or after 6 April 2011 may take up to six months additional paternity leave once the mother has returned to work. The leave may be paid if taken during the mother's maternity pay period.
- The Government is publishing results from comprehensive checks of local land supply strategies alongside the Budget 2010. Budget 2010 has announced that the Planning Inspectorate will continue to report on the position across the country and from 2010/11 the Government will withhold the relevant elements of the Housing and Planning Delivery Grant from local authorities that fail to provide satisfactory five year land supply assessments.
- To improve the incentives for more effective asset management the Department for Communities and Local Government (DCLG) will test a depreciation based funding scheme (on a shadow basis) with a small group of local authorities in 2010/11. Progress will be reported in the Budget 2011.
- The Government will shortly consult on how a scale back of Section 106 will operate.
- To better align investment in growth at a regional level the Budget 2010 gives an enhanced role to Regional Ministers to promote growth and inclusion and champion public service reform. The Regional Funding Allocation process will be aligned with the Spending Review cycle and Regional Ministers will recommend flexing funding to meet regional priorities as they emerge. A regional growth fund will be established by the Regional Development Agencies (RDA) within their capital budgets for 2011/12 to support high value investment in support of regional and national growth and industrial policy.
- Strong city regions will be given more autonomy under new regional arrangements. City Region agreements exist with Leeds, Manchester and Birmingham.
- The Government intends to support investment in infrastructure in cities and other centres of growth through an Accelerated Development Zone (ADZ) pilot programme. These pilots will be introduced in locations across England in 2011/12. Combined authorities and selected local authorities will receive capital grant funding totalling £120 million to help support key infrastructure commercial developments to unlock growth.

- Following Budget 2010 the Government intends to consult on detailed plans to replace the council housing financing system with a self-financing system.
- “Smarter Government” sets out plans to give local areas a greater role in setting priorities and guiding resources. Budget 2010 announces that the Government will give local authorities new discretion over £1.3 billion of funding that is currently ring-fenced and reduce the number of funding streams from central to local government from 110 to 94.
- The Government will also reduce the overall level of data burdens and ensure that inspectorates focus on areas of highest risk and adopt collaborative approaches to inspection and assessment. Steps have also been taken to increase the use of comparative data to drive performance and improve value for money.

## **5. FINANCIAL AND STAFFING IMPLICATIONS**

- 5.1 Financial support for 2010/11 remains unchanged but spending growth will reduce after 2011/12. Further details about sending allocations will not be announced until the Spending Review later this year.
- 5.2. As previously reported the 1% increase in National Insurance Contributions in 2011/12 will add £1.2 million to General Fund costs.
- 5.3 The increase in the standard rate of landfill tax from April 2014 will impact through the Waste Disposal Authority levy.
- 5.4 Any reforms to the Housing Benefit system in 2011 may have an impact.

## **6. EQUAL OPPORTUNITY IMPLICATIONS**

- 6.1 The Budget 2010 does include proposals under this heading although none arising directly from this report.

## **7. COMMUNITY SAFETY IMPLICATIONS**

- 7.1 The Budget 2010 does include proposals under this heading although none arising directly from this report.

## **8. HUMAN RIGHTS IMPLICATIONS**

- 8.1. The Budget 2010 does include proposals under this heading although none arising directly from this report.

## **9. LOCAL AGENDA 21 IMPLICATIONS**

- 9.1. The Budget 2010 contains a number of measures supporting low carbon growth notably around heating, energy efficiency and vehicles.

**10. PLANNING IMPLICATIONS**

10.1. The Budget 2010 does include proposals under this heading although none arising directly from this report.

**11. MEMBER SUPPORT IMPLICATIONS**

11.1. There are none arising directly from this report.

**12. BACKGROUND PAPERS**

12.1. Budget 2010 Report – Chancellor of the Exchequer – 24 March 2010.

**13. RECOMMENDATION**

13.1. That continuing support be given to the Local Government Association in presenting the case that local authorities are the most efficient part of the public sector and are already contributing more than their fair share to savings.

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