

WIRRAL COUNCIL

CABINET

22 JULY 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 22 June 2010. This report provides a summary of the three areas that the Government will focus on to rebalance the economy together with the key implications for local authorities. However, the full details of the Chancellor's plans will not be known until the results of the Spending Review, covering 2011/12 to 2014/15, are announced on 20 October 2010.

2. DEFICIT REDUCTION

2.1. Government fiscal policy decisions have, for the first time, been based on independent forecasts for the economy and public finances. The Office for Budget Responsibility (OBR), in its pre-Budget forecast confirmed that without further action public sector net borrowing would remain at 4% of GDP, the structural deficit would be 2.8% of GDP in 2014/15 with debt rising to 74.4% of GDP.

2.2 The Budget proposes action to eliminate the bulk of the structural deficit by 2014/15 which will be achieved by the 'additional consolidation' of £40 billion per year. This includes £32 billion per year from spending reductions and £8 billion from net tax increases.

2.3 Within the spending reductions there will be £11 billion of welfare reform savings, and a two year freeze in public sector pay, except for those earning less than £21,000 per year. There are to be no further reductions in capital spending beyond those already announced as part of the £6.2 billion savings for 2010/11. However, "careful choices" would be made about how it is to be spent and this will be assessed in the Spending Review.

2.4 The additional £8 billion from net tax increases will be achieved through actions such as increasing the standard rate of VAT to 20% and increases in the standard and higher rate of Insurance Premium Tax (IPT).

- 2.5 As a result of these actions the OBR predicts that:
- i public sector net borrowing will decline to 1.1% of GDP in 2015/16.
 - ii the structural current deficit will move into a projected surplus of 0.8% of GDP in 2015/16.
 - iii public sector net debt will decline to 67.4% of GDP in 2015/16.

3. ENTERPRISE

- 3.1 The aim is to create the conditions for enterprise and sustainable growth with the emphasis clearly on the expansion of the private, not the public sector.
- 3.2 To this extent the Budget introduces a number of measures such as a reduction in the main rate of Corporation Tax, the introduction of a Regional Growth Fund in 2011/12 and 2012/13 and amendments to the calculation of employers National Insurance contributions.

4. FAIRNESS

- 4.1 The Budget sets out a number of measures to refocus the tax and benefit framework. This is the first of a series of measures that over the long term underpin the Government intention to develop a fair tax and benefit system that rewards work and promotes economic competitiveness.
- 4.2 Particular changes include raising personal allowances for those under 65, the introduction of a bank levy and an increase in capital gains tax to 28% for higher and additional rate taxpayers.
- 4.3 Two measures are of particular significance for local authorities. The first is the proposal that the Government and local authorities should work in partnership in order to freeze Council Tax in 2011/12. Secondly, reform of the housing benefit system.

5. PROPOSALS AFFECTING LOCAL GOVERNMENT

- 5.1 The overall funding level for local authorities will not become apparent until the results of the Spending Review, covering 2011/12 to 2014/15, are announced on 20 October 2010. However, based on the indicative level for Departmental Expenditure Limits and once the Government commitments on protecting health, education and overseas aid are taken into account, other Departments could see an average real cut in their budgets of around 25% over a four year period.
- 5.2 The Budget did however announce certain new specific measures that affect local authorities whilst confirming or otherwise measures proposed by the previous Government.

5.3 New Measures

- A two year pay freeze will be introduced from 2011/12 for public sector workforces, except for those earning £21,000 or less, who will receive an increase of at least £250 per year. This is subject to national pay bargaining arrangements.
- An independent commission to be chaired by John Hutton, will undertake a fundamental review of public service pension provision in time for Budget 2011 and consider the case for short term savings in the current Spending Review period.
- The Government will work in partnership with local authorities to implement a freeze in Council Tax in England in 2011/12. The Government intends to clarify in due course the terms under which local authorities that commit to a freeze or reduce Council Tax will be compensated.
- The secondary employers National Insurance contribution threshold will be increased by £21 per week in addition to indexation from April 2011.
- A package of Housing Benefit reforms will be introduced from April 2011 onwards. This includes capping the maximum Local Housing Allowance payable for each property size; uplifting these rates by the Consumer Price Index from 2013/14 and time-limiting the receipt of full Housing Benefit for claimants who can be expected to look for work.
- With effect from 4 January 2011, the standard rate of Insurance Premium Tax (IPT) will increase from 5% to 6% and the higher rate of IPT will increase from 17.5% to 20%. Based on existing insurance premiums this would increase Council costs in a full year by around £10,000.
- The standard rate of VAT will increase from 17.5% to 20% with effect from 4 January 2011.
- In the autumn it is intended to publish proposals to reform the climate change levy and, subject to consultation, legislation will be introduced in the Finance Bill 2011.
- In an effort to better understand prudential borrowing the Government will monitor lending from the Public Works Loan Board more closely and consider the approach taken in Scotland to increase transparency around borrowing undertaken more than two years in advance of expenditure. The Wirral level of borrowing is significantly below its Capital Financing Requirement which would indicate that the above scenario should not be applicable.
- The Government wishes to improve the efficiency of the Paye As You Earn (PAYE) system and intends to consult with employers on mechanisms that could support frequent or real time PAYE data.

5.4 Measures announced at the March 2010 Budget or earlier

- With effect from April 2011 employers National Insurance contributions would have increased by 1%. The measures now announced supercede this decision and no such increase will be imposed.
- The standard rate of Landfill Tax will increase by £8 per tonne each year from 1 April 2011 until at least 2014. There will be a floor under the standard rate at £80 per tonne, and so the rate will not fall below £80 per tonne from April 2014 until at least 2020.
- From 1 April 2011, the discount from the climate change levy obtained by participating in a climate change agreement will be reduced from 80% to 65%. The rate of the levy will be raised in line with inflation on 1 April 2011.
- Fuel duty is scheduled to rise by 1p per litre above indexation in April 2014.
- The level of small business rate relief in England will be temporarily increased for one year, from 1 October 2010, giving full relief for eligible businesses occupying premises with a rateable value of up to £6,000 and tapering relief to £12,000.

6. FINANCIAL AND STAFFING IMPLICATIONS

- 6.1 There are no additional reductions in financial support for 2010/11 over the reductions in grants to local government announced on 10 June 2010 and reported to Cabinet on 24 June 2010. The impact for future years remains unclear and will only be quantified when the results of the Spending Review, covering 2011/12 to 2014/15, are announced on 20 October 2010.
- 6.2 The Council Budget Projections 2011/14 previously included £1.2 million to fund the increase in National Insurance Contributions announced by the previous Government. With this not being implemented this requirement has been deleted from the projections.
- 6.3 The effect of the pay freeze is likely to reduce the budget requirements by £0.7m.
- 6.4. The proposals around the Council Tax freeze, Housing Benefits and Landfill Tax cannot be quantified until further information is released by the Government.
- 6.5. The increase in the Insurance Premium Tax is estimated to cost £10,000 in 2011/12.

7. EQUAL OPPORTUNITY IMPLICATIONS

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

8. COMMUNITY SAFETY IMPLICATIONS

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

9. HUMAN RIGHTS IMPLICATIONS

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

10. LOCAL AGENDA 21 IMPLICATIONS

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

11. PLANNING IMPLICATIONS

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

12 MEMBER SUPPORT IMPLICATIONS

- 12.1. There are none arising directly from this report.

13. BACKGROUND PAPERS

- 13.1. Budget 2010 Report – Chancellor of the Exchequer – 22 June 2010.

14. RECOMMENDATION

- 14.1. 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.

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