

WIRRAL COUNCIL

CABINET - 10 DECEMBER 2008

REPORT OF THE DIRECTOR OF FINANCE

**CHANCELLOR'S PRE-BUDGET REPORT – 24 NOVEMBER 2008**

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**1. EXECUTIVE SUMMARY**

- 1.1. The Chancellor of the Exchequer presented his Pre-Budget Report on 24 November 2008. 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 Pre-Budget Report.
- 2.2. The current economic and fiscal climate is extremely challenging and it is clear that the UK like many advanced economies has moved into recession. As a result of the many global shocks such as the severe pressure within the banking sector, economic prospects have deteriorated since the Budget 2008.
- 2.3. The Government's immediate priority is to continue to support the economy through these difficult times. The Bank of England has reduced interest rates to a 50 year low, which provides monetary policy support to the economy. With action being taken to ensure sound public finances in the medium term the flexibility exists for fiscal policy to support the economy now, thereby complementing the low interest rates.

**3. THE ECONOMIC OUTLOOK**

- 3.1. The UK economy has slowed as credit conditions have tightened and high food and energy prices have squeezed household incomes and company profits. This pushed the economy into recession and inflation to a 16-year high but with lower commodity prices inflation has now started to ease. Growth is forecast to be negative in 2009 but, from the second half of 2009, with support from fiscal policy stimulus, low interest rates and lower commodity prices, the economy is forecast to begin to recover, with growth picking up further in the ensuing years.

3.2 The Pre-Budget Report provides updated projections for public finances and takes into account the impact of the decisions announced. Public Sector Net Borrowing (PSNB) is calculated to increase from 2.6% of Gross Domestic Product (GDP) in 2007/08 to 8% in 2009/10. This reflects the impact of the economic downturn in receipts, particularly from the housing and financial sectors, and the action the Government is now taking to support the economy. It is expected to reduce to 2.9% by 2013/14 as the economy recovers and the Government takes actions to ensure the sustainability of public finances.

#### 4. PROPOSALS AFFECTING LOCAL GOVERNMENT

4.1 The Report indicates that good progress is being made towards the Comprehensive Spending Review 2007 value for money target of £30 billion of savings by 2010/11. There will now be an additional £5 billion value for money target for 2010/11 and further details of how this will be distributed will be published in the Spring Budget 2009. The Government has also announced its intention to work to improve value for money in the next Spending Review period.

4.2 In total £3 billion of capital spending is to be brought forward from 2010/11 to 2008/09 and 2009/10. At the time of preparing this report no specific details had been released other than the areas of spend:-

- £775 million for housing and regeneration. £575 million will provide additional support for social rented homes of which £150 million will support the delivery of new social housing, £250 million to sustain and accelerate the Decent Homes programme and £175 million on major repairs.
- £800 million in the priority schools capital programmes. Although no breakdown has been given, the Report referred to the additional spending in 2009/10 being in primary schools and for modernising school infrastructure.
- £535 million on energy efficiency, rail transport and adaptation measures.
- £50 million of investment brought forward and £100 million of additional funding for the Warm Front programme.
- £20 million of investment on flood defences.

4.3 There is no expansion of the £200 million mortgage rescue scheme announced in September 2008 but £15 million extra is provided for debt advice.

4.4 There will be an extra 0.5 per cent increase in employee, employer and self-employed rates of National Insurance Contributions from April 2011. Based on current spend and an average rate for Wirral this could result in an additional budget requirement in 2011/12 for the General Fund of around £600,000.

4.5 The Government is to agree, on a voluntary basis, a set of devolutionary proposals with local authorities in city-regions, to increase their ability to drive economic growth and contribute to sustainable development. The intention is to announce new agreements with at least two forerunner city-regions in the Budget 2009.

4.6. The rate of VAT was reduced from 17.5% to 15% with effect from 1 December 2008 until 31 December 2009. A report on the implications for the Council of this change was presented to Cabinet on 27 November 2008.

4.7. Bills issued in respect of business rates backdated to 2005 should be issued for immediate payment. To reduce the cash flow impact on businesses the Government will legislate to give businesses more time to pay certain backdated bills (including occupiers of ports) issued before 31 March 2010. Details will follow but will allow businesses to pay this liability in equal interest free instalments over 8 years. A further report will be presented to the Cabinet when the detailed Government proposals are received.

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

5.1 Further details are awaited on the proposals for increasing the value for money target in 2010/11 and bringing forward of the £3 billion programme of capital expenditure.

5.2. The potential change in National Insurance Contributions in 2011/12 could add £600,000 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 and energy efficiency.

## **10. PLANNING IMPLICATIONS**

10.1. There are 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. Pre-Budget Report – Chancellor of the Exchequer - November 24 2008.

13. **RECOMMENDATION**

- 13.1. That 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 contributing more than their fair share to savings the increased £5 billion efficiency target should be weighted towards other parts of the public sector.

IAN COLEMAN  
DIRECTOR OF FINANCE

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