

## **KEY MESSAGES FROM THE 22<sup>ND</sup> JUNE BUDGET**

The Budget takes action to eliminate the bulk of the structural deficit through plans for “additional consolidation” of £40 billion per year by 2014/15. This is expected to be achieved through £32 billion of spending cuts and £8 billion of net tax increases. The plans are for the structural current deficit to be eliminated by 2014/15, with a projected surplus of 0.8% of GDP in 2015/16.

The Budget included a number of proposals that specifically affect councils and these are detailed below, together with comments on the local position (in italics).

### **The Spending Review and Fiscal Targets**

The Budget puts forward a programme for reducing public sector spend by a further £30 billion by 2014/15 on top of the £44 billion pledge by the previous Government, of which £17 billion is to come from departmental budgets and the rest from reductions in the welfare bill and other areas. This amounts to a real terms cut of around 25% over the next four financial years in Government spending in areas other than the NHS and overseas aid.

Further information on exactly how departmental budgets will be affected, and where cuts will be made, will be announced in the Spending Review, the results of which will be announced on Wednesday 20<sup>th</sup> October.

### **Help Towards a Time Limited Council Tax Freeze**

The Chancellor announced that the Government will help councils to freeze or reduce council tax in 2011/12. The Budget documentation assumes that this help will be given assuming a loss of revenue to authorities of 2.9% - the average of the three years' most recent council tax increases. The Government assumes that this will lead to a loss of revenue of £625M, (taking into account lower council tax benefit payments), but details of the exact mechanism for funding has yet to be announced.

*Current forecasts for Southampton assume council tax increases of 2.5% per annum and therefore it is expected that the City Council would benefit from this funding in 2011/12. Whilst it does not impact on the net gap position it will mean that council tax payers face no increase for the year.*

### **Prudential Borrowing**

The Government has indicated that it will monitor lending from the Public Works Loans Board (PWLB) more closely, and will consider the approach taken in Scotland to increase transparency around borrowing undertaken more than two years in advance of expenditure. To achieve this, when applying to the PWLB for a loan we will be required to express in terms of the number of months from the point of application when we expect the loan to be entirely applied to expenditure.

*The Council does not tend to borrow in advance of need and it is therefore expected that this will have no impact.*

### **Public Sector Pay and Pensions**

The Government announced a two year pay freeze from 2011/12 for public sector workforces, except for those earning £21,000 or less who will receive an increase of £250 a year. *This assumption has been reflected in the updated High Level Forecast contained in Appendix 2.*

John Hutton (ex Labour cabinet minister) is to head an independent commission to undertake a fundamental and structural review of public sector pensions which will unveil "early steps" by September, with full proposals in time for the 2011 Budget.

### **Regional Development Agencies (RDAs) and Local Enterprise Partnerships (LEPs)**

RDAs will be abolished through the Public Bodies Bill. In place of the RDAs, the Government will enable locally-elected leaders, working with business, to lead local economic development, in the form of LEPs. These LEPs will coordinate public and private investment in transport, housing, skills, regeneration and other areas of economic development.

### **Regional Growth Fund**

There will be a Regional Growth Fund, accessible to all areas of the UK, which will provide finance for regional capital projects over the next two years. This Fund will incorporate existing housing, transport, regeneration and other funding streams into one "pot" which is expected to be distributed in part through formula and in part through a bidding process. Further details of how the Regional Growth Fund will operate are yet to be announced.

### **Regional Growth in Targeted Areas**

To support private sector enterprise and investment in those regions that are particularly reliant on the public sector, the Government will introduce a three year scheme to exempt new businesses in targeted areas from up to £5,000 of class 1 employer National Insurance Contributions payments, for each of their first ten employees hired in their first year of business. This measure will apply to all regions outside London, the South East and East of England.

### **Changes to Business Rates**

The Government confirmed that the temporary increase in the threshold for small business rate relief, announced by the previous Government in the March 2010 budget giving full relief for eligible businesses occupying premises with a rateable value of up to £6,000 and tapering relief to £12,000 will go ahead from October 1<sup>st</sup> 2010. It also announced that legislation will be introduced to cancel backdated business rates bills mainly affecting ports.

### **Housing Benefit Reform**

The Government announced a package of reforms aimed at saving £1.8 billion in housing and council tax benefit costs.

### **VAT Rise**

The Chancellor announced that the rate of VAT will rise from 17.5% to 20% from 4<sup>th</sup> January 2011. No changes to the scope of VAT were announced and the current exemptions will continue to apply. Local government does not pay VAT on the majority of its transactions and this will continue to apply. However there will be an impact on payments to individuals and voluntary organisations where these are not zero rated. Suppliers of services to councils such as the care sector will have increased costs which may be reflected in their charges.

*Since the Council generally recovers all VAT on purchases this has little impact on spending unless as the note suggests our service suppliers are impacted by the increase. The Council will need to decide before 4<sup>th</sup> January whether or not to pass on the increase within its charges. If it does not then this will reduce the net income we receive.*

### **Landfill Tax**

The Budget confirmed that standard rate of landfill tax will increase by £8 per tonne each year from 1<sup>st</sup> April 2011 until at least 2014, as announced by the previous Government.

### **Place-Based Budgeting**

While this does not in feature in the Budget document, following from conversations between the Local Government Association (LGA) Group and Ministers the LGA anticipate that the Spending Review will be informed by a strand of work on place-based budgeting. This will be led by CLG with the close involvement of LGA and the Treasury, and will involve officials from other Government departments and officers from councils and other local organisations.