

**MANCHESTER CITY COUNCIL
REPORT FOR INFORMATION**

REPORT TO: Resources and Governance Overview and Scrutiny Committee
DATE: June 2010
SUBJECT: Government Announcement on the Emergency Budget
REPORT OF: The City Treasurer

PURPOSE OF REPORT:

To provide a summary of the measures announced as part of the Emergency Budget Announcement on 22 June 2010.

FINANCIAL CONSEQUENCES FOR THE REVENUE BUDGET

The impact on the revenue budget will not be known until the Spending Review reports in October 2010. However there is likely to be a significant impact on the overall level of resources that will be available.

FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET:

Capital reductions of £2bn to department expenditure limits, from the March budget, were announced earlier in the month as part of the £6.2bn cuts. No further specific reductions to capital funding streams have been announced, though this report continues the overall trend of reduction in capital funding in real terms. The allocations to individual local authorities have not yet been decided.

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BACKGROUND PAPERS

INTRODUCTION

1. The following is a brief report on the Chancellor of the Exchequer George Osborne's 2010 Emergency Budget Report
2. The report by the coalition government sets out a five year plan which is intended to rebuild the British economy and address the budget deficit.
3. This budget announces additional reductions in current spending totals of £30bn a year by 2014-15. The budget announces that by 2014-15 central government departmental budgets will be £17bn lower than anticipated in the pre-budget projections, and c. £11bn lower than the budgets set in 2009-10. For those departments with unprotected budgets this equates to an average 25% real cut over 4 years. This percentage could be lower if further measures to increase the £11bn welfare reduction can be found.
4. The government confirmed there will be no further cuts in capital expenditure, as laid out in the March budget, beyond those already announced in the £6.2bn savings for 2010-11. The March report set out a path of reductions in capital expenditure though projections didn't go beyond 2010/11. The Departmental capital expenditure limits suggest that in this budget government have continued the path of capital expenditure reduction which equates to a real terms reduction of £12.9bn (31.7%) between 2010/11 and 2014/15. Government will look to sell some assets such as the student loan book and the Tote.
5. As expected there is no specific information relating to funding levels for local government. This will be available when the Comprehensive Spending Review (CSR) is published on 20th October 2010. This will set spending plans for all departments and devolved administrations.

CUTS ALREADY ANNOUNCED

6. The chancellor has already published details of public sector spending cuts for 2010/11 of £6.2bn, with Local Government's contribution to this figure of £1.2bn.
7. Manchester has been notified of specific revenue cuts of £7.185m with additional reductions by the removal of LABGI and cuts to the Performance Reward Grant bring this figure to £9.7m. These are detailed elsewhere on the agenda.
8. Also announced previously is the cancellation of 12 projects totalling c£2bn that had been approved by the former government since January 2010. A further 12 that would have cost £8.5m over their lifetime have been suspended and will be considered during the spending review.
9. Other cuts include
 - Reducing and then halting the Child Trust Fund
 - A freeze on civil service recruitment until April 2011
 - Cutting public sector Quangos
 - 10,000 few university places from this autumn as promised by Labour
 - £836m cuts at the Department for Business, Innovation and Skills

ECONOMIC CONTEXT

10. The Office for Budget Responsibility has produced revised fiscal forecasts alongside the measures announced in the budget. These take into account the effects of the measures detailed below.
11. The revised economic growth figures for the UK economy are 1.2% for 2010, 2.3% for 2011 and then between 2.7 and 2.9% for the following four years. Due to the VAT measures contained within the budget it is forecast that inflation, as measured by the CPI, will stay above 2% until 2012.
12. Unemployment is expected to peak at 8.1%¹ in 2010, and increases in wages and salaries are expected to rise across the forecast period, from 1.2% in 2010 to 5.4% in 2014.
13. The fiscal path set out by the Government has been aimed at balancing the budget by 2014-15. To achieve this annual public sector net borrowing must fall from £154.7bn in 2009-10 to £37bn in 2014-15.
14. The total measures taken through delivering spending cuts provide 77% of the cuts required, with the remaining 23% coming from tax increases.
15. The budget suggests that the revenue departmental expenditure limits will fall by £5bn between 2010-11 and 2014-15, a real-term cut of 10.3%. Similarly, capital departmental expenditure limits will fall by £12.9bn in the same period, a real-term cut of 31.7%.

		£ bn				
		2010-11	2011-12	2012-13	2013-14	2014-15
Revenue	Departmental Expenditure Limits	342.7	343.1	341.4	341.2	337.7
	Locally-financed expenditure ²	27.6	27.0	28.1	29.4	30.5
Capital	Departmental Expenditure Limits	51.6	41.4	39.6	37.0	38.7
	Locally-financed expenditure	5.4	4.8	4.6	4.4	3.6

PUBLIC SECTOR PAY

16. Public sector employees earning £21,000 and above will have their pay frozen for two years. For those earning below this amount will be exempt and will receive £250 this year and the next. Civil servants will be frozen for civil service in the same way for 2010/11 but they will then exit the freeze ahead of other groups as they are yet to agree a legally binding pay deal,
17. On the 21st January the government announced the launch of an independent review on high pay in the public sector headed by leading economist Will Hutton.

¹ Currently the ILO measure of unemployment is at 7.9%, or 2.47 million.

² Locally financed expenditure includes council tax raised by local authorities.

This will examine public sector pay scales and report back to government in autumn with a final report due in spring 2011. Recommendations will be made on how to ensure that no public sector manager can earn more than twenty times the lowest paid person in the organisation.

PENSIONS

18. April 2011 the state pension, benefits and tax credits will be increased by the higher of the following three rates earnings, consumer prices or 2.5%.
19. As part of the budget announcements the government have said they will accelerate the increase in the state pension age to 66.
20. From April 2011, the standard minimum income guarantee in pension credit will increase by the cash rise in a full basic state pension.
21. The former Labour minister John Hutton is to chair the Independent Public Service Pension Commission. The commission will undertake a fundamental structural review of state pensions. Mr Hutton has been asked to find savings on public service pensions within this financial year. He has also been invited to deliver an interim report by the end of September 2010 ahead of the spending review with a final report in time for the 2011 budget.
22. The review will cover public sector pensions of the NHS, Teachers, Local Authorities, Civil Servants, Police, Firemen, Armed Forces, the Judiciary, UK Atomic Energy Authority and the Department for International Development. MPs have been excluded from Mr Hutton's remit.
23. The commission will consider issues that include
 - the growing disparity between public service and private sector pension provision;
 - the need to ensure that future pension provision is fair across the workforce;
 - how risk should be shared between the taxpayer and employee; and
 - wider Government policy intended to encourage adequate saving for retirement and longer working lives.

TAXES

Council Tax

The chancellor says that government will work with low spending Councils to freeze council tax for 2011/12. In due course they will clarify the terms under which local authorities will be compensated to freeze or reduce their council tax.

National Non Domestic Business Rate

24. Legislation will be introduced to cancel backdated business rates bills eligible for the 8 year schedule of payments scheme. This applies to newly assessed properties that were split from a larger rateable property.
25. It will also legislate for a temporary increase in the level of small business rate relief for one year from October 2010 saying that a half million businesses across England will benefit

Income Tax and National Insurance Contributions

26. The Income Tax personal allowance for under 65's year will increase by £1,000 from £6,475 to £7,475 with effect from April 2011 and retains the target to reach £10,000 in the term of this parliament..
27. As previously announced, in 2011-12, the NIC's primary threshold will increase and NIC's rates will be increased by one per cent to 2% (2009 Pre-Budget

Report). In 2012-13 the higher rate threshold (the level at which 40 per cent tax begins to be paid) will be frozen (2009 Pre-Budget Report). .

28. The government will reduce the basic rate limit for tax currently £37,400 by £2,500
29. The secondary NIC's threshold will be increased by £21 per week in addition to indexation from April 2011

Value Added Tax

30. The standard rate of VAT will increase by 2.5% from 17.5 to 20%, taking effect from 4th January 2011. The reduced rate of 5% remains unchanged.
31. The standard rate of Insurance premium tax will increase by 2.5% from 17.5 to 20%, taking effect from 4th January 2011. The reduced rate will increase by 1% to 6% at the same time.

Corporation Tax

32. The main rate of corporation tax will decrease by 1% per year, from 28% in 2010-11 to 24% in 2014-15. Coupled with this is a reduction in the small profits rate of corporation tax, from 22% to 20%, to be enacted in April 2011.
33. Capital allowances for companies are also being reduced, with write-down allowance for both general and special rate plant and machinery falling 2% to 18% and 8% respectively. The Annual Investment Allowance is also being reduced from £100k to £25k.

Capital Gains Tax

34. The main rate of capital gains tax (CGT) has been raised from 18% to 28% for higher rate taxpayers. Other taxpayers will continue to pay 18

WELFARE REFORMS

35. The key points are listed below:

- Along with public service pensions from April 2011 benefits and tax credits will also be indexed linked to the consumer price index.
- Child Benefit will be frozen for the next three years.
- In April 2011 the second income threshold for the Child Tax Credit family element will reduce from £50,000 to £40,000 and from April 2012 the family element will be withdrawn, with the amount per child rising by £150 above the rate of inflation next year.
- In April 2011 housing allowance rates will be capped at £250 per week for a one bedroom property rising to £400 per week for four plus bedrooms.
- From April 2013 housing entitlements for working age people in the social sector will reflect family size.
- Housing Benefit award will be reduced to 90% of the initial award after 12 months for claimants receiving jobseekers allowance from April 2013.
- The government's contribution to Discretionary Housing Payments will be increased by £10m in 2011/12 and £40m in each year from 2012/13.

- Health in pregnancy grant to be abolished from April 2011, the Sure Start maternity grant will be restricted to the first child.
- Lone parents will be expected to look for work when their youngest child goes to school.
- The government will introduce a medical assessment for Disability Living Allowance from 2013 for new and existing claimants.

REGIONAL DEVELOPMENT AND INVESTMENT

36. There will be a three year scheme that will exempt new businesses from paying up to £5,000 of class 1 employer national insurance in targeted areas.
37. By September 2010 the government aim to boost new business outside of the South East of England with measures to form of a three year scheme, to exempt start-up firms from having to pay national insurance for the first 10 people employed.
38. In late summer the government will publish a white paper with plans for a new approach to sub national growth. The Government will enable locally-elected leaders, working with business, to lead local economic development. As part of this change the Regional Development Agencies will be abolished through the Public Bodies Bill.
39. A new regional growth fund to help fund regional capital projects in 2011/12 and 2012/13 has also been announced.
40. Commitment has also been received for regional transport projects including the extension of the Manchester Metrolink, the redevelopment of Birmingham New Street station and improvements to the rail lines to Sheffield and between Liverpool and Leeds.

OTHER MEASURES

41. A number of other measures have been introduced in the budget. These are listed below.
 - The government will monitor lending from the Public Works Loans Board more closely to ensure the fiscal risks around local authority borrowing decisions are better understood.
 - Government will consult with employers and providers on mechanisms to improve PAYE data to reduce costs and improve administration of the system.
 - The chancellor will explore the costs and benefits of a banking tax with a levy introduced from January 2011.
 - Government departments have been instructed to cease all work relating to Euro preparations.
 - The civil list worth £7.9m will be frozen; its future reviewed and subject to scrutiny by the National Audit Office.
 - The proposed duty on landlines will be abolished.
 - There will be no change on the duty for cigarettes, alcohol and fuel duty and the proposed duty on cider will be scrapped.
 - High speed 1 will be sold.
 - The government is to seek a private capital injection to the Post Office.
 - Plans to create a Green Investment Bank will be taken forward.
 - Support for Mortgage interest payments will be set at a lee equal to the Bank of England's monthly Average Mortgage rate from October 2011.

- The Office for Budget Responsibility will undertake an assessment of the effect of oil price fluctuations on public finance over the summer.
- The government will publish proposals to reform the climate change levy in the autumn
- Stamp duty land tax on high value property transactions will be examined to prevent avoidance in this area.