West Lothian Council

COUNCIL EXECUTIVE

CHANCELLOR'S EMERGENCY BUDGET 2010

REPORT BY HEAD OF SERVICE - FINANCE AND ESTATES SERVICES

A. PURPOSE OF REPORT

To provide the Council Executive with an update on the Chancellor's announcement on 24 May and the emergency budget announced on 22 June. The report also outlines high level initial implications for the council's Contingency Strategy.

B. RECOMMENDATION

It is recommended that the Council Executive:

- Notes the initial reductions included in both the Chancellor's announcement in May and the emergency budget;
- Agrees that a full report outlining the detailed implications of these announcements is presented to the Council Executive in August 2010.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making best use of our resources, focusing on customer needs.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	None
III	**Resources - (Financial, Staffing and Property)**	Spending decisions by the UK Government impact on the Scottish Government's budget via the Barnett formula. This has implications for available resources for the council via the finance settlement received from the Scottish Government. The very tough financial position outlined in the announcements emphasises the importance of progressing the contingency strategy.
IV	**Consultations**	This report is part of the briefing and consultation with elected members on issues relating to the future years funding and the council's contingency and financial strategies.

D. TERMS OF REPORT

1. Background

The Chancellor of the Exchequer delivered his emergency Budget 2010 to the House of Commons on 22 June 2010. The Budget sets out a five year plan up to 2015/16 to rebuild the British economy with an overall objective that the current structural deficit should be in balance in the final year of the five year forecast period.

2. Chancellor's May announcement

Prior to the emergency budget announcement, the Chancellor and Chief Secretary announced that they were creating plans to cut £6.2 billion of UK Government spending in 2010/11, in order to commence savings immediately and sustain economic recovery. These savings are to be the first step in tackling the £156 billion current year budget deficit.

The £6.2 billion of savings were allocated across a number of different areas including a recruitment freeze across the civil service for the rest of 2010/11, cutting the cost of quangos, reduction in IT spending and property costs, reduction in grant to English local authorities and delaying and stopping contracts and projects.

The savings identified have focused on waste and inefficiency whilst also reducing levels of ministerial entitlement. Specific low value programs were also targeted include ceasing contributions to the Child Trust Fund and ending ineffective elements of employment programmes.

Scotland's gross share of these savings is £375 million however additional funding of £42 million is being made available for spending as a result of the Barnett consequentials of additional funding being made available for England. The UK Government is allowing the Scottish Government to defer the saving until 2011/12.

3. Emergency Budget

The Chancellor stated that the coalition government had inherited from the previous government the largest budget deficit of any economy in Europe with the single exception of Ireland, with currently one pound in every four spent being borrowed. He confirmed the additional £6.2 billion of budget cuts for 2010/11 and outlined that the UK's new fiscal watchdog, the Office for Budget Responsibility (OBR), established by the Government to provide independent figures for economic forecasts, had reported its initial economic forecasts.

4. Overall Economic Position

The emergency budget takes action to eliminate the bulk of the structural deficit through plans for additional consolidation (reduction) of £40 billion per year by 2014/15. This is in addition to the consolidation plans announced by the previous government.

The aim of the government is to reduce public sector borrowing from £149 billion this year to £20 billion in 2015/16, a total consolidation of £129 billion. They aim to achieve this with spending reductions of £100 billion representing 77% of the consolidation target and tax increases of £29 billion representing 23% of the target.

The table below shows specific key assumptions in relation to economic growth, borrowing, government debt and inflation for the next six years:

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Growth (GDP)	1.2%	2.3%	2.8%	2.9%	2.7%	2.7%
Net borrowing	£149bn	£116bn	£89bn	£60bn	£37bn	£20bn
Government Debt (% GDP)	10.1%	7.5%	5.5%	3.5%	2.1%	1.1%
Public sector net debt	61.9%	67.2%	69.8%	70.3%	69.4%	67.4%
Inflation (CPI)	2.7%	2.4%	1.9%	2.0%	2.0%	2.0%
Inflation (RPI)	3.7%	3.2%	3.2%	3.3%	3.4%	3.5%

The fiscal mandate set by the new government is that the structural current deficit (that is the deficit that remains even after growth has fully resumed minus investment) should be in balance in the final year of the five year forecast period to 2015/16 and the government supplemented this with a target that debt should fall as a share of GDP by 2015/16. In line with the measures outlined in the Chancellor's budget to reduce public spending and increase taxes, it was confirmed by the Chancellor that the OBR judged that the government is on track to meet these goals.

5. Public Expenditure and the Spending Review

The Chancellor confirmed that total public expenditure will increase from £637 billion this year to £711 billion in 2015/16. However, although this is an increase, it has to take account of additional debt interest payments. The previous government had plans to cut departmental spending by £44 billion a year by 2014/15; however the Chancellor announced that in order to tackle the structural deficit, further reductions in departmental spending of £17 billion would be required by 2014/15.

The government has committed to providing the National Health Service in England and Wales with real increases throughout the Parliament and also committed to honour its international aid obligations to the poorest in the world. As a result, after taking these protected areas into account, the budget implies that other departments will face an average real cut of around 25 per cent over the four years to 2014/15.

Final departmental settlements will be set out in the UK Spending Review which the Chancellor confirmed would be reported on 20 October 2010. This will confirm the government's spending plans for the four year period from 2011/12 to 2014/15.

6. Tax

The Chancellor announced a number of tax measures aimed at delivering additional tax revenues of £29 billion a year by 2015/16. The main measures are summarised below:

- Value Added Tax (VAT) will increase from 17.5% to 20% from 4 January 2011
- Personal income tax allowance will be raised by £1,000 in April 2011
- The threshold at which employers start paying National Insurance will rise by £21 per week from April 2011, thus largely reversing the impact of the previous government's increase to employer's national insurance rates
- Councils in England will be offered help by the government to freeze council tax in 2011/12
- Capital gains tax remains unchanged for low and middle income savers at 18% but from 23 June 2010 will rise to 28% for higher rate taxpayers.

7. Benefits

The Chancellor announced a series of measures to control the costs of welfare which are currently £192 billion per year and taken together these are forecast to save £11 billion a year by 2014/15. The main measures were as follows:

- Increasing incentives to work, and reducing incentives to stay out of work,
- Uprate benefits, tax credits and public sector pensions in line with consumer prices rather than retail prices, saving £6 billion a year by 2014/15
- Reduce tax credits for families earning more than £40,000 next year
- Freeze child benefit for the next three years
- Increase Child Tax Credit by £150 a year above inflation to low income families next year
- Apply a new maximum limit of £400 per week to Housing Benefit, to save £1.8 billion a year by the end of the Parliament.
- Lone parents will be expected to look for work when their youngest child goes to school.

8. Public Sector Pay and Pensions

The Chancellor announced a two year pay freeze for public sector workers in 2011/12 and 2012/13, although 1.7 million of those earning less than £21,000 a year will receive flat pay increases of £250 in both years.

John Hutton has been asked to carry out an investigation on dealing with the cost of public sector pensions. He will provide an interim report in September 2010 to help inform any decisions required for the spending review, and a full report in time for next years budget.

9. Implications for West Lothian Council and the Contingency Strategy

The exact implications for local government of the Chancellor's budget announcement will not be known until the outcome of the Scottish spending review is published in November or December 2010, and the total of the Scottish block will not be known until the UK spending review announcement on 20 October 2010.

It is already known that the Scottish Government will receive an additional cut in its block grant of at least £375 million as a result of the additional £6.2 billion of UK savings announced for 2010/11 by the Chancellor in May. The Scottish Government has agreed with the UK government to defer these cuts to 2011/12. Scottish local authorities share is estimated to be £125 million of which West Lothian Council's share will be approximately £3.75 million. This will be an additional baseline saving that the council will be required to meet in 2011/12 and as it is a deferred saving from 2010/11 the council will also need to deliver additional one off savings of £3.75 million in 2011/12 to offset the grant reduction deferred from the previous year unless the Scottish Government has a means of funding the reduction.

The council's current contingency strategy assumes that savings of £45 million will need to be delivered over the three year period from 2011/12 to 2013/14 based on the common budget assumption being used by Scottish local authorities of a 12% real terms reduction in these years. It is too early to determine how this assumption needs to be adjusted but the Chancellor has warned of 25% real terms reductions for unprotected departments and it would therefore seem likely that an upward adjustment will be required to current budget gap assumptions.

Based on the additional baseline savings that will be required in 2011/12 of £3.75 million, it would seem prudent to assume that revised savings of at least £19 million will be required in that year and officers are currently considering options for delivering these additional savings. This will be reported to members in August 2010.

E. CONCLUSION

The Chancellor set a budget designed to rebuild the British economy with an overall objective of balancing the current structural deficit within a five year period to 2015/16. Whilst there will remain a great deal of uncertainty around departmental spending levels in the lead up to the spending review, it would seem likely that an upward adjustment to the council's contingency strategy budget savings will be required. The council's estimated share of the 2010/11 cuts announced by the Chancellor in May 2010, deferred to 2011/12 for Scotland, are £3.75 million. It would therefore appear prudent that the council should progress on the basis of having to find savings of at the very least £19 million in 2011/12, although there is a strong likelihood that the ultimate savings target will be even higher. Officers are considering options for additional savings and will report back to members in August 2010.

Appendices / attachments: none.

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