



**COUNCIL EXECUTIVE**

**CHANCELLOR'S BUDGET 2011**

**REPORT BY HEAD OF FINANCE AND ESTATES**

**A. PURPOSE OF REPORT**

To provide the Council Executive with an update in relation to the announcements contained in the Chancellor of the Exchequer's 2011 Budget and to provide an indication of measures that may have a financial impact on the council.

**B. RECOMMENDATION**

It is recommended that the Council Executive notes that:

- The Scottish Government will decide how they look to allocate additional monies announced for 2011/12
- The Head of Finance and Estates will take account of the measures which impact on the council in the budget model for 2011/12 and future years

**C. SUMMARY OF IMPLICATIONS**

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|---|--|
| <b>I Council Values</b>   | Being honest, open and accountable, making best use of resources, focussing on customer needs  |
| <b>II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b> | None   |
| <b>III Resources - (Financial, Staffing and Property)</b>   | Spending decisions by the UK Government impact on the Scottish Government's budget via the Barnett formula. This in turn has implications for available resources for the council via the finance settlement received from the Scottish Government. The continued tough financial position outlined in the Budget emphasises the importance of achieving the approved budget reductions for 2011/12 and progressing the budget strategy for 2012/13. |
| <b>IV Consultations</b>   | This report is part of the briefing and consultation with elected members on issues relating to future years funding and the council's financial strategy.   |

## D. TERMS OF REPORT

### 1. Introduction

The Chancellor delivered his 2011 Budget statement to the House of Commons on 23 March 2011. The statement builds on action announced in the Spending Review 2010 and the Emergency Budget in June 2010, whilst also introducing plans to reform the economy through a new model of economic growth. The Budget also included updated assessments and forecasts of the economy from the Office of Budget Responsibility.

For items in the statement covered by devolved government arrangements, Scotland will receive the Barnett formula consequences of any additional funding. The Scottish Government will decide on the application of these funds in Scotland.

### 2. Overall Economic Position

The UK Government believes that a strong and stable economy is essential for lasting prosperity. The Emergency Budget in June 2010 and the Spending Review 2010 set out the Government's plan to address challenges faced by the UK economy.

The independent forecast by the Office for Budget Responsibility (OBR) at Spending Review 2010 was for the economy to grow in each of the next five years, with unemployment peaking in 2011 and decreasing each year thereafter. Although the growth forecasts have reduced, the general trend of increasing growth remains. The forecasts are summarised as follows:

	2011	2012	2013	2014	2015
Growth (GDP)	1.7%	2.5%	2.9%	2.9%	2.8%
Net Borrowing	£146bn	£122bn	£101bn	£70bn	£46bn
Government Debt (% GDP)	60.3%	66.1%	69.7%	70.9%	70.5%
Inflation (CPI)	4 to 5%	2.5%	2.0%	-	-

Forecasted growth for 2011 has reduced by 0.4% from the forecast of 2.1% estimated in November 2010. The OBR however anticipate that this reduction creates scope for stronger growth in later years. This revision is attributed to the weaker than expected final quarter of 2010, the rise in world oil and food prices and higher than expected inflation in the UK.

The Chancellor also announced that, although borrowing for 2011 would be lower than the previous forecast of £148.5 billion, the following years borrowing would be higher than forecast. Previous forecasts were £117bn in 2011/12, £91bn in 2012/13, £60bn in 2013/14 and £35bn in 2014/15. There is £44.5bn of additional borrowing over the period.

#### **Current Surplus/Deficit, Net Borrowing and the Inflation Target**

To meet the targets for net borrowing, the forecast growth targets need to be accurate, tax revenues need to meet expectations and public expenditure will need to be within agreed targets. There are two key risks that could impact on the ability to reach targeted growth. These are a European sovereign debt crisis and rising global commodity prices. The sovereign debt crisis is a risk of governments in European countries facing a dramatic rise in the level of interest they must pay due to the fear that they will fail to honour their debt obligations. The Chancellor confirmed that the inflation target for the Bank of England Monetary Policy Committee remains at 2%.

The Chancellor believes that the 2011 Budget supports plans to reduce the deficit and promote growth because the measures included will have a neutral net effect on public finances.

### **3. Public Services**

#### **General**

The 2011 Budget focussed on three key strands – a strong and stable economy, growth and fairness. The Government launched a ‘Plan for Growth’ however as the Budget was fiscally neutral, it was neither tax raising nor a “giveaway” Budget.

#### **Plan for Growth**

The Plan for Growth is based around four ambitions:

- To create the most competitive tax system in world’s top 20 economies;
- To make the UK the best place in Europe to start, finance and grow a business;
- To encourage investment and exports in a balanced economy;
- To create a more educated and flexible workforce.

The plan hopes to ease regulation burdens, support private sector investment and provide people with skills and opportunities to work. Measures introduced to help achieve these ambitions include reductions in corporation tax each year falling to 23% by 2014, changes to the planning system in favour of sustainable development, 21 Enterprise Zones and simplification of the tax system. As responsibilities for enterprise partnerships are devolved, the Government will work with devolved administrations to allow them to access the benefits of this policy.

### **4. Main Implications for West Lothian Council**

#### **Funding**

The Scottish Government is to get an extra £112 million in 2011/12 as a result of spending increases announced in the Budget such as money to repair potholes, skills training, business rate relief and help for homeowners. Scottish ministers will decide how to spend these funds and I will report on any announcements accordingly. In addition the Scotland Bill, which is currently progressing through Parliament, will introduce new measures in relation to funding and taxation.

#### **National Insurance**

Employers’ National Insurance will increase from 11% to 12% in April 2011 as announced previously. This increase is largely offset by the increases to employer contribution threshold levels. In addition, from April 2012, the default indexation for direct taxes, including national insurance, will move to the Consumer Prices Index in line with treatment for welfare payments and public sector pensions. To ensure that employers are not adversely affected, the annual increases in the employer National Insurance threshold will increase by the equivalent of the retail price index.

The Chancellor also announced that there is to be a consultation on merging income tax and national insurance to make the tax system simpler. It is not planned that this will be used to increase tax, however developments in this area will be reviewed for potential implications for the council.

## **Pensions**

The Chancellor accepted the recommendations of the Hutton report on public sector pension reform. These recommendations will now form the basis of consultation with employees and trade unions. The proposals included with the report include moving towards a pension based on average earnings and increasing the normal pension age to the state pension age.

## **Mileage Allowance**

The mileage allowance for staff using their own car for business has increased from 40p to 45p with effect from 6 April 2011. After 10,000 miles, the rate will be 25p per mile. In line with the provisions of the Green Travel Strategy, the revised 45p per mile will be paid for business mileage undertaken in employees own vehicles, from 6 April 2011.

## **Carbon Floor Price**

A carbon floor price will be introduced of £16 per tonne in 2012 rising to £30 per tonne in 2020. The carbon floor price is the lowest price energy can be sold for and requires industries to pay a top up if the market price for carbon falls below the set level per tonne.

The Budget shows that the carbon reduction commitment tax the council will be required to pay from 2012 onwards will increase to meet the carbon floor price of £16 per tonne in 2013. If carbon taxes increases follow the carbon floor price, this will be an additional cost to the council in the longer term. The floor price will also have an impact on energy suppliers, therefore the council might experience a corresponding increase in the cost of energy. Implementing carbon strategies and energy reduction schemes will be important to contain the extra costs associated with energy.

## **Benefits**

The Budget confirmed that the government will not take forward the planned 10% reduction in Housing Benefit for long term job seekers claimants, as was previously outlined in the Welfare Reform Bill 2011. In addition as part of the Fraud and Error Strategy, tougher fraud sanctions will be introduced for the benefits system from April 2012 along with new arrangements for recovering debt from overpaid benefits.

In addition the changes to the shared accommodation rate to people under 35 have been brought forward to January 2012 rather than April 2012 as planned. There is a risk that landlords may not renew tenancies of people in that age range as they expire in the coming financial year.

## **5. Other Announcements**

### **Environment**

The fuel duty escalator announced in the 2009 Budget has been abolished with a fair fuel stabiliser being introduced that increases tax on production when prices are high. There is a penny cut in fuel duty and delayed inflation increases for this year and next.

### **Personal Tax**

The personal allowance will increase in April 2012 by £630 to £8,105. There will be no increase in personal tax rates for 2011/12 but the 50% top tax rate will be retained in the short term, with a review to be undertaken on amount raised.

### **State Pension**

The Chancellor announced that a green paper is to be produced shortly on state pension reform. This paper will include an option for a simple, contributory single tier pension of around £140 per week for future pensioners.

## **E. CONCLUSION**

The Chancellors Budget built upon the financial position outlined in June's Budget and the Spending Review 2010. The focus of the Budget is strong, sustainable and balanced growth, however the OBR projections for growth have been reduced in line with the current difficult economic climate of high commodity prices and inflation.

There have been no alterations to public sector expenditure plans and therefore it is important that efforts are concentrated on achieving budget reduction measures approved for 2011/12 and progressing the budget strategy for 2012/13. Over the medium to long term, the position for public finances remains very constrained.

## **F. BACKGROUND REFERENCES**

Chancellor's Budget 2011 – available on HM Treasury Website

Appendices/Attachments: None

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