Briefing Paper

The Budget 2011

March 2011

Introduction

Chancellor George Osborne MP has delivered his second Budget since the election of the coalition government in 2010.

Addressing Members of Parliament Mr Osborne said he did not need to ask the public for more taxes or more spending cuts. He said:

"This is not a tax-raising Budget, nor can we afford a give-away,"

The key points of the Budget 2011 are as follows:

- **Income Tax**
    - No personal tax increases, Personal tax allowance to rise a further £630 to £8,105 in April 2012.
    - Consultation on long-term plan to merge income tax and National Insurance. This has potential implications for public bodies as employers.
    - 50% top rate of tax to remain but review of how much it raises.
- **The Economy**
    - 2011 growth forecast downgraded from 2.1% to 1.7%.
    - 2012 forecast also down from 2.6% to 2.5%.
    - Inflation set to remain between 4% and 5% in 2011, falling to 2.5% in 2012. The government's target for inflation is 2%. Above target inflation is therefore envisaged in the medium term despite the economy continuing to be in recession.
    - Interest rates. Conservative governments have traditionally favoured high interest rates as a way of controlling inflation and these forecasts raise the question of whether the Bank of England will raise interest rates from their currently low level despite the continued recession.

- **Borrowing**
  - Borrowing of £146billion this year (2010/11) is forecast, £2.5billion lower than anticipated.
  - Borrowing is forecast to fall to £122billion next year, dropping to £29billion by 2015/16
  - National debt is forecast to be 60% of national income this year, rising to 71% in 2012 before falling to 69% by 2015. This level of borrowing is significantly higher than the limit of 40% of national income that was set by Gordon Brown as Chancellor as the 'Sustainable Investment Rule' in 1997.
- **Housing**
  - A Government-backed shared equity scheme to help 10,000 first-time buyers to purchase properties is proposed. Many in the sector consider that this is a modest scheme that should be set in the context of the 60% reduction in housing budgets that was made as part of the 2010 Comprehensive Spending Review.
- **Jobs and Skills**
  - Funding for twelve further university technical colleges
  - An extra 40,000 apprenticeships for young people out of work
  - Funding for 100,000 new work experience placements
- **Business and Enterprise**
  - Corporation tax to be cut by 2% in April, not 1% as previously planned.
  - Tax to cut by 1% in each of the next three years, reducing it to 23% - Bank levy to be adjusted so banks do not pay less tax as a result.
  - 43 tax reliefs to be scrapped as part of simplification of the tax code.
  - No new regulation on firms with fewer than 10 staff for three years.
  - Business rate relief holiday for small firms extended for another year.
  - New rules to require planners to prioritise growth and jobs.
  - £100million funding for science facilities.
  - 21 "enterprise zones" to be created in England, backed by tax incentives. Ten of these have already been identified and many local authorities are already lobbying for their areas to be included in the following eleven.
  - Reform of gift aid administration for charitable donations.

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- **Pensions**
  - The government has accepted the Hutton review of the reform of public sector pension contributions.
  - The government's Long-term aim is for a £140 a week flat-rate state pension – but this will not to apply to current pensioners.
- **Transport**
  - £100million for repairing potholes in England. It appears that the maintenance of roads is close to the heart of many of the government's core supporters!
  - £200million support for regional railways in England.
- **Green Measures**
  - £2billion extra funding for a Green Investment Bank – to be launched in 2012.
  - United Kingdom is to introduce a carbon price floor for the power sector.
- **Fuel, Cigarette and Alcohol Duties**
  - Fuel duty to be cut by 1p per litre from 1800 GMT on the day of the budget. From the point of view of members of the public this reduces fuel prices by less than the increase that followed the increase in VAT from 17.5% to 20%. However, from the point of view of businesses and public bodies that are registered for VAT this represents a reduction in the taxation of fuel.
  - Planned inflation rise in fuel duty due in April 2011 to be delayed until 2012.
  - Annual 1p above inflation "fuel escalator" rise scrapped until 2015.
  - These measures are to be paid for by £2billion of extra taxes on North Sea oil firms. However, if the oil companies pass this tax increase on to consumers this would negate the effect of the reduced fuel duties.
  - VAT on fuel will not be reduced.
  - No additional changes to alcohol duty rates but 2% above inflation rise in excise duties for wine, spirits and beer to go ahead.
  - Tobacco duty rates up by 2% above inflation, duty regime to be reformed.

Local Authorities Call For Planning Rules to Stay Local

Local government leaders have argued that decisions about relaxing planning restrictions should be left in the hands of councils not Whitehall.

The Budget proposed a significant overhaul of the planning regime including a:

- Faster and more streamlined application process;
- Presumption in favour of sustainable development;
- Twelve month guarantee for the processing of all planning applications.

Ministers also intend to consult on making it easier for developers to convert commercial property into residential.

However the Local Government Association fears this proposal could replace a 'one-size-fits-all' system with a similar one which would not be wanted among many local authorities around the United Kingdom.

Gary Porter, chair of the LGA Environment and Housing Board, said:

'Removing the need for developers to obtain permission for converting empty shops into new housing may help in some areas, but it should be down to councils and residents to decide."

He added that any planning changes should not - 'fly in the face of localism'.

Local Government Secretary Eric Pickles MP said the planning reforms would put the United Kingdom back on a 'strong and sustainable economic footing'. He said:

"We are unblocking the costly planning system, regenerating redundant sites and putting the brakes on years of Whitehall micro-management."

National Housing Federation chief executive David Orr backed the call for planning bodies to prioritise growth and create jobs. He said:

"(For it to work) Ministers must ensure the presumption in favour of sustainable development is included in the Localism Bill… Councils must continue to maximise the affordable housing they secure through planning gain deals."

New Enterprise Zones

George Osborne announced plans to put into motion the creation of 21 new enterprise zones as part of a Budget that he promised would 'spark growth and support business'.

Local authorities would be able to keep all business rate growth in these zones for at least 25 years in return for 'radically reduced planning restrictions', said the Chancellor.

The chancellor said businesses operating in the zones will get up to 100% discount on rates, and the possibility of using enhanced capital allowances in zones focused on manufacturing.

One zone will be around the Royal Docks in East London and a further ten in major English cities. The exact locations of these ten were announced shortly after the budget and the final 10 will be announced in the summer of 2011.

The planning system will also be overhauled. The Chancellor stated that councils now spend 13% more than five years ago on processing planning applications, even though the number of applications has fallen.

Under the changes, all planning bodies will have to prioritise growth and jobs; there will be a new presumption in favour of sustainable development; and the government will retain control of greenbelt land but remove national targets on previously developed land.

Other Measures

A number of measures will be introduced to reduce tax avoidance and evasion, which George Osborne estimated would raise around £1billion a year, amounting to £4billion over the lifetime of the Parliament.

There will be an extra £220million investment in regional railways, the £85million Ordsall Chord scheme linking Victoria and Piccadilly stations in Manchester will go ahead, and George Osborne announced that an extra £100million would be made available to councils to mend potholes.

Economic Forecasts

Outlining the statistical background for the Budget, George Osborne said the Office for Budgetary Responsibility's growth forecast for this year has been revised down to 1.7%.

The Office for Budgetary Responsibility, Osborne said, attributed this to a weak final quarter in 2010 due to the snow, higher-than-expected inflation and an increase in world commodity prices. If the decline in growth is really due to snowfall this would seem to strengthen the argument that the government should ensure that the country is better prepared for it!

The Office for Budgetary Responsibility's forecast for real growth in gross domestic product next year is 2.5%, followed by 2.9% in 2013, 2.9% in 2014 and 2.8% in 2015. These do not appear to be especially high growth forecasts suggesting that any recovery in government tax revenues will not be strong.

The Office for Budgetary Responsibility's inflation forecasts are between 4% and 5% for most of this year, falling to 2.5% next year, and then to 2% in two years' time. As noted above, this is a higher level of inflation that the government's 2% target. If this results in increased interest rates this would increase the government's capital financing costs and would also be likely to depress growth still further.

The chancellor said government borrowing would be £146billion this year (2010/11), £122billion next year (2011/12), £101billion the year after that (2012/13), £70billion in 2013/14, £46billion in 2014/15, and £29billion by 2915/16. Consequently, government borrowing and the cost of financing the public borrowing requirement will increase during the lifetime of this Parliament.

No Council Tax Rises 2011/12

There will be no council in England that will put up their council tax in the next financial year, the government has stated along with the Budget 2011.

Some 378 authorities have frozen their council tax for 2011/12 while 43 have marginally reduced it. The average Band D council tax will remain unchanged from last year at £1,439, according to government figures.

It is the first time all English local authorities have frozen or reduced council tax since its introduction in 1993/94.

The freeze comes after the government set up a £650million incentive fund to compensate authorities for not increasing the tax. Every council will now receive a grant equivalent to a below-inflation 2.5% rise in their council tax. This was coupled with a Council Tax cap of 3.5%. This meant that if Councils had wished to increase their revenues through increasing the Council Tax they would have been limited to an increase of 3.5% that would have only yielded the equivalent of a 1% increase in Council Tax. It is therefore little wonder that no Councils have taken this option.

Local Government Secretary of State Eric Pickles MP said:

"Tackling public debt is our highest priority but we are determined to protect hard-working families and pensioners who have been squeezed for too long. This is about giving real and immediate help to families struggling with the daily cost of living.

"As well as special funding that has ensured councils freeze their bills, the government has scrapped a council tax revaluation and in the future residents themselves will have the right to veto excessive increases in local referendums."

It is not clear why a Council Tax revaluation would have necessarily increased Council Tax bills. Presumably the Council Tax bands would have been increased alongside the increased valuations while authorities would have continued to collect the same amount of Council Tax. There would have been 'winners' and 'losers' but most Council taxpayers would have paid the same or a similar amount.

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Other Announcements

Other announcements that were made included:

- George Osborne accepted Lord Hutton's recommendations on public sector pensions as the basis for consultation with unions, and said there must be 'no cherry picking' on either side.
- National Insurance and income tax could merge, with a consultation that 'will take a number of years to complete'. This could have significant implications for public organisations as employers.
- Corporation tax will be cut by 2% this year and fall by 1% in each of the next three years, down to 23% by the end of the Parliament.

Comments on the Budget

CIPFA chief executive Steve Freer said the Budget focused on enterprise and economic growth to reduce the deficit, but he said it remained to be seen whether growth in the private sector would compensate for public sector cuts. He said:

"In practice we are likely to see recovery proceeding at significantly different speeds in different parts of the country."

Labour leader Ed Miliband, responding to the chancellor's speech, said it was a missed opportunity to change course of 'cutting too far and too fast'.

Baroness Margaret Eaton, Chairman of the Local Government Association, said:

"The new local enterprise zones should help stimulate local economies and help foster private sector growth by encouraging businesses to set up within them.

"We are pleased that the Government has decided that local enterprise partnerships should determine their location. This will require local knowledge and careful consideration – not least because of the impact of enterprise zones on adjacent areas where there is a risk of displacement.

"The ability to retain business rate growth inside the zones will be a welcome source of funds for councils in the local enterprise partnership area. It is important that local authorities and local enterprise partnerships have the flexibility to decide how to reinvest these funds broadly in line with local economic priorities.

"The Hutton Review provides a broadly sensible approach to public sector pensions and proposes a workable balance between what is fair to staff and affordable to the taxpayer. We are pleased the Chancellor plans to use its findings as the basis for future negotiations. However, his plan to push ahead with a compulsory three per cent increase in pension contributions for public sector workers fails to recognise the significant differences between the funded Local Government Pension Scheme and the unfunded schemes in other parts of the public sector.

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"With inflation high and public sector wages frozen, such a compulsory increase will hit workers hard. It is likely that the LGPS opt-out rate will rise as a result. We would seriously counsel against pushing ahead with plans which might undermine the future viability of a highly effective scheme which helps its 4.3 million members save towards a reasonable retirement and reduces reliance on state means-tested benefits.

"The one per cent increase in employer National Insurance Contributions will add an estimated £81 million to the local government pay bill. That's enough to pay the salaries of more than 3,500 frontline staff on median wage. It comes as an unwelcome added expense at a time when councils are working extremely hard to save money in order to reduce job losses and protect frontline services in the wake of the biggest reduction to their budgets in living memory. We would much prefer to have seen this increase put off until after councils had the chance to implement more of the measures needed to reduce the impact of the cuts on their residents and workforce."

Councillor Gary Porter, Chairman of the Local Government Association's Environment and Housing Board, said:

"Removing the need for developers to obtain permission for converting empty shops into new housing may help in some areas, but it should be down to councils and residents to decide when and where this relaxing of the rules would be beneficial. This should not be a case of replacing one 'one-size-fits-all' approach imposed by Government with another.

"Residents need to have a say on plans which will change the shape of their towns, cities and villages, and it is important that councils can ensure there is a good balance between premises where people can work and homes in which they can live.

"Local authorities would like to see an improved planning system which favours local decisions over central control. Democratically elected councillors need to be able to make decisions that reflect the aspirations and needs of the people and businesses in their areas.

"Up and down the country there are examples of local authorities working innovatively to breathe new life into high streets and bring empty buildings back into use. It is important that any changes made by Government to the planning system give councils more flexibility, not less, and do not fly in the face of localism."

Councillor Peter Box, Chairman of the Local Government Association's Economy and Transport Board, said:

"It is good news the Government has responded to the concerns of local authorities by agreeing to the Local Government Association's request for extra money to fix potholes caused by unprecedented winter weather.

"This extra £100 million - which comes on top of the additional £100 million announced in February - will help highways teams with the enormous challenge of tackling the £9.5billion backlog in road repairs.

"Even as council budgets are being cut, it is vital that highway maintenance is sufficiently funded over the coming years if we are to prevent roads from crumbling into disrepair.

"Councils filled in more than two million potholes last year and, following the coldest December on record, face a difficult task to keep roads in a safe condition this year."

The Budget and Housing

Stuart MacDonald, Editor of 'Inside Housing' said:

"Housing featured prominently in the budget speech on Wednesday and in the welter of documents which spewed forth from the Whitehall machine immediately afterwards. And for once it was largely positive news from number eleven. The £250million package to help first time buyers had been widely trailed and grabbed many of the headlines, but how much will this and the other measures help the government deliver its key housing aim of boosting supply?

"The sector is still reeling from Chancellor, George Osborne's previous cost-cutting interventions and the scale of its challenge is huge: 116,560 homes were started in the United Kingdom in 2009/10, just over half the level of two years previously, and more than 250,000 households are formed each year. The £250million first buy initiative to help 10,000 households onto the property ladder has been universally welcomed, but 195,000 loans were made to first time buyers last year compared with 403,000 in 2006, according to the Council of Mortgage Lenders. The Council of Mortgage Lenders characterised this intervention as 'modest support' and you can see why.

"More significant hope is raised by the focus on what Mr. Osborne called the 'chronic obstacle to growth in Britain – the planning system'. While planners, through the Town & Country Planning Association, have rightly warned against throwing the baby out with the bath water in the rush to cut red tape, proposals to end lengthy planning delays and prevent local authorities from stymieing development through badly judged planning gain requirements are long overdue. The promise of a presumption in favour of sustainable development through the new national planning framework is crucial to ensuring this process succeeds.

"But the Chancellor will come in for serious stick from the green lobby, over plans to water down the definition of a zero carbon home. True, such a move will reduce the cost of building post-2016 once the target for all new homes to be zero carbon is introduced. But it comes just weeks after the Zero Carbon Hub had aligned campaigners and builders behind a more demanding definition. We will never know, but if Mr. Osborne ensures more homes are built at, say, code for sustainable homes level five than would otherwise have been the case, is this not a pill worth swallowing?"

Conclusions

The 2011 Budget has stuck rigidly to the public spending plans set out in the Spending Review 2010, including spending on services and capital spending.

There are a few minor differences to Departmental Expenditure Plans but some of these are probably due to simple accounting differences.

What was interesting about Chancellor George Osborne's speech was he hardly mentioned public spending plans at all.

Budgets are normally about 'getting and spending' but this Budget speech was all about the taxation side of the equation and only very little about spending.

The Budget 'Red Book' also seems to contain much less information than usual about the spending plans.

This is probably because the government wants to shift the debate away from 'cuts' and onto the 'growth' agenda.

Given that the latest economic forecasts have downgraded immediate growth prospects, they may find that shift less politically helpful than it might have been.

Whilst both the Chancellor and the Office for Budgetary Responsibility have revised slightly upwards medium-term growth prospects, it is entirely unclear why less growth now should somehow automatically lead to higher growth later.

There are also significant implications for public services not least in housing growth, enterprise zones, pensions, potholes, fuel costs, potential increases in interest rates and the review of national insurance.

Adam M. Waite
March 2011

About 'AWICS'

'AWICS' provides a full range of ethical management consultancy and training services, principally to those who are involved in local government.

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