

**Government's Emergency Budget (EB)  
22<sup>nd</sup> June 2010**

At the outset, many of the figures quoted by the Chancellor cover the five year period of Parliament and are not planned for next year.

What are the figures that particularly affect Watford?

In order to close the structural budget deficit within the lifetime of the Parliament, it is intended that the split between reduced Government spending and taxation should be 77%/ 23%.

The EB was very light on public expenditure reductions but included the following:

- Government Departmental spending to reduce by 25% over a four year period. Health and International Development to be fully protected; Education and Defence to be partly protected. It would appear this is a real year on year decrease (inflation will be added on to each year's control total). This is not as bad as if the 25% was a cash reduction. The bad news is that this will not be uniform across all Government Departments and it is suggested that Communities and Local Government will suffer a 4 year 33% reduction in Central Government funding.  
Detail will not be known until the Autumn Public Expenditure Review (although the Chancellor has indicated he would like Departmental proposals before the Summer recess of Parliament, and does not suggest much consultation with affected parties).
- The Consumer Price Index (CPI) is the inflation indicator to be used (which excludes housing related costs). This is predicted to be 2.5% by end of year (currently 3.4%) before eventually meeting the Government target of 2%. The VAT increase (to 20% from 1<sup>st</sup> January 2011) will cause the CPI to jump in January next year however.
- VAT increase to 20% on 1<sup>st</sup> January 2011 does not actually affect local authorities as we can reclaim it back.
- Public Sector Pay to be frozen for 2 years (in reality this may well be 3 years—as I don't believe the current year is part of the 'freeze'). I would hope that, if there is an 'escape route', the Local Authority Employers aren't stupid enough to award a wage increase at 1<sup>st</sup> April 2010 ! The two year freeze only covers those employees earning more than £21k. For those under £21k a £250 per year increase is to be permissible.
- Unemployment likely to peak at 8.1% this year before falling back to 6.1% in 2015. This will affect the size of our benefits client base.
- Benefits thresholds: this is a very complex area with some additional reliefs, some general reductions and some targeted reductions. I am not competent enough to provide a view on the effect on our number of claimants or indeed whether there will be a knock on in terms of homelessness.
- Income tax thresholds/ personal allowances will rise by £1,000 at 1<sup>st</sup> April essentially for basic rate taxpayers. This could reduce the number of benefit claimants, but the effect of VAT increase may more than compensate.
- Council Tax: the Chancellor actually stated that there 'will be incentives' for authorities to freeze council tax but no detail of the incentives has been produced.

- Pensions –the state pension will be guaranteed to rise by at least 2.5% (or average earnings or CPI) whichever is the greater. Retirement is likely to be increased to 66 in 2016. There will be a review within next three months into public sector pensions. All of these factors will need to be taken into account in the Actuarial Review being carried out by the County Council at the present time.
- Capital Projects: the cut in investment announced by the previous Government of £23 billion (from £69 to £46billion) by 2015/16 will continue with a reduction of £10 billion already announced for this year. Again detail will not be provided until the Public Expenditure Review but schemes such as the Watford Junction road project has already been put 'on hold'.
- There are to be incentives for business growth in most parts of England (London, South East and East of England will not enjoy this incentive).

How does this affect the Council's Medium Term Financial Strategy? The MTFs has assumed:

- a 5% year on year cash reduction in Government Support (effectively 7% as no inflation has been applied to the reduction). Latest 'intelligence' suggests a 33% per cent reduction over 4 years, which equates to 8.25% per annum compared to our 7%. **It is suggested** however that Watford should do some scenario/ worst case planning around 7.5% and 10% cash reductions (effectively 9.5% and 12% in real terms) in Government Support.
- No increase in the levels of council tax for the years 2011/2014. This corresponds with likely Government thinking.

**Conclusion:**

For local authorities, our major effects will not be known until the public expenditure review to be announced in October (although a number of 'leaks' can be anticipated). In the meanwhile we can only plan on the basis that local authorities will probably take the brunt of any 'efficiencies' required over the next 4 years.

Bernard Clarke  
 Head of Strategic Finance  
 June 25th 2010.