



## Japan Local Government Centre, London

### Monthly Report for June 2010 (UK) – Local Government Finance

#### **Spending Review 2010**

On June 8 the Treasury announced the terms of the forthcoming Spending Review, to be published on October 20. The Spending Review will set out departmental spending plans for the whole of this parliament (2010-2015). The stated backdrop of the review is that last year Britain had the largest deficit in peacetime history and also the highest in both the G7 and the G20 and therefore reducing the deficit via accelerated spending reduction remains the government's priority. It says it will do this by:

- *Thinking innovatively about the role of government in society;*
- *Taking the difficult decisions to reduce the deficit collectively as a Government; and*
- *Consulting widely using all available talents to deliver a stronger society as well as a smaller state.*

On June 22 it announced an online forum for public sector workers to suggest ways in which spending can be reduced, the Spending Challenge. The Treasury says that the Spending Review (SR) is *“not just about cutting spending and setting budgets. It will be a complete re-evaluation of the Government's role in providing public services. The SR will look at what services the Government should be providing and how to get more for less.”* Accordingly it says that departments will be asked to prioritise their activities according to a set of criteria:

- *Is the activity essential to meet Government priorities?*
- *Does the Government need to fund this activity?*
- *Does the activity provide substantial economic value?*
- *Can the activity be targeted to those most in need?*
- *How can the activity be provided at lower cost?*
- *How can the activity be provided more effectively?*
- *Can the activity be provided by a non-state provider or by citizens, wholly, or in partnership?*
- *Can non-state providers be paid to carry out the activity according to the results they achieve?*
- *Can local bodies, as opposed to central Government, provide the activity?*

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To lead collective decision-making in Government on spending, the Prime Minister has also appointed a Committee of senior Cabinet Ministers - the Public Expenditure Committee (PEX/Star Chamber). Chaired by the Chancellor of the Exchequer and supported by the Chief Secretary, the PEX Committee will advise the Cabinet on the high-level decisions that will need to be taken in the Spending Review.

On June 17 the Chief Secretary to the Treasury Danny Alexander also announced the outcome of the Treasury review of the public spending commitments made by the last Government between January 1 2010 and the General Election. He said the Government would immediately cancel 12 projects, which would have cost nearly £2bn over their lifetime. These include:

- CLG's Regional Leaders Boards
- BIS's loan to Sheffield Forgemasters
- DWP's low value employment programmes including: the extension of the Young Person's Guarantee to 2011/12; and the Jobseekers' 2-year Guarantee
- The Department of Health's Active Challenge Routes; County Sports Partnerships; and the North Tees and Hartlepool hospital project;
- The Local Authority Business Growth Incentive, and
- The withdrawal of Government funding for the Stonehenge Visitor Centre.

On June 20 the Chancellor George Osborne announced that former Labour cabinet minister John Hutton has accepted his invitation to chair the independent Public Service Pensions Commission. The commission will undertake a fundamental structural review of public service pension provision by Budget 2011. It will produce an interim report in September 2010 ahead of the Spending Review.

On June 21, the Prime Minister and the Chancellor announced that they have commissioned the leading economist and commentator Will Hutton to conduct an Independent Review of Fair Pay in the Public Sector. This Review will investigate pay scales across the public sector, and make recommendations on how to ensure that no public sector manager can earn more than twenty times the lowest paid person in the organisation. The Review will produce an interim report in the autumn, with a final report to the Prime Minister and the Chancellor in March 2011.

### **Emergency Budget 2010**

As per the Conservative Party's manifesto commitment to hold an 'emergency budget' within 50 days of taking office, the Coalition presented their first Budget to Parliament on June 22.

The Budget put forward a programme for reducing public sector spend by a further £30bn by 2014/5 on top of the £44bn pledge by the previous Government, of which £17bn is to come from departmental budgets and the rest from reductions in the welfare bill and other areas. This amounts to a real terms cut of around 25% over the

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next four financial years in Government spending in areas other than the NHS and overseas aid.

The Chancellor announced that the rate of VAT will rise to 20% from 4th January 2011. Current exemptions will continue to apply.

The Chancellor announced that the Government will help councils to freeze or reduce council tax in 2011/12. The Budget documentation assumes that this help will be given assuming a loss of revenue to authorities of 2.9% - the average of the three years' most recent council tax increases. The Government assumes that this will lead to a loss of revenue of £625m.

The Government has indicated that it will monitor lending from the Public Works Loans Board more closely, and will consider the approach taken in Scotland to increase transparency around borrowing undertaken more than two years in advance of expenditure.

The Government announced a two year pay freeze from 2011-12 for public sector workforces, except for those earning £21,000 or less who will receive an increase of £250 a year.

Regional Development Agencies will be abolished through the Public Bodies Bill. In place of the RDAs, the Government will enable locally-elected leaders, working with business, to lead local economic development, in the form of local enterprise partnerships (LEPs). These LEPs will coordinate public and private investment in transport, housing, skills, regeneration and other areas of economic development.

There will be a Regional Growth Fund, accessible to all areas of England, which will provide finance for regional capital projects over the next two years. This Fund will incorporate existing housing, transport, regeneration and other funding streams into one "pot" which is expected to be distributed in part through formula and in part through a bidding process.

To support private sector enterprise and investment in those regions that are particularly reliant on the public sector, the Government will introduce a three year scheme to exempt new businesses in targeted areas from up to £5,000 of Class 1 employer National Insurance Contributions payments, for each of their first ten employees hired in their first year of business. This measure will apply to all regions outside London, the South East and East of England.

The Government confirmed that the temporary increase in the threshold for small business rate relief, announced by the previous Government in the March 2010 Budget giving full relief for eligible businesses occupying premises with a rateable value of up to £6,000 and tapering relief to £12,000, will go ahead from October 1 2010. It also announced that legislation will be introduced to cancel backdated business rates bills mainly affecting ports.

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The Government announced a package of reforms aimed at saving £1.8bn in housing and council tax benefit costs.

The Budget confirmed that standard rate of landfill tax will increase by £8 per tonne each year from April 1 2011 until at least 2014, as announced by the previous Government.

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