

South East England Councils

Briefing: Budget 2011



Introduction

On 23 March 2011 Chancellor George Osborne unveiled a fiscally neutral budget. Government also published its *Plan for Growth* http://www.hm-treasury.gov.uk/ukecon_growth_index.htm

A strategy paper *Tackling Tax Avoidance* aims to reduce the £14bn lost through tax evasion in 2008 http://www.hm-treasury.gov.uk/2011budget_taxavoidance.htm. To simplify taxation, 143 tax reliefs have been abolished.

The Budget sets out 4 key objectives to help the UK reverse its declining global competitiveness:

- To have the most competitive tax system in the G20
- To be the best place in Europe to start, finance and grow a business
- To be a more balanced economy, by encouraging exports & investment
- To have a more educated workforce that is the most flexible in Europe.

It was noted that every principal local authority has chosen to freeze or reduce council tax for 2011-12. However, there was criticism of councils' approach to planning, claiming it was expensive, cumbersome and was stifling growth. Plans to simplify planning and introduce a presumption in favour of development were announced, to complement proposals in the Localism Bill.

There were also a number of announcements that will affect local authorities in their role as employers.

There was little specific mention of the South East, although several mentions of the need to rebalance the economy and share prosperity across all parts of the UK. It is not yet clear how this will impact on the South East and to what extent Ministers have recognised the South East's problems. A £20m investment in science at Harwell in Oxfordshire is good news. On the other hand, the South East has none of the first 11 Enterprise Zones, although LEPs can enter the bidding process that will allocate a further 10 zones.

The Chancellor also announced that Royal Assent has been granted for legislation that makes the Office of Budget Responsibility (OBR) a permanent, statutory and independent organisation.

Economy overview

- Based on OBR work, the Chancellor has **lowered GDP growth forecasts for 2010-11** from 2.1% to 1.7%. Stronger growth in UK GDP is projected in future: 2.5% in 2012 and 2.9% in 2013-14.
- **Inflation is forecast to remain at 4.5% this year** (higher than earlier forecasts and means higher payouts in benefits and to gilt investors), **falling to 2.5% next year** and 2% the year after.
- **Borrowing forecasts for future years are above targets** set in last year's emergency Budget: £146bn this year (original forecast £149bn), then £122bn (£116bn) in 2011-12, and falling to £29bn (£20bn) in 2015-16. **Debt should be falling as a share of GDP by 2015-16.**

Transport

- **£100m has been allocated for councils to repair winter potholes** on the roads.
- **A fuel stabiliser has been introduced to manage petrol costs.** April's fuel duty rise has been postponed to summer 2012. There is also an immediate **fuel duty cut of 1p per litre.** The fuel escalator has been abolished. The North Sea supplementary production tax will rise from 20% to 32%, raising £2bn.
- An extra **£200m was announced for regional rail projects.** It is not yet clear if any of this will benefit South East projects.

- There will be **inflation-rate increases in vehicle excise duty**. Rates are frozen for heavy good vehicles.
- Private jets, currently exempt from air passenger duty, will now be included in the tax. The rate of **air passenger duty is frozen** until April 2012.

Using planning to encourage growth & enterprise

- The system for planning applications will be simplified and streamlined, with a **12 month guarantee for processing of all planning applications**, including appeals.
- **Fast-track planning for major projects** such as wind farms & power stations will be handled by a Major Infrastructure Unit, with Ministers making final decisions.
- A new **presumption in favour of development** will be introduced. The default answer to growth should be 'yes', unless proposals clearly compromise sustainable development. Draft wording is due by May 2011.
- Greater clarity on planning for growth will be provided by a **National Planning Policy Framework**. This will remove targets for developing brownfield land but maintain **strong protection for green belt** and other environmental protections. Consultation is due later this year.
- Ministers want to scrap the requirement to get planning permission to change vacant commercial property into housing.
- There will be **pilots to auction public sector land with planning permission**.
- The **right to initiate neighbourhood plans will be extended to businesses**.
- Government is to fund **21 new Enterprise Zones**. Zones can offer:
 - **A 100% business rate discount** worth up to £275,000 **over five years**. There is no detail on how to prevent displacement of economic activity from other parts of the UK.
 - **All business rates growth** within the zone for at least 25 years will be **retained and shared by the local authorities in the LEP** to support their economic priorities.
 - **Radically simplified planning approaches**.
 - **Superfast broadband** will be rolled out in the zones, if necessary with public funding.
 - Government will work with LEPs to consider the scope for **introducing enhanced capital allowances** to support zones in assisted areas where there is a strong focus on high value manufacturing.
 - Use of **Tax Incremental Finance** to support the long-term viability of the zones in tandem with the Local Government Resource Review will be considered alongside **UKTI support on inward investment and trade opportunities**.
- Areas for 10 new urban Enterprise Zones have been agreed. None are in the South East. London will have one Enterprise Zone – the Mayor will choose its site.
- There will be a **competitive process for LEPs to bid for the remaining 10 Enterprise Zones**.

Housing

- There is a new **£250m commitment to help 10,000 first-time buyers** purchase a newly-built home.
- Support for **the Mortgage Interest Rate scheme has been extended**.
- Government announced approval of an important, and re-designed, element of the **Milton Keynes residential quarter scheme**.
- **Real Estate Investment Trusts are to be simplified** to encourage home building.

Local authorities as employers

- There will be **consultation on merging National Insurance and income tax** to simplify the tax system and reduce administration costs. This is expected to take several years.
- There will also be **consultation on increasing public sector employee pension contributions** by an average 3% to make pensions more affordable.
- There will be a **flat rate £250 increase for teachers earning £21,000 or less** in the coming year. It is not yet clear whether it will apply to other local government workers. It does apply to armed forces, prison service, NHS and civil servants.

- There will be a 5p **increase in mileage rates for employees' car use**. It will now rise to 45p.
- An automatic mechanism will be created to inform future rises in the state pension age.
- Funding has been announced to support **another 40,000 apprenticeships** for the young unemployed.
- The **work experience scheme will be expanded fivefold to cover 100,000 young people** over the next two years. There will also be funds to increase the number of university technical colleges to at least 24 to improve vocational training.

Business support & taxation

- **A planned cut in corporation tax will be doubled to 2%** from April 2011. It will then fall by 1% a year until it reaches 23%. The bank levy will be adjusted to ensure no net tax cut for banks.
- **Income tax relief on enterprise investment schemes for SMEs will increase** from 20% to 30%. Entrepreneur relief has been increased to £10m.
- The **small business rate relief holiday will be extended** by a year until October 2012. The **small companies' R&D tax credit increases** to 200% next year and 225% the year after.
- To **support the construction industry, stamp duty will be levied on mean value of property** not bulk cost.
- Measures to promote UK manufacturing include **£100m investment in science** projects. This includes **£20m for 2 research centres in the South East**; the ISIS research centre (£10m) and the International Space Innovation Centre (£10m), both at Harwell, Oxfordshire.
- To encourage investment in plant and machinery, from April 2011, the **limit on the capital allowances short life assets election will be extended from 4 to 8 years**. The **Business Premises Renovation Allowance will be extended for a further five years** from 2012, providing relief on renovation of business premises in assisted areas.
- The Chancellor **plans to incentivise green energy usage** by introducing a price floor of £16 per tonne for alternative carbon this year, rising to £30 per tonne by 2020. This could be seen as a discreet subsidy for nuclear energy.
- An extra **£2bn has been committed to the Green Bank** but it will act only as a fund for several years as it will not have borrowing powers until UK debt starts falling.
- There will be a moratorium exempting businesses of less than 10 people from new domestic regulation for 3 years.
- Government has agreed with the banks a 15% increase in the availability of credit to small businesses.

Individuals & charities

- From April 2012 the **personal tax allowance rises to £8,105**, a rise of £635. However, the **threshold for higher rate tax comes down** to £42,475 from April, which is expected to draw 750,000 middle earners into the 40% band for the first time.
- In future, **personal allowances will be uprated with the consumer price index** (not with higher measure of inflation – RPI). This could wipe out the £600+ increase in the personal allowance in about 5-6 years.
- From April 2011 the **child tax credit for lower income families will increase by £255**.
- Gift aid will be simplified and from April 2012 a 10% cut to inheritance tax has been announced if at least 10% of an estate is donated to charity.
- Government aims to introduce a flat **rate pension worth around £140 a week**. This is likely to take several years and will not apply to current pensioners.
- Tobacco duty will increase by 2% above inflation.
- Duty on the strongest beers will increase, but it will be halved for low alcohol beers.

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