Appendix A

WLGA Briefing

30 October 2024

UK Government Budget 2024

Leaders, Finance Cabinet Members, Chief Executives and Directors of Finance

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1. Introduction & Background

Today the chancellor, Rachel Reeves, has set out a tax-and-spend budget to underpin the new government's twin aims of repairing the UK's public finances, and firing up economic growth. In the run up to the announcement, the Institute of Fiscal Studies said: "The broad direction of travel is becoming clear: big tax increases to pay for extra spending on public services, and more borrowing to pay for the extra investment this government sees as central to its growth ambitions".

According to the Institute for Government a large net tax rise is not unusual after an election. In every fiscal event since 1992, the chancellor has increased taxes.

Over the weekend there was lots of speculation about the big issues, but these are perhaps four of the main ones:

The tax burden – One of the biggest increases was an increase of 1.2% in employer's national insurance which raises £25bn. An extension of the existing 6-year freeze on personal tax thresholds raises another £7bn. The imposition of value added tax on private school fees will raise another £1.5bn. Also widely trailed were other taxation measures to increase taxation on the private equity industry, capital gains and inheritance.

Improving public services - The chancellor has repeatedly promised 'no return' to austerity and has a funding gap of £40bn to fill in most part with tax rises. The chancellor will outline a single year budget settlement for government departments and devolved administrations for 2025-26. The key question here, is how much the government goes towards reversing the real-terms 'squeeze' on unprotected areas.

Increasing investment - Also heavily trailed is a commitment to reframe the fiscal rules in a way that will free up to £50bn in additional borrowing for investment while sticking to the 'rule' that puts debt on a downward trajectory over 5 years. New capital spending will benefit the NHS and school buildings.

Encouraging economic growth – While the economy has grown faster than anticipated – the IMF predicts 1.1% in 2024 – it is still low by historical standards. Tax rises will act as a significant drag on growth, with the IMF expecting growth of 1.5% in 2025. This is below the OBR estimate of 1.9% from last March. However, the OBR is expected to report on the positive economic impact of higher public investment over a longer-term period.

2. The Chancellor's Statement

The chancellor began by talking about stability and national renewal, to fix the foundations and deliver change. The only way to deliver growth is to "invest, invest, invest," she said. As the first female chancellor, she importantly added that her message to girls everywhere is "let there be no ceiling to your hopes".

General Public Finances

- **£22bn 'black hole'.** The chancellor referred to her July statement and public spending audit. Treasury reserves were spent three times over three months into the last financial year. She said that the government will publish a line-by-line breakdown of the £22bn.

- **OBR Review.** The 10 recommendations from OBR will be accepted in full. OBR not provided with all the information required. Would have been materially different with fuller disclosure.

- **Compensation schemes.** £11.8bn will be provided in compensation to victims of the infected blood scandal. £1.8bn for the Post Office Horizon scandal.

- **Tax requirement.** The chancellor confirmed the budget will raise taxes by £40bn. This is significant as quoted by the Financial Times: "We have long expected £40bn of revenue-raising measures in the Budget but the widespread expectation was that this would comprise £35bn of tax rises and £5bn of spending cuts. That is why Rachel Reeves declaring £40bn of tax rises is a surprise"

The Economy

- **Inflation predictions.** The chancellor confirmed the OBR estimates: CPI inflation will average 2.5% this year, 2.6% in 2025, then 2.3% in 2026, 2.1% in 2027, 2.1% in 2028 and 2.0% in 2029.

- **Economic Growth.** OBR predictions show a faster than expected rise this year and next year, but then weaker than forecast growth later in the forecast:

    - GDP in 2024: +1.1%, up from 0.8% growth forecast at the March budget
    - GDP in 2025: +2%, up from 1.9% growth forecast at the March budget
    - GDP in 2026: +1.8%, down from 2.0% growth forecast at the March budget
    - GDP in 2027: +1.5%, down from 1.8% growth forecast at the March budget
    - GDP in 2028: +1.5% down from 1.7% growth forecast at the March budget
    - GDP in 2029: +1.6%, a new forecast

- **Fiscal Rules and Government Debt.** The stability rule, Reeves says, means they will bring the current Budget into balance so they don't borrow to fund day-to-day spending.

- **Efficiency targets.** The chancellor said she will reduce wasteful spending and sets out a 2% productivity savings target for government departments. Also announced:
    - A new Covid Corruption Commissioner
    - David Goldstone is being appointed as chair of the new Office for Value for Money

- **Welfare fraud crackdown.** Measures were announced to save £4.3bn. A *Get Britain Working* White Paper to be published soon.

- **Cost of Living** – National Minimum Wage will be increased. For people aged 21 or older it will rise by 6.7% from £11.44 an hour to £12.21 from next April. For those aged between 18 and 20-years old from £8.60 to £10. Apprentices' hourly pay will increase from £6.40 to £7.55.

- **Carers allowance.** On the carers' allowance, Reeves says it will increase from £81.90 per week to the equivalent of 16 hours at the National Living Wage per week. A carer can now earn over £10,000 a year whilst receiving the allowance. This will allow them to "keep more of their money".

- **Miners' pensions scheme.** The chancellor has scrapped a controversial arrangement that saw the government receive hundreds of millions of pounds from a pension scheme for mineworkers. The government had been entitled to half the surplus cash from the scheme under an agreement signed 30 years ago. £1.5bn will be transferred into the pension pots of 112,000 former coalminers.

- **Pensions**. The government committed to the triple lock. Spending on the state pension is projected to rise 4.1% in 2025-26. A £470 increase for pensioners.

Taxation & Duties

- **Fuel duty.** No change to this, no increase and the cut remains. Fuel duty has not risen in more than a decade. It was frozen between 2011 and 2022 and cut by 5p in March 2022 in the aftermath of the invasion of Ukraine.

- **Employers' National Insurance.** Widely trailed but increase lower than the expected 2%. It is increased by 1.2% from 13.8% to 15.0%, the Secondary Threshold (ST) is reduced from £9,100 to £5,000. It will raise £25bn.

- **Employment Allowance**. The employment allowance will increase from £5,000 to £10,500, which will mean many smaller employers won't pay any National Insurance at all next year.

- **Capital Gains Tax.** The lower rate will rise from 10% to 18%, and the higher rate will go up from 20% to 24%. This is still the lowest rate for any European G7 country.

- **Inheritance Tax (IHT).** The chancellor extends the freeze on IHT thresholds for a further two years until 2030. Importantly, inherited pension will become taxable. She will reform Agricultural Property Relief and Business Property Relief.

- **Air Passenger Duty.** There will be a small adjustment, worth no more than £2 for economy, short-haul flights. For private jets, air passenger duty will rise by 50%.

- **Tobacco Duty**. The government will renew the tobacco duty escalator, which will be applied at retail price inflation plus 2%.

- **Alcohol Duty.** Rates on non-draught products will increase in line with RPI from February next year.

- **Business rates.** To help high streets there will be a 40% relief on business rates for retail, hospitality and leisure properties in England. This is a reduction on the current 75% and brings it into line with Wales.

- **Stamp Duty.** She announced the government will increase the stamp duty land surcharge for second-homes by 2% to 5% in England from tomorrow. There's a question on whether the Welsh Government will follow suit.

- **Non-dom tax regime**. The government will abolish the nom-dom tax regime from 2025 and introduce a new "residence-based scheme with internationally competitive arrangements for people coming to the UK on a temporary basis".

- **Energy Profits Levy.** The chancellor said she will increase the windfall tax on oil and gas profits to 38% (to expire in March 2030). She added that the government will remove the 29% investment allowance, to ensure, that oil and gas industry can protect jobs.

- **VAT on Private Schools**. She confirmed that VAT will apply to private school fees from January 2025. The government will soon introduce legislation to remove their business rates relief from April 2025. Welsh Government are currently consulting on the same proposal.

- **Income tax allowances**. Frozen until 2028, then uprated by inflation. Applies to NI thresholds as well.

Public Expenditure

- **Immediate injection to fund investment**. There'll be "no return to austerity" said the chancellor as she confirmed that revenue will increase 1.5% in real terms and 1.7% for capital.

- **Public Service Reform**. The chancellor is putting a lot of faith in technology: to transform HMRC and the machinery of government, and to underpin public service reform. "We can't simply spend our way to better public services," she said.

- **Education**. Additional £2.3bn for core schools' budgets and a tripling of investment in breakfast clubs. £300m for higher education.

- **Special Education Needs**. £1bn uplift in funding a 6% increase in real terms.

- **Defence spending**. Confirmed £2.9bn increase. The Government will give guaranteed military support to Ukraine of £3bn a year for "as long as it takes". Funding will be allocated for the 80th anniversary of VE and VJ days in 2026

- **Local Government Funding.** The government will "deliver a significant real-terms funding increase" for local government, including more than £1bn of additional grant funding "to help deliver essential services", with at least £600mn for social care. A further £230m will "help tackle homelessness and rough sleeping".

- **English Regions.** Greater Manchester and the West Midlands will be the first mayoral authorities to receive integrated settlements from next year.

- **Devolved administrations.** Wales, Scotland and Northern Ireland – largest real-terms funding settlement since devolution in line with the Barnett formula, there will be an extra £3.4bn for the Scottish government, an extra £1.7bn for the Welsh government and an extra £1.5bn for Northern Ireland. And the Welsh government is getting £25m to help fund the maintenance of coal tips.

- **Investment Rule.** There'll be a new debt rule called the investment rule, because the definition of debt is changing to allow more investment. The government will move to public sector net financial liabilities as the debt measure. Four guardrails will be in place:
    - First, the portfolio of new financial investments will be delivered by expert bodies like the National Wealth Fund and will earn a rate of return at least as large as that on gilts.
    - Second, the government will strengthen the role of institutions to improve infrastructure delivery.

- Third, the government will improve certainty, setting capital budgets for five years and extending them at every spending review every two years.
- Finally, the government will ensure that there is greater transparency for capital spending with robust annual reporting of financial investments based on accounts audited by the National Audit Office and made available to the office for Budget Responsibility at every forecast.

- **National Wealth Fund –** The government will capitalise the national wealth fund to invest in "industries of the future". It will drive forward a "modern industrial strategy" to set out the sectors with the "biggest growth potential". The chancellor confirms £975m for the aerospace sector, over £2bn for the automotive sector and up to £520m for a new Life Sciences Innovative Manufacturing fund.

- **Research Investment**. The government will invest at least £6.1bn to protect core research funding for areas like engineering, biotechnology and medical science. There will be a new, multi-year investment into carbon capture and storage. Funding will be provided to 11 new green hydrogen projects across England, Scotland and Wales. They'll be among the first commercial-scale projects in the world, and will be established in several communities, including Bridgend, East Renfrewshire and Barrow-in-Furness.

- **Housing.** The government will spend £5bn on affordable housing. Local authorities will be allowed to keep all the receipts from the sale of council homes.

- **Rail Transport.** The government will secure the delivery of the Trans-Pennine upgrade to connect York, Leeds, Huddersfield and Manchester. Also, will deliver East-West Rail to drive growth between Oxford, Milton Keynes and Cambridge. On HS2 - the high-speed rail project - the funding will be provided to begin tunnelling work to London Euston, meaning Old Oak Common in West London and Euston.

- **Road Transport.** She promised £500m increase for road maintenance. The single bus fare cap applied to many routes in England will be raised from £2 to £3.

- **Overall capital.** Overall, the Government are to invest £100bn in capital spending over next five years

- **School investment**. The government will provide a £6.7bn capital investment to the Department for Education next year, which is a 19% real-terms increase on this year. This includes over £1.4bn to rebuild 500 schools.

- **NHS Funding.** The chancellor referred to a 10-year plan to address the health system in the spring. The NHS will receive new funding under this Budget, she adds.

There will be a £22.6bn increase in the day-to-day health budget, and a £3.1bn increase in the capital budget, the largest increase in spending outside of Covid since 2010. The measures will bring down waiting lists and increase the capacity for procedures in the NHS.

The Budget Report

Contained in the budget report:

- **Shared Prosperity Fund.** Continuing the UK Shared Prosperity Fund at a reduced level for a transition year by providing £900 million for local authorities to invest in local growth, in advance of wider funding reforms". SPF allocations over the three financial years of the Fund at the UK level have been £400m in 2022/23, £700m in 2023/4 and £1.5bn in 2024/25. This transition year, whilst welcome and lobbied for by WLGA, does therefore represent a cut of 40% on the 2024/25 allocation. The amount for Wales is not yet known but we received 22.5% of the original £2.6bn of SPF. Therefore, if we got the same share again it could amount to £202.5m

- **Tata Steel.** Confirming £80 million of funding for the Port Talbot Transition Board, with work already underway to support workers and businesses affected by decarbonisation at Tata Steel.

3. Conclusion

It will take some time for us to understand the full implications for the Welsh Government Budget and how that will shape the local government settlement. The consequential for Wales is large and much of due to NHS spending in England. It is not clear at this stage how much of the consequential is for capital and how much for revenue. We are expecting briefing from the Wales Fiscal Analysis team in the coming days.

We also expect the Welsh Government to make a fuller written statement in the coming days and the Cabinet Secretary for Finance to make an oral statement in the Senedd next week.

Appended:

Annex I WLGA Press Release
Annex II WG Press Release

Also appended:

Wales Office Press Release
A Budget to fix the foundations and deliver change for Wales - GOV.UK

HMT Autumn Budget 2024
The Autumn Statement along with other supporting documents can be found on the Treasury website.

Full Supporting Documentation:
Autumn Budget 2024 - GOV.UK

Treasury Press Release:
Chancellor chooses a Budget to rebuild Britain - GOV.UK

Chancellor's Speech
Autumn Budget 2024 speech - GOV.UK

Office for Budget Responsibility
Economic and fiscal outlook

Home - Office for Budget Responsibility (obr.uk)

Initial response from Institute of Fiscal Studies (IFS):
Autumn Budget 2024: initial IFS response | Institute for Fiscal Studies

Initial response from LGA
LGA statement on Budget 2024 | Local Government Association

Annex I

DATGANIAD I'R WASG CLILC / WLGA PRESS RELEASE
Dydd Mercher 30 Hydref / Wednesday 30 October 2024

I'w ryddhau ar unwaith / For immediate release

Cyllideb yr Hydref: Arweinydd CLILC yn croesawu ymrwymiad y Canghellor i 'fuddsoddi, buddsoddi, buddsoddi' mewn gwasanaethau cyhoeddus

Wrth ymateb i gyhoeddi Cyllideb Llywodraeth y DU, dywedodd y Cynghorydd Andrew Morgan OBE, Arweinydd CLILC:

"Mae'r Canghellor wedi darparu Cyllideb â'r nôd i "drwsio sylfeini" economi y DU ymysg cefnlen gyllidebol heriol. Wedi dros ddegawd o lymder, mae gwasanaethau lleol a redir gan gynghorau yn gwegian dan bwysau."

"Rwy'n croesawu'n gynnes yr ymrwymiad gan lywodraeth newydd y DU i 'fuddsoddi, buddsoddi, buddsoddi'. Gyda buddsoddiad cynaliadwy, hir-dymor, gall cynghorau helpu i wireddu uchelgeisiau llywodraethau y DU a Chymru fel eu gilydd; gyda buddsoddiad mewn gwasanaethau ataliol lleol, megis gofal cymdeithasol, gall cynghorau helpu i gadw pobl yn iach yn eu cartrefi, gan leddfu rhestrau aros mewn ysbytai a'r baich ar wasanaethau iechyd. Gyda chyllid ychwanegol i addysg ac ysgolion, gall cynghorau wella cyfleon bywyd plant a phobl ifanc a pharatoi gweithlu y dyfodol. Gydag arian ar gyfer datblygu economaidd lleol a rhanbarthol, gall cynghorau gyfrannu i sbarduno'r twf economaidd sydd wir ei angen, a chreu cymunedau llewyrchus.

"Ceir newid sylweddol o ran tôn yn y Gyllideb hon a ddylai gael ei groesawu gan bawb sy'n trysori eu gwasanaethau lleol. Dim ond gyda phartneriaeth gref rhwng cynghorau, llywodraethau Cymru a'r DU y gallwn ni weithio i wireddu twf economaidd, cyrraedd sero net, diogelu ein strydoedd, dymchwel rhwystrau i gyfleoedd, a chreu cymunedau gofalgar, iachach ar draws Cymru.

"Edrychwn ymlaen i barhau ein hymgysylltu gyda Llywodraeth Cymru i weithio tuag at sicrhau setliad sy'n cydnabod cyfraniad allweddol cynghorau i gyflawni blaenoriaethau cenedlaethol."

- **DIWEDD** -

Autumn Budget: WLGA Leader welcomes Chancellor commitment to ‘invest, invest, invest’ in public services

Responding to the UK Government’s Budget announcements, Councillor Andrew Morgan OBE, WLGA Leader said:

“The Chancellor has delivered a Budget designed to ‘fix the foundations’ of the UK economy set against a challenging financial landscape. After over a decade of austerity, council-run local services are creaking at the seams.

“I warmly welcome the new UK Government’s commitment to ‘invest, invest, invest’. With sustainable, long-term investment, councils can help to deliver the ambitions of both UK and Welsh governments; with investment in local preventative services, such as social care, councils can help to keep people well and healthy at home, and ease hospital waiting lists and the burden on health services. With extra funding for schools and education, councils can improve the life chances of children and young people and prepare the workforce of the future. With money for regional and local economic development, councils can contribute to spur much-needed economic growth and create thriving communities.

“This Budget represents a step-change in tone from the UK Government which should be welcomed by all those who cherish their local services. It is only with a strong partnership between councils, Welsh and UK governments that we can work to deliver economic growth, achieve net zero, secure safer streets, break down barriers to opportunity, and create caring, healthier communities across Wales.

“We look forward to continue engagement with the Welsh Government to work towards achieving a settlement which recognises councils’ key contribution to securing national priorities.”

- **ENDS -**

Annex II

UK Budget a "first step to repair the damage of the last 14 years"

[Cyllideb y DU yn "gam cyntaf i drwsio difrod yr 14 mlynedd diwethaf"]

Finance Secretary Mark Drakeford has welcomed the new UK Government's first Budget and the additional £1.7bn it will bring to Wales over two years.

Speaking after the Chancellor's statement, he said it was a first step towards "repairing the damage caused over the last 14 years by previous UK governments".

And he said Rachel Reeves – the UK's first ever female Chancellor – was listening to Wales by investing in coal tip safety and increasing Wales' capital budget.

Finance Secretary, Mark Drakeford said:

"This is a Budget focused on fixing the foundations; rebuilding public services and creating a pathway of investment for growth.

"It marks the first steps in the right direction after 14 years of economic mismanagement by previous UK governments and the impact its decisions have had on people and communities.

"It is clear the Chancellor is listening to what Wales needs. I look forward to working with the UK Government on our other priorities, including securing fair funding for rail."

Following today's UK Budget, the Welsh Government's settlement for 2025-26 is more than £1bn higher than it would have been under the previous UK Government. Taking 2024-25 and 2025-26 together, the settlement is around £1.7bn higher compared to what it would have been.

The UK Budget included the following for Wales:

- £1.7bn of extra funding for public services and capital investment in Wales.

- £25m to support the Welsh Government's ongoing investment to make coal tips safe
- Moving to the next stage on the Celtic Freeport with designation of the tax sites
- Support for green hydrogen projects in Milford Haven and Bridgend
- Ended mineworkers pension fund injustice
- Increase in National Living Wage for tens of thousands of workers in Wales.

The Finance Secretary added: "The additional funding is welcome and while the Chancellor's Budget is designed to create growth the wider financial context is still difficult.

"We will be making our spending decisions as we develop our Draft Budget in the weeks ahead."

ENDS