

Budget June 2010

HM Treasury

A briefing paper from the National Council for Voluntary Youth Services (NCVYS)

June 2010

1. Introduction

In June 2010, HM Treasury published the first budget of the Conservative-Liberal Democrat coalition government.¹ This briefing paper summarises key points of Budget June 2010 that relate to young people and the voluntary and community youth sector (VCYS) arising from its publication.² The Budget sets out the action the Government will take in three areas – deficit reduction, enterprise and fairness – to rebalance the economy and provide the conditions for sustainable growth.

The Budget aims to eliminate the bulk of the structural deficit through plans for consolidation of £40 billion per year by 2014-15. These plans include £32 billion per year from spending reductions and £8 billion per year from net tax increases. The Budget confirmed that the Comprehensive Spending Review (CSR) will be presented on Wednesday 20th October.³

2. Potential issues for the voluntary and community youth sector (VCYS)

Measures in Budget June 2010 can be seen to directly and indirectly affect young people and VCYS organisations. VAT will increase to 20% from 4 January 2010. Child benefit will be frozen for the next three years from April 2011, but there will be a £2bn increase in child tax credits. George Osborne MP, the Chancellor of the Exchequer, has set a new rule of thumb for dealing with deficit reduction: 80% will be achieved through lower spending and 20% through tax rises. A number of issues of concern to the voluntary and community sector more widely were also considered in the Budget, these are set out below.

¹ HM Treasury's micro-site for the June Budget 2010 is available via:

http://www.hm-treasury.gov.uk/2010_june_budget.htm

² Information taken from the BBC website and Directgov:

http://www.direct.gov.uk/en/NI1/Newsroom/Budget/Budget2010/DG_186500

³ The National Council for Voluntary Organisations (NCVO) has produced a briefing on the spending review: NCVO (June 2010) *Initial spending review 2010 briefing*
http://www.ncvo-vol.org.uk/sites/default/files/Initial_spending_review_2010_briefing.pdf

3. General economic statistics

General statistics for the UK economy provide a background and context to the current economic environment:

- predicted growth of economy of 1.2% in 2010 (which is below the March Budget forecast);
- the growth forecast for 2011 is 2.3% (which is below the March Budget forecast) and is 2.8% in 2012, 2.9% in 2013 and 2.8% in 2014;
- inflation is expected to reach 2.7% by the end of the year;
- borrowing this year is forecast to be £149bn, rather than the £167bn forecast in the March Budget, and is £5.7bn less than last year;
- borrowing is to be cut to £37bn by 2013-14;
- public sector net debt as a share of GDP will be 62% this year, before peaking at 70.3% in 2013/14, and then falling to 69% in 2014/15 and 67% in 2015/16.

4. Key announcements on tax

VAT will rise from 17.5% to 20% from 4 January 2011. The Charity Tax Group estimates that this will increase the irrecoverable tax burden of charities by at least £150 million per year.⁴

Capital Gains Tax will remain at 18% for low and middle-income savers, but from midnight on 23 June taxpayers on higher rates will pay at 28%. The Institute of Fundraising estimates that this could be an incentive for high earners to donate more to charity.⁵

The personal income tax allowance has gone up by £1,000 to £7,475. This means that those earning less than that, estimated to be 880,000 people, are taken out of the tax system. Overall this will give 23 million people up to an extra £170 per year. There remains a commitment to raising the personal allowance to £10,000 with progress towards that goal every year.

The Government will work in partnership with local authorities to implement a freeze in council tax in England in from April 2011 to April 2012. The Government will compensate local authorities that commit to freeze or reduce their council tax.

The Government inherited plans for National Insurance rates to increase by 1 per cent in April 2011, but will increase the threshold for employer National Insurance Contributions (NICs) by £21 a week above indexation. This is expected to make it easier for employees to take on young people.⁶

5. Child benefits and tax credits

Child benefit rates will be frozen for three years – remaining at £20.30 per week for the eldest child and £13.40 per week for each other child in a family.

There will be a £2bn increase in child tax credits, with a rise for each recipient of £150 above inflation. Tax credit payments to families earning more than £40,000 will be reduced from next year.

⁴ Charity Tax Group (2010) *Irrecoverable VAT and its impact on charities*

<http://www.ctrq.org.uk/files/?id=221>

⁵ Institute of Fundraising (22 June 2010) *Budget Represents a mixed bag for Fundraising*

<http://www.institute-of-fundraising.org.uk/pressnews/topstories/budgetrepresentsamixedbagforfundraising>

⁶ CYPNow (22 June 2010) *Emergency Budget: Osborne omits measures to reduce youth unemployment*

<http://www.cypnow.co.uk/news/ByDiscipline/Education/1011560/Emergency-Budget-Osborne-omits-measures-reduce-youth-unemployment/>

6. Public spending

The Government remains committed to maintaining current levels of spending on health and international aid. Reductions to other government departments equate to roughly 25% cuts over the next four years and will total £17bn. Further details will follow in the Comprehensive Spending Review (CSR) to be presented on Wednesday 20th October.

George Osborne MP, the Chancellor of the Exchequer, said that "Not all departments will receive the same settlement," and he recognised "the particular pressures on our education system and on defence."⁷

7. Voluntary and community sector

Budget June 2010 announced the following Government proposals affecting the voluntary and community sector:

- continuing to explore with voluntary and community sector representatives ways to improve the Gift Aid system and encourage charitable giving;
- launching a formal consultation with the voluntary and community sector in autumn on removing the VAT disincentive for charities who share services;
- replacing the current rules on substantial charity donors and HMRC will consult informally on draft clauses in the summer, with a view to publishing final legislation in the autumn;
- reviewing the current National Lottery taxation arrangements.

8. Other measures

Budget 2010 made other commitments which may be of interest to the VCYS:

- a bank levy on bank's balance sheets will be introduced from January 2011. This will apply to the balance sheets of UK banks and building societies and the UK operations of foreign banks, but not smaller banks, and it is expected to raise more than £2 billion a year;
- there will be a reduction in tax credit eligibility for families with household income above £40,000 (down from £50,000) from April 2011;
- benefits, tax credits and public service pensions will be indexed by the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from April 2011;
- part of the student loan portfolio will be sold by the Government, which will also look at the options for early repayment for individuals, in light of Lord Browne's review of higher education finance;
- to support more lone parents into employment, those with their youngest child over five will be moved onto Jobseekers Allowance rather than Income Support from 2011-12;
- the Government will put forward detailed proposals on the creation of a Green Investment Bank to help the UK meet the low-carbon investment challenge;
- public sector pay will be frozen for two years, although the 1.7 million public servants who earn less than £21,000 will receive a pay rise of at least £250 in each of the next two years;
- the Government's housing benefit bill will be reduced by roughly £1.8bn a year. From April 2011, Local Housing Allowance Rates will be capped (a maximum of £250 per week for a one-bedroom flat, £290 for a two-bedroom property, £340 for a three-bed property, and £400 per week for properties with more than three bedrooms). Housing benefit will be reduced by 10% for people who have been on a jobseeker's allowance for 12 months or more from April 2013. Housing Benefit will be capped for working age claimants in the social rented sector who are occupying a larger property than their household size warrants;

⁷ HM Treasury (22 June 2010) *Budget statement by the Chancellor of the Exchequer, the Rt Hon George Osborne MP* http://hm-treasury.gov.uk/junebudget_speech.htm

- the Health in Pregnancy Grant will be abolished from April 2011, and the Sure Start Maternity Grant will be restricted to the first child;
- Regional Development Agencies will be abolished through the Public Bodies Bill. A White Paper later in the summer will set out details of these proposals. In replacement the government will support the creation of strong local enterprise partnerships.

For more information on any element of this paper, please contact NCVYS's Policy Officer, Dom Weinberg, email dominic@ncvys.org.uk or on 020 7278 1041.