

## **Pre-Budget Report (PBR) – introduction**

On 9 December 2009 the Chancellor of the Exchequer gave his Pre-Budget Report. The PBR provides an update of the state of the economy and public finances, while setting out the direction of Government policy in the run-up to the spring Budget.

Info on the PBR can be found at [http://www.hm-treasury.gov.uk/prebud\\_pbr09\\_index.htm](http://www.hm-treasury.gov.uk/prebud_pbr09_index.htm) with the full PBR statement at [http://www.hm-treasury.gov.uk/prebud\\_pbr09\\_repindex.htm](http://www.hm-treasury.gov.uk/prebud_pbr09_repindex.htm)

This note is based on the PBR statement and covers items in the PBR that may be of interest to local authority pay, HR and pensions administrators.

## **Tax and NI**

Both the basic and higher rate of tax will remain the same in 2010-11, at 20 per cent and 40 per cent respectively. The personal allowance and basic rate limit will be maintained in 2010-11 at their current levels.

The point at which individuals start to pay the higher (40%) rate of income tax will, in 2012-13, be frozen at the 2011-12 amount.

The additional rate of tax of 50%, applying to incomes over £150,000, will commence from 2010-11 as will the gradual withdrawal of the personal allowance for those with incomes over £100,000.

All NICs thresholds and rates for 2010-11 will also remain at their current levels with the exception of the Lower Earnings Limit (LEL). The LEL will rise to £97 per week in line with the 2.5 percent increase in the basic State Pension.

For 2011-12, in addition to the 0.5% increases to NI rates already announced in the 2008 Pre-Budget Report, there is to be an additional 0.5 per cent increase in the employee, employer and self-employed rates of national insurance contributions (NICs), making a 1% increase in total, alongside an increase in the point at which individuals start to pay NICs to protect 15 million people on incomes below £20,000.

See [Press Release 2 for more details](#)

## **Pensions – tax relief**

The restriction of pensions tax relief from April 2011 will apply to those with gross incomes of £150,000 and over, where gross income incorporates all pension contributions, including those funded by an employer, and before any deductions for charitable donations are made. This will be subject to an income floor, so that individuals with pre-tax incomes (excluding employer pension contributions) of less than £130,000 will be unaffected. Reflecting this change, the Government has announced that the anti-forestalling measures introduced at Budget 2009 will be extended from 9 December 2009 so that all those with incomes of £130,000 and over will be subject to the special annual allowance – see <http://www.hmrc.gov.uk/pbr2009/pbrn18.htm>. The Government has

launched a formal consultation on the implementation of this change – see [http://www.hm-treasury.gov.uk/prebud\\_pbr09\\_consult\\_pensions.htm](http://www.hm-treasury.gov.uk/prebud_pbr09_consult_pensions.htm). The consultation will run for 12 weeks until 3 March 2010.

*[Comment: the LGPC is currently preparing a note on the implications for high earners and will issue this as soon as possible].*

## **Public sector pensions**

In his speech, the Chancellor said “Public pensions need to be broadly in line with those offered in the private sector.”

*[Comment: this is a very broad statement, with no detail. We will need to see what this might mean in practice in the coming months and years ahead].*

### **Pensions – cap on public sector employer contributions**

Since 1997, the Government has introduced reforms to tackle increasing pension costs arising from longevity; these include higher pension ages and reform of ill health benefits. In addition to these cost saving measures, the Government is implementing further significant reforms to public service pensions. Cap and share reforms to the Teachers, Local Government, NHS and Civil Service pension schemes will cap the contribution to pensions made by employers, thereby limiting the liability of the taxpayer as pensions become more valuable. Cost increases below the cap will be shared equally between employers and employees, and those above the cap met solely by employees.

*[Comment: there is already a cost sharing agreement in the Teachers’ Pension Scheme in England and Wales, effective from the 2008 scheme valuation, with a 14% cap on the employer contribution. The Policy Review Group has been discussing cost sharing and a cap for the LGPS in England and Wales in line with the provisions set out in regulation 36A of the LGPS (Administration) Regulations. These discussions are ongoing].*

In addition, as part of cap and share, the Government will expect those earning the highest salaries to pay a greater contribution towards their pension i.e. those earning over £100,000.

*[Comment: CLG have already consulted on potential changes to the tiered contribution rates and bands for the LGPS in England and Wales, with those earning more paying higher rates than now – see <http://www.lge.gov.uk/lge/core/page.do?pageld=2426627>. No decision has yet been announced following the consultation. In the LGPS in Scotland, employees pay contributions on a tiered basis, with all pensionable earnings in excess of £40,000 already attracting a 12% contribution from the employee].*

These reforms will save an estimated £1 billion a year from 2012-13, and at least twice this amount over the long-term.

### **Pensions – Lifetime allowance and annual allowance**

As announced in Budget 2004, the lifetime allowance for pensions tax relief will be £1.8 million in 2010-11. The annual allowance will be £255,000 for 2010-11.

### **Pensions – tax charges**

To reflect the introduction of the 50 pence income tax rate announced in Budget 2009, the Government is making some changes to the rates of pensions tax charges applied to short service refunds and to certain payments made by employer financed retirement benefits schemes (EFRBS), and is setting new rates for the Special Annual Allowance charge with effect from 6 April 2010. See <http://www.hmrc.gov.uk/pbr2009/pbrn19.pdf> for more details.

### **Pensions – introduction of personal accounts**

The Government has reaffirmed its commitment to implementing a package of private pension reforms to ensure millions more people have the opportunity and incentives to save adequately for their retirement. Reflecting the changed economic and fiscal circumstances and the cost of this reform to business as the economy recovers the Government is announcing a change to the implementation of private pension reform, including to the timetable for employers joining the reform.

*[Comment: there is currently little further detailed information available].*

### **Basic state pension**

The 2009 Pre-Budget Report announced further Government action to provide support for households during the early stages of economic recovery, including increasing the basic State Pension by 2.5 per cent.

*[Comment: at this point in time, in the absence of anything to the contrary, we can only assume that there will be a 0% award on public service pensions from April 2010 (and on any post 5 April 1988 GMP element)].*

### **Public sector pay**

The Government will seek a one per cent cap on public sector basic pay settlements in 2011-12 and 2012-13, delivering £3.4 billion of savings a year by 2012-13.

For 2010-11 the Government has proposed a freeze for senior groups including chief executives of non-departmental public bodies (NDPBs), senior civil servants, judges, senior NHS managers, consultant doctors and GPs. The 2009 Pre-Budget Report announces a set of fundamental reforms to pay-setting for senior staff, aimed at increasing the robustness, transparency and accountability of decision making across the public sector, including:

- new scrutiny of pay levels above £150,000: the Chief Secretary to the Treasury will approve pay levels in excess of £150,000 for all civil service appointments and appointments to public sector bodies which are subject to Ministerial approval. This will also apply to all bonus payments of over £50,000 where

Ministerial sign-off is needed. For public sector bodies where Ministerial approval is not required, the Government expects all organisations making senior managerial appointments in excess of £150,000 to publicly justify this level, and any bonus in excess of £50,000, to the relevant Secretary of State;

- transparency and accountability: all public sector bodies subject to direct Ministerial control will be required to publish the salary, including benefits in kind and the level of any bonus, of named individuals paid more than £150,000 to the nearest £5,000 and the number of staff paid more than £50,000 in £5,000 increments. The Government will expect all other public bodies to comply with this level of disclosure. Government departments will publish collective information on pay for senior staff in public sector bodies within their area of responsibility, and the Government has commissioned relevant audit or regulatory bodies to incorporate into their regimes certification that the relevant body operates remuneration policies which maximises value for money for the taxpayer; and

- reviewing senior pay across the public sector: the Prime Minister will ask Bill Cockburn as Chair of the Senior Salaries Pay Review Body (SSRB) to report by Budget 2010 on senior pay across the public sector. The Government will work with the review to determine what legislative and non-statutory means are most appropriate to enforce compliance with pay and bonus principles and caps across the wider public sector.

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