National economic outlook and public spending

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A.2.1. The Council's financial and service planning takes place within the context of the national economic and public expenditure plans. This appendix explores that context and identifies the broad national assumptions within which the draft budget and MTFP have been framed.

The economy

A.2.2. One of the Government's self imposed targets is to tackle the national budget deficit. After taking into account cyclical or temporary effects it seeks to balance the current budget at the end of a rolling five year period, currently up to 2018/19. The Office for Budget Responsibly (OBR) recently assessed this target in their December 2013 report and forecast that in 2018/19 the cyclically adjusted current budget (CACB) will be in surplus by 1.6%. Table A2:1 summarises OBR's forecast.

A.2.3. The amount of money the Government borrows each year, Public Sector Net Borrowing (PSNB), is due to fall to -0.1% (net surplus) of Gross Domestic Product (GDP) by 2018/19 compared with 7.3% in 2012/13. Furthermore, OBR expects the Government's cumulative borrowing or total amount of debt owed, Public Sector Net Debt (PSND), to peak at 80% of GDP in 2015/16 before falling in the years thereafter.

Table A2:1: UK borrowing levels as a percentage of GDP between 2012/13 and 2018/19

	Per cent of GDP						
	Outturn	**Forecast**					
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Cyclically adjusted surplus on current budget	**-3.6**	-2.9	-2.0	-1.4	-0.2	0.7	1.6
Public Sector Net Borrowing[1]	**7.3**	6.8	5.6	4.4	2.7	1.2	-0.1
Public Sector Net Debt	**73.9**	75.5	78.3	80.0	79.9	78.4	75.9

1 Excluding Royal Mail and APF Transfers

Source: Office for Budget Responsibility, Economic and Fiscal Outlook December 2013

A.2.4. The OBR forecast for growth in 2013 has been revised upwards from 0.6% to 1.4% as the economy has performed more strongly in 2013 than forecast in March as a result of stronger than expected growth in private consumption and growth in residential investment. However, expansion seen in 2013 is not expected to be sustained as productivity and real earnings growth in the economy have remained relatively weak. It is therefore expected that quarterly GDP growth will slow into 2014 and then strengthen gradually as productivity and real growth earnings pick up and provide a foundation for a more sustained upswing. Graph A2:1 shows the OBR's growth figures for the next five years.

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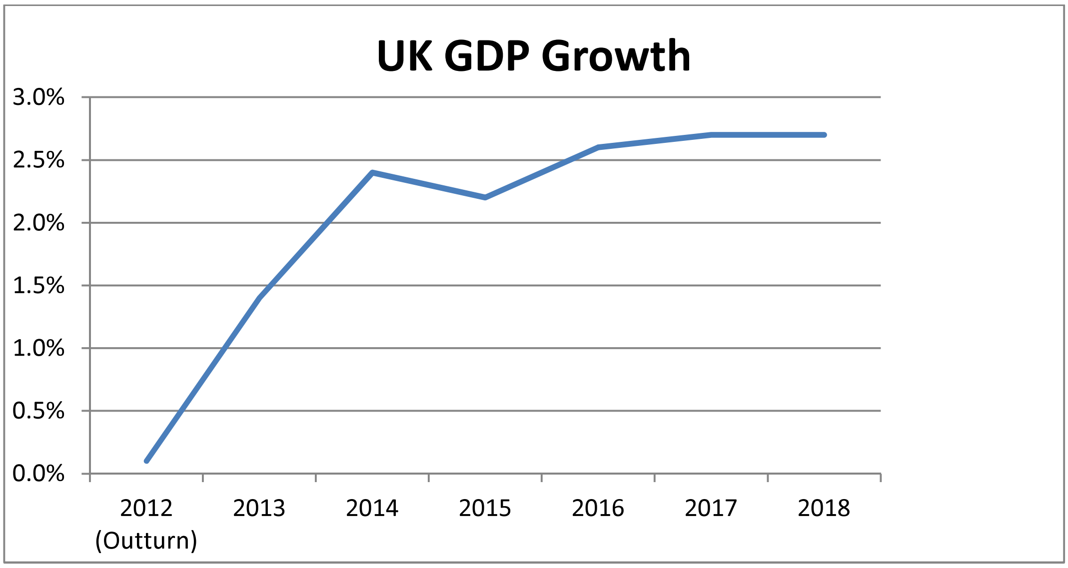
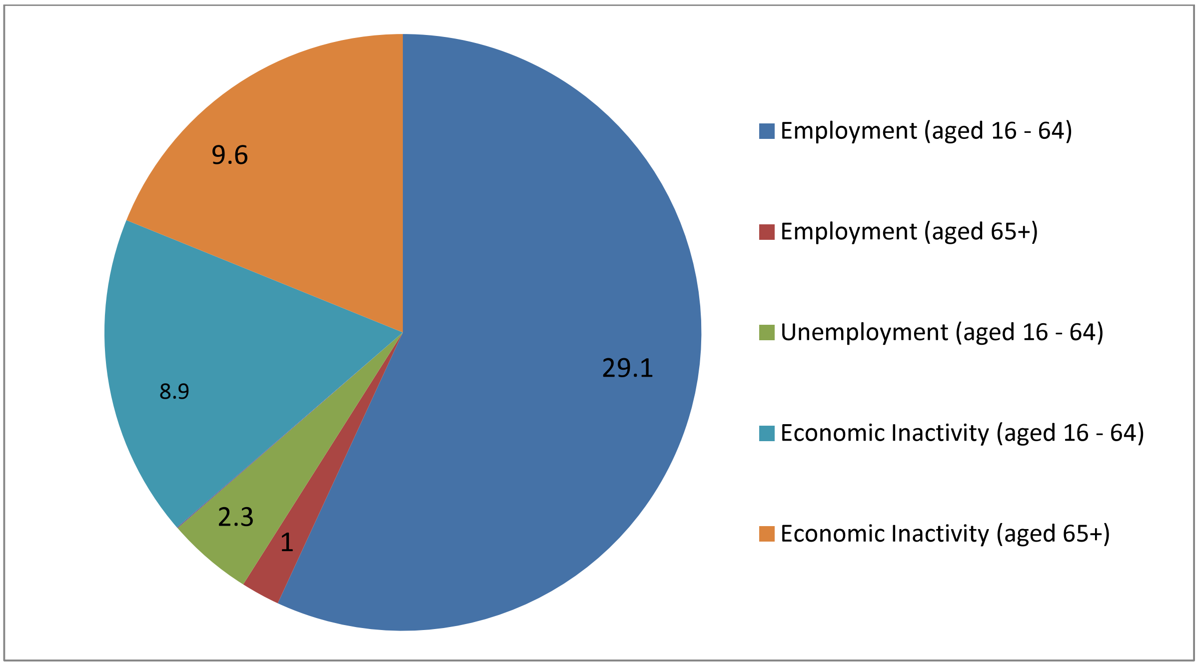
Graph A2:1 UK GDP growth:



Source: Office for Budget Responsibility, Economic and Fiscal Outlook December 2013

A.2.5. National unemployment is continuing to decline. For the period between September to November 2013, compared with the period between June to August 2013, the number of people in employment increased by 280,000 to reach 30 million. Meanwhile, the number of unemployed people fell by 167,000 to reach 2.3 million and the number of economically inactive people aged from 16 to 64 fell by 22,000 to reach 8.9 million. Notably, for people aged 65 and over, 1 person in 10 was in work, the highest employment rate for this age group since comparable records began in 1992 and up from 9.2% compared with a year earlier.

Graph A2:2: UK Labour Market September to November 2013 (millions)



Source: Office for National Statistics, Summary of Labour Market Statistics January 2014

A.2.6. The Consumer Price Index (CPI) in the year to December 2013 grew by 2.0%, down from 2.1% in November. It is the first time since November 2009 that inflation has been at or below the 2% target set by the government.The largest contributions to the fall in the CPI rate came from prices for food & non-alcoholic beverages and recreational goods & services. These were partially offset by an upward contribution from motor fuels. The overall price increase for gas and electricity in December 2013 was slightly larger than the rises a year earlier resulting in a small upward contribution to inflation.

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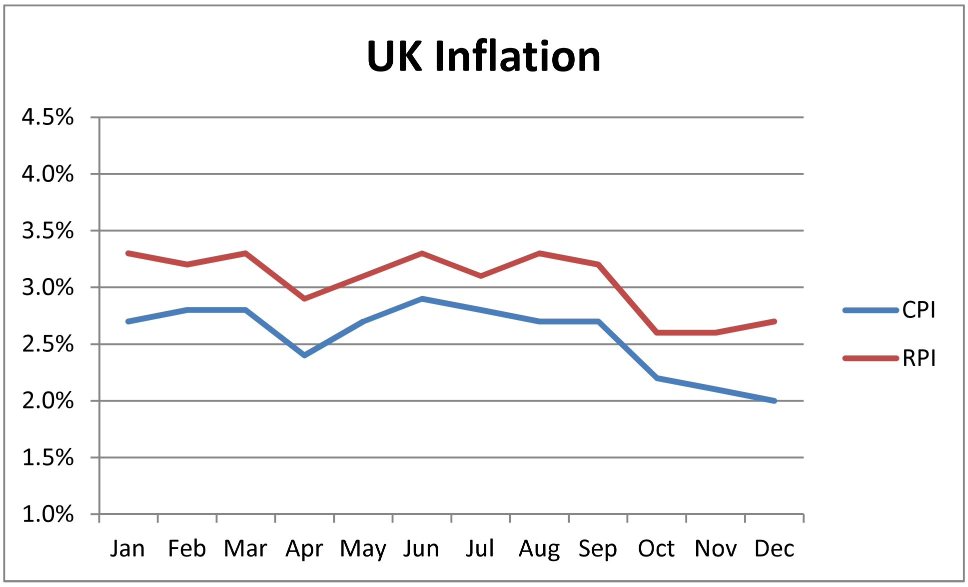
Graph A2:3: UK annual inflationary measures of CPI and RPI between January 2013 and December 2013.



Source: Office for National Statistics, Consumer Price Inflation December 2013.

A.2.7. The Bank of England (BoE) is responsible for monetary and financial stability in the UK. The main tool at its disposal is to control the price of money through setting interest rates via the BoE base rate. The BoE responded to the recession with successive interest rate cuts in 2008 and 2009 and by March 2009 it was down to 0.5% where it has remained ever since. In the three months to November unemployment fell to 7.1%, a fraction above the 7% level where the BoE said it would begin considering raising interest rates. However, despite the sharp fall in unemployment, the BoE has stressed that it will not rush to raise interest rates even if the 7% threshold were to be hit in the near future. UK inflation fell to its target level of 2% in December and the BoE has stated that there is currently no immediate pressure to raise interest rates to reduce cost pressures in the economy. The BoE has also stated that it will not raise interest rates until it has seen a pickup in wages growth and a more established recovery and that when the time does come to raise interest rates it will only do so gradually.

A.2.8. On 5 December 2013 the Chancellor George Osborne presented the Autumn Statement to Parliament which reinforced the continuing need to reduce spending in order to tackle the deficit and reduce public debt. There will be an extra £1bn of cuts from the budgets of government departments for each of the next three years, a cap on total welfare spending will be introduced next year and the state pension age is to increase to 68 in the mid-2030s and to 69 in the late 2040s. The UK public finances are expected to be in surplus by 2018/19. Underlying public sector net borrowing – which excludes the impact of the Royal Mail pension scheme and the Asset

Purchase Facility transfer – is set to fall to 6.8% of gross domestic product this year, down from the 7.3% forecast by the OBR in March. It is then predicted to fall to 5.6% next year and go on declining; reaching 1.2% in 2017/18 and by 2018/19 a small surplus is expected. While the Chancellor has announced new, further departmental savings for government departments, local government has been protected from further cuts.

A.2.9. The Government's economic plan focuses on the following areas:

- *Cutting the deficit* - the deficit is down by a third but more than £60bn more of cuts are still required over the next five years.
- *Reducing income tax* – the personal allowance will be increased to £10,000 from April, fuel duty will be frozen and tax free childcare will be available for working families.
- *Creating more jobs* - by backing small businesses and enterprises with better infrastructure and lower job taxes.
- *Cutting immigration and welfare* - immigration needs to be controlled and the welfare bill managed in order to relieve pressure on public services and prevent abuse of the welfare system. A welfare cap will be introduced next year although state pensions will not be included in the cap.
- *Delivering the best schools and skills* – an additional 20,000 apprenticeships will be created and there will be continued focus on raising standards in education.

A.2.10. The Institute for Fiscal Studies (IFS) states that the Government will in future have little scope for spending beyond core functions such as health, pensions, social security and education. The IFS has also reiterated its long-standing prediction that the next Government would need to consider raising taxation or delay further fiscal tightening because the squeeze on the public sector was so severe. Even though the Government plans to run a budget surplus in 2018/19, health and school spending is protected, pensioner numbers are growing and spending on debt interest is likely to keep rising because interest rates will be on their way up. It is calculated that only a third of the spending cuts have yet been implemented and, after 2016, the projected rate of annual real reductions will need to increase from the current average of 2.3% to 3.7%.