National Economic Outlook and Public Spending

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 2019/20. The Office for Budget Responsibly (OBR) assessed this target in its November 2015 report and forecast that the cyclically adjusted current budget (CACB) will move from a deficit of 1.6% of GDP in 2015/16 to a surplus in 2017-18. The surplus will then rise to 2.4% of GDP in 2020/21. 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 -0.5% (net surplus) of Gross Domestic Product (GDP) by 2019/20 compared with 5.2% in 2014/15. Furthermore, OBR expects the Government's cumulative borrowing or total amount of debt owed, Public Sector Net Debt (PSND), to peak at 83% of GDP in 2014/15 before falling in the years thereafter.

Table A2:1: UK borrowing levels as a percentage of GDP between 2014/15 and 2020/21

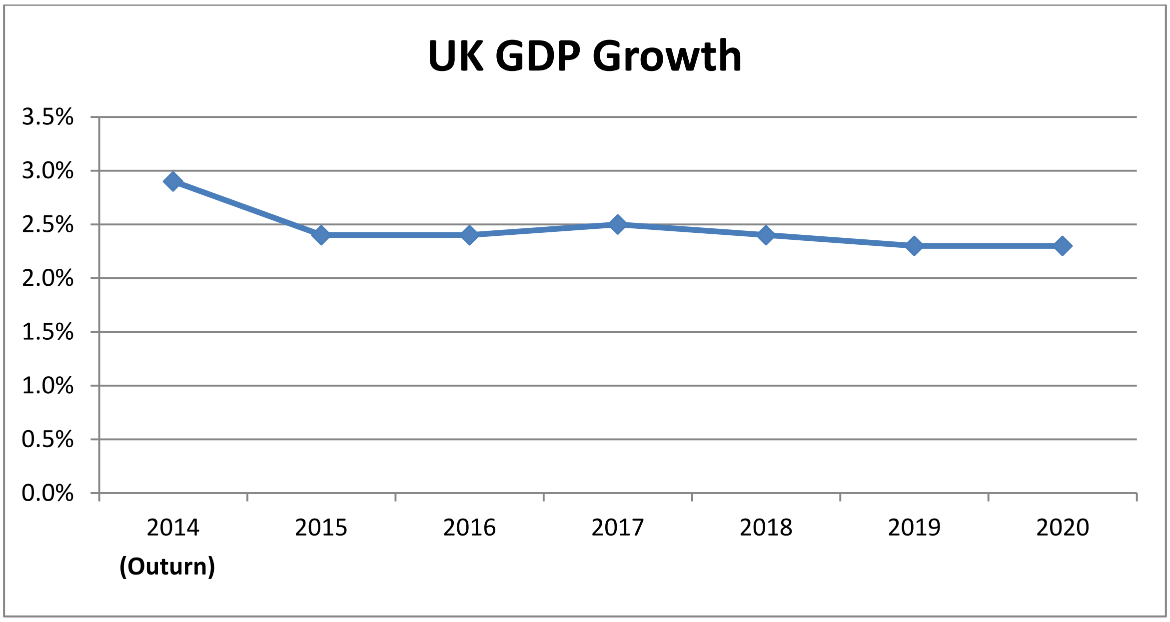
	←---------------------------- Percentage of GDP ---------------------------→						
	Outturn	←----------------------- Forecast -----------------------→					
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Cyclically adjusted surplus on current budget	**2.4**	1.6	0.5	-0.5	-1.2	-1.9	-2.4
Public Sector Net Borrowing[1]	**5.2**	3.9	2.5	1.2	0.2	-0.5	-0.6
Public Sector Net Debt	**83.1**	82.5	81.7	79.9	77.3	74.3	71.3

1 Excluding Royal Mail and APF Transfers

Source: Office for Budget Responsibility, Economic and Fiscal Outlook November 2015

A.2.4. Graph A2:1 shows the OBR's growth figures for the next five years. OBR's forecast for growth in 2015 remains at 2.4% and growth has been revised by 0.1 percentage points higher each year in 2016 and 2017. The increased growth in 2016 reflects the Government's decision to ease the pace of fiscal tightening. In 2017, the revisions to underlying potential output growth are more important. The effect of population ageing on employment has caused GDP growth forecast to be revised down in 2020.

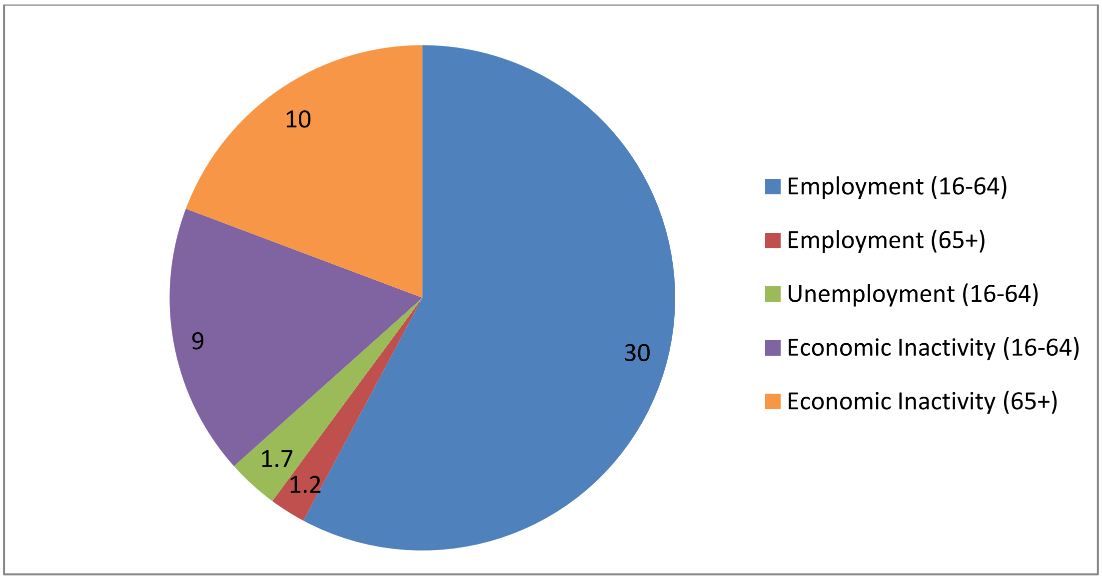
Graph A2:1 UK GDP growth:



Source: Office for Budget Responsibility, Economic and Fiscal Outlook November 2015

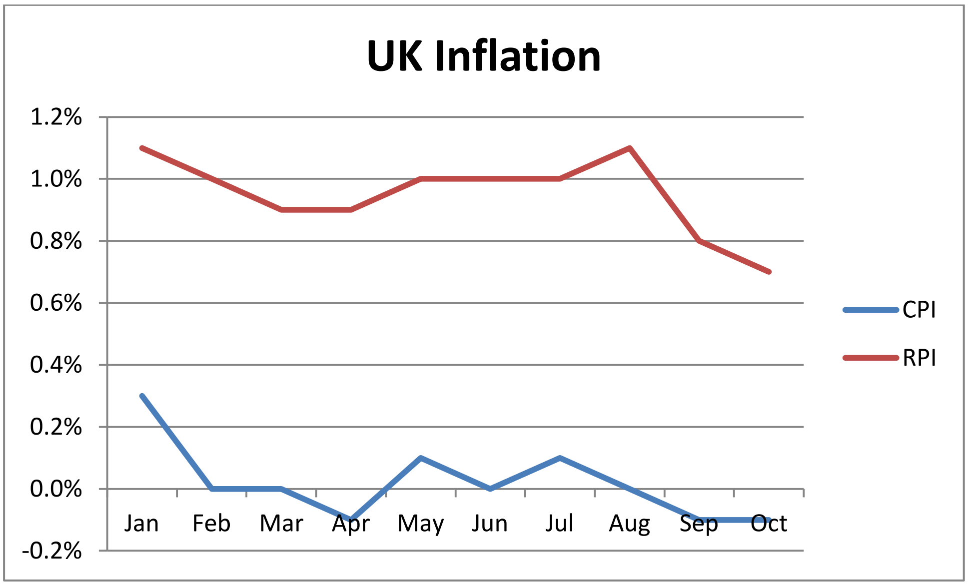
A.2.5. National unemployment is continuing to decline. For the period between July and September 2015, compared with the period between April and June 2015, the number of people in employment increased by 177,000 to reach 31 million. Meanwhile, the number of unemployed people fell by 103,000 to reach 1.75 million and the number of people aged from 16 to 64 not in the labour force fell by 22,000 to reach 9 million.

Graph A2:2: UK Labour Market July to September 2015 (millions)



A.2.6. Graph A2:3 shows UK Consumer Price Index (CPI) and Retail Price Index (RPI) inflation between January 2015 and October 2015. In the year to October 2015, CPI fell by 0.1%, the same as reported in the year to September 2015. CPI was -0.1% in October 2015, remaining more than 1% below the Bank of England's target of 2% for the eleventh consecutive month. The consistent CPI rate was largely due to upward price pressures for clothing and footwear and a range of recreational goods being offset by downward price pressures for university tuition fees, food, alcohol and tobacco.

Graph A2:3: UK annual inflationary measures of CPI and RPI between January 2015 and October 2015.



Source: Office for National Statistics, Consumer Price Inflation October 2015.

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 September 2015 unemployment fell to 5.3%, lower than the 7% level where the BoE said it would begin considering raising interest rates. However, despite the sharp fall in unemployment, the BoE stressed that it will not rush to raise interest rates even when the threshold is reached. OBR forecast the unemployment rate to decline slowly to 5.1% by the end of 2016, as productivity growth picks up, allowing firms to expand output more through their existing workforce rather than through recruitment. UK inflation fell to -0.1% in September and remained at -0.1% in October. Following the latest inflation report from the BoE, economists forecast that interest rates may not move until mid-2016 and may not rise for the whole of next year.

A.2.8. On 25 November 2015, the Chancellor of the Exchequer, George Osborne presented his Autumn Statement and Spending Review 2015. The Spending Review included how spending would be cut by £20bn in the next four years (2016/17 to 2019/20). The UK public finances are now expected to be in surplus by 2019/20 rather than the original target of 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 3.9% of GDP this year, down from the 4.0% forecast by OBR in March 2015. OBR then predict it to fall to 2.5% next year and go on declining; reaching 0.2% in 2018/19 and by 2019/20 a small surplus is expected.

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

- *Develop an integrated health and care system*
  An integrated health and social care system is to be created by 2020 with every area to have a plan in place by 2017;
- *Spread economic growth through a devolution revolution*
  New powers to be given to local authorities including the possibility of 100% business rates retention;
- *Address social failures in order to extend opportunity*
  The Government will protect schools' funding in line with inflation. It will invest £23bn in school buildings to create 600,000 extra school places and 500 free schools;
- *Protect national security*
  The MOD will deliver £9.2bn of savings while maintaining the current number of Armed Forces personnel. All of these savings will be directly reinvested into the defence budget to enable investment in new capability to protect the UK's national security.

A.2.10. The Conservative Government set out fiscal plans to deliver a surplus of £10.1bn in 2019/20 and to maintain a surplus there after. Local government's contributions to the deficit reduction will include:

- a reduction to local government grant of £6.1bn by 2019/20 as revenue support grant is phased out;
- support to help local government become more efficient through new flexibility for local authorities to spend receipts from asset sales on reform projects;
- full devolution of business rates to local government and new responsibilities so local areas have the tools to drive local growth; and
- introduction of a social care precept, allowing local authorities to raise the council tax in their area by up to 2% above the existing threshold for use exclusively on adult social care.

A.2.11. The Institute for Fiscal Studies (IFS) states that the Government has set a completely inflexible fiscal target – to have a surplus in 2019/20. The fiscal target of the last Parliament allowed a bigger deficit to be accepted when growth and tax revenues disappointed. The Chancellor's current target is fixed for four years and when forecasts change, it is likely these spending decisions will need to be revised, taxes raised or the target abandoned.