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. The Government has formally abandoned its ambition to balance the budget during the current Parliament and public sector borrowing is now expected to fall much more slowly than was thought last year. The Office for Budget Responsibly (OBR) assessed this in its November 2016 report and forecast that the cyclically adjusted current budget (CACB) will move from a deficit of 2.0% of GDP in 2015/16 to a surplus in 2018-19. The surplus will then rise to 1.6% 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 0.7% of Gross Domestic Product (GDP) by 2021/22 compared with 4.0% in 2015/16. However, OBR expects the Government's cumulative borrowing or total amount of debt owed, Public Sector Net Debt (PSND), to rise to 90.2% of GDP in 2017/18 before beginning to fall in the years thereafter, and it is not expected to fall below current levels until 2021/22.

Table A2:1: UK borrowing levels as a percentage of GDP between 2015/16 and 2021/22

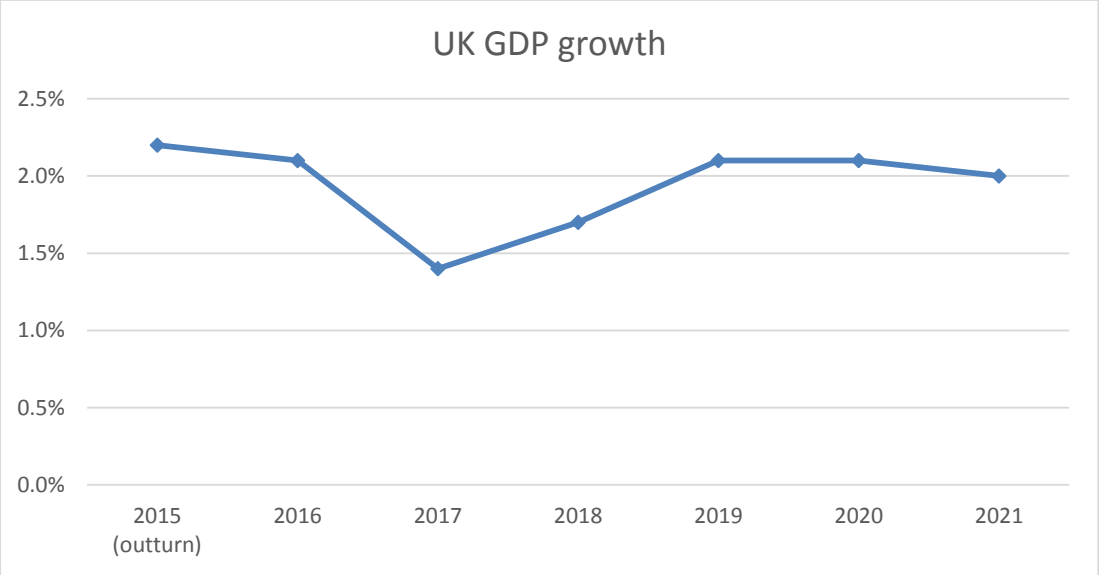
	←---------- Percentage of GDP ----------→						
	Outturn	←---------- Forecast ----------→					
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Cyclically adjusted current budget deficit	**2.0**	1.4	0.5	-0.1	-1.1	-1.5	-1.6
Public Sector Net Borrowing[1]	**4.0**	3.5	2.9	2.2	1.0	0.9	0.7
Public Sector Net Debt	**84.2**	87.3	90.2	89.7	88.0	84.8	81.6

1 Excluding Royal Mail and APF Transfers

Source: Office for Budget Responsibility, Economic and Fiscal Outlook November 2016

A.2.4. Graph A2:1 shows the OBR's growth figures for the next five years. OBR's forecast for growth in 2017 falls to 2.1% however, growth is then expected to rise year on year until 2019, when it will become more stable. This immediate predicted fall in growth is based on lower consumption caused by higher inflation weighing on household incomes and post-referendum uncertainty. This is somewhat offset by the growth anticipated as a result of the Chancellor's loosening of fiscal targets as announced in the Autumn Statement. From 2018 onwards, growth is expected to rise again as business investment and consumer spending increase while inflation eases.

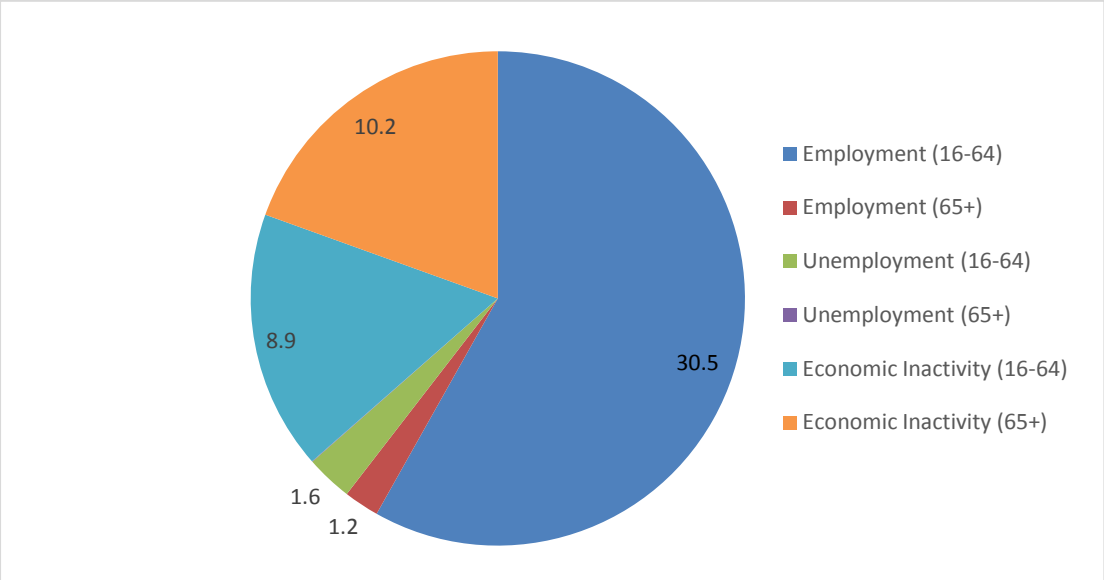
Graph A2:1 UK GDP growth:



Source: Office for Budget Responsibility, Economic and Fiscal Outlook November 2016

A.2.5. National unemployment is continuing to decline. For the period August and October 2016, compared with the same period in 2015, the number of people in employment increased by 342,000 to 31.8 million. Meanwhile, the number of unemployed people fell by 103,000 to 1.6 million and the number of people aged from 16 to 64 not in the labour force fell by 56,000 to 9 million. In the third quarter of 2016, the unemployment rate currently stood at 4.8% of the labour force, but the OBR predicts that while GDP growth is slow, this will rise again in 2017 and reach 5.5% by the end of 2018.

Graph A2:2: UK Labour Market August to October 2016 (millions)

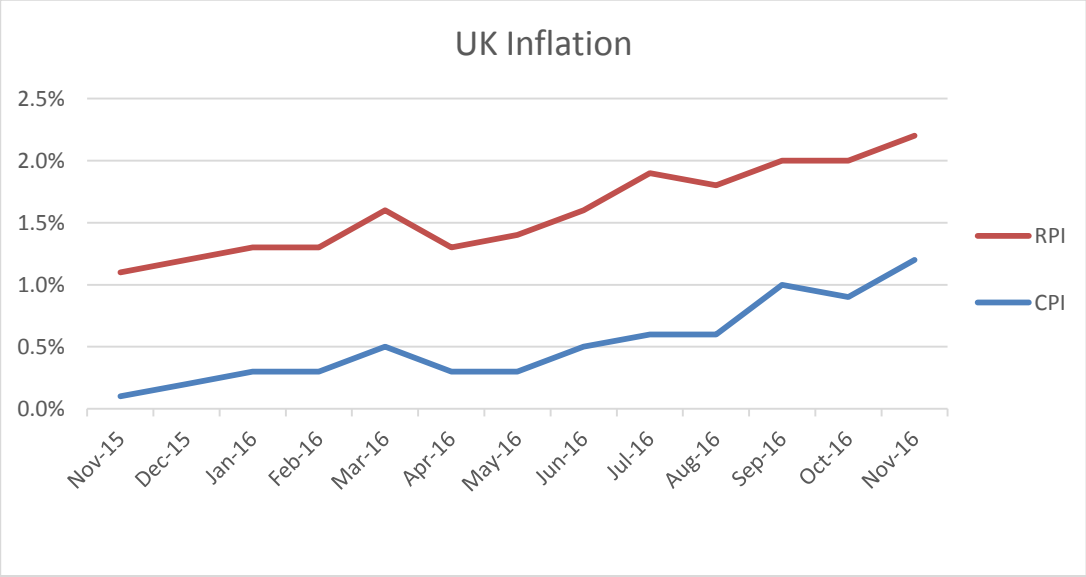


Source: Office for National Statistics, UK Labour Market Dec 2016

A.2.6. Graph A2:3 shows UK Consumer Price Index (CPI) and Retail Price Index (RPI) inflation between November 2015 and November 2016. In the year to November 2016, CPI rose by 1.2%, compared to a rise of 0.9% in the year to October. This rate of 1.2% is the highest since October 2014 when it began falling to remain at or

around 0 for much of 2015 and 2016. The rise in CPI is caused by the increase in price of most goods, with the notable exceptions of food and non-alcoholic beverages.

Graph A2:3: UK annual inflationary measures of CPI and RPI between November 2015 and November 2016.



Source: Office for National Statistics, Consumer Price Inflation November 2016

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 remained until August 2016, when it was cut again to 0.25%, an all-time low. The base rate is expected to stay very low for the next five years, reaching just 0.9% by 2021.

A.2.8. On 23 November 2016, the Chancellor of the Exchequer, Phillip Hammond, presented his Autumn Statement and Spending Review 2016. The main headlines from this were the downgrade of economic forecasts and the consequent downgrade in forecast living standards, and the abandoning of the aim to have a budget surplus by the end of the Parliament. The OBR have revised their projections for national income in 2020/21 down by £30 billion, the equivalent of £1,000 per household. The projected surplus in 2019-20 has now been turned into a £20 billion deficit.

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 in 2017;
- *Spread economic growth through a devolution revolution*
  New powers to be given to local authorities including the implementation 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 as soon as possible in the next Parliament and to maintain a surplus thereafter. 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
- continuation of the social care precept, allowing local authorities to raise the council tax in their area by up to 6% over the next three years above the existing threshold for use exclusively on adult social care.

A.2.11. The national economic outlook has changed significantly in the past year due to the change in leadership in government and the uncertainty surrounding the negotiation of a new relationship with the EU. Since the referendum GDP growth has lowered due to lower net inward migration and lower trend productivity growth. Inflation has also risen as the fall in the pound since the referendum pushes up import prices.