National economic outlook and public spending

A.1.1. 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.1.2. 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 2017/18. The Office for Budget Responsibly (OBR) recently assessed this target in their December 2012 report and forecast that in 2017/18 the cyclically adjusted current budget (CACB) will be in surplus by 0.9%. Table A1:1 summarises OBR's forecast.

A.1.3. The amount of money the Government borrows each year, Public Sector Net Borrowing (PSNB), is also due to fall to 1.6% of Gross Domestic Product (GDP) by 2017/18 compared with 7.9% in 2011/12. Furthermore, OBR expects the Government's cumulative borrowing or total amount of debt owed, Public Sector Net Debt (PSND), to peak at 79.9% of GDP in 2015/16 before falling in the years thereafter.

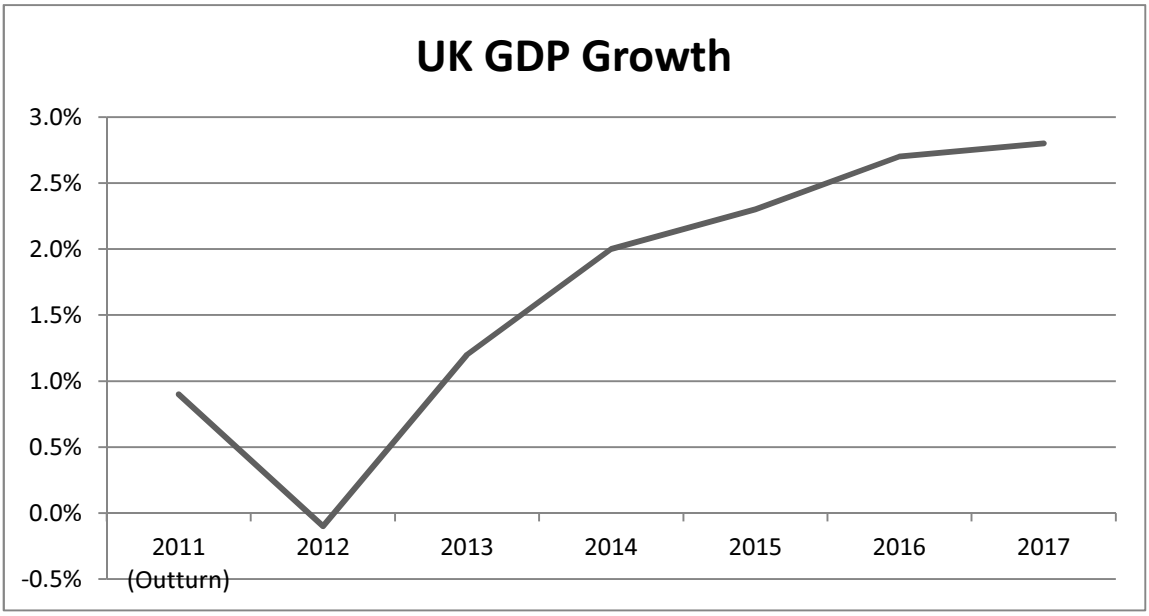
Table A1:1: UK borrowing levels as a per cent of GDP between 2011/12 and 2017/18.

	Per cent of GDP						
	Outturn	**Forecast**					
	11/12	**12/13**	**13/14**	**14/15**	**15/16**	**16/17**	**17/18**
Cyclically adjusted surplus on current budget	**-4.3**	-3.6	-2.2	-1.4	-0.8	0.4	0.9
Public Sector Net Borrowing	**7.9**	5.1	6.1	5.2	4.2	2.6	1.6
Public Sector Net Debt	**66.4**	74.7	76.8	79.0	79.9	79.2	77.3

Source: Office for Budget Responsibility, Economic and Fiscal Outlook December 2012

A.1.4. The economy has performed less strongly in 2012 than OBR forecast in March 2012. This is a result of: weakness in net trade with other countries, weaker productivity and concerns over the Euro-area crisis depressing investment confidence. As such, OBR has lowered its economic growth forecasts for the UK to a 0.1% contraction in 2012 and 1.2% growth in 2013. The preliminary estimate from the Office for National Statistics is that the economy shrank by 0.3% in quarter four of 2012. Graph A1:1 shows OBR's growth figures for the next five years.

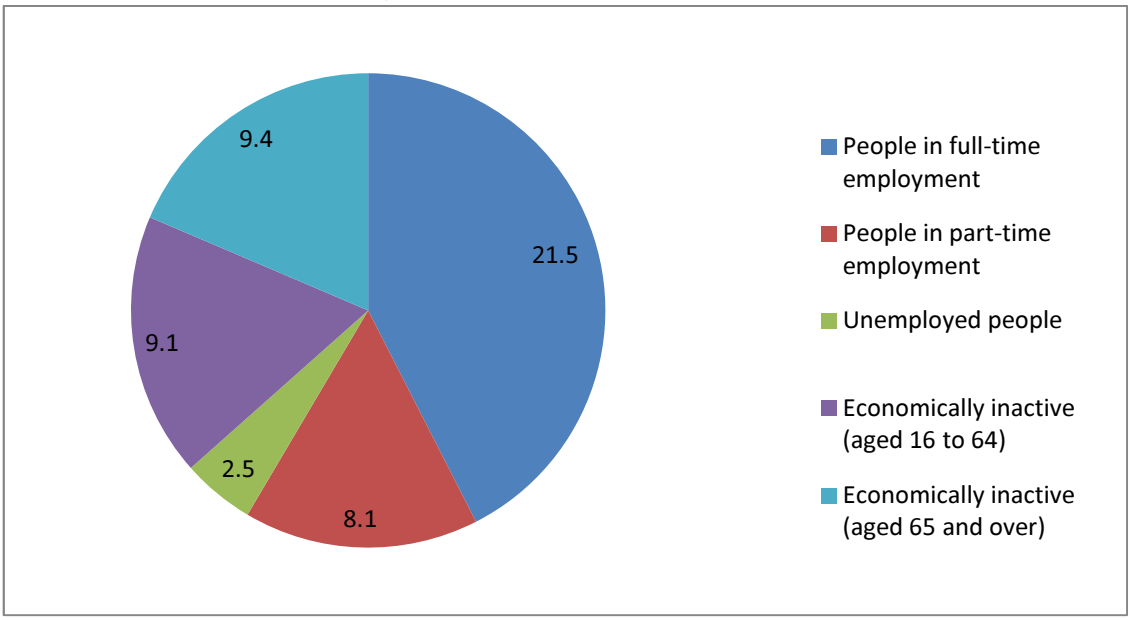
Graph A1: UK GDP growth:



Source: Office for Budget Responsibility, *Economic and Fiscal Outlook December 2012*

A.1.5. National unemployment is declining and the number of unemployed people fell by 82,000 between the two periods of May to July 2012 and August to October 2012. Figures for the three months up to October 2012 are 29.6 million people employed and 2.5 million people unemployed actively seeking work. The South East has the joint highest level of employment at 74.7% along with the East of England and the South West.

Graph A1:2 UK Labour Market August to October 2012 (millions)

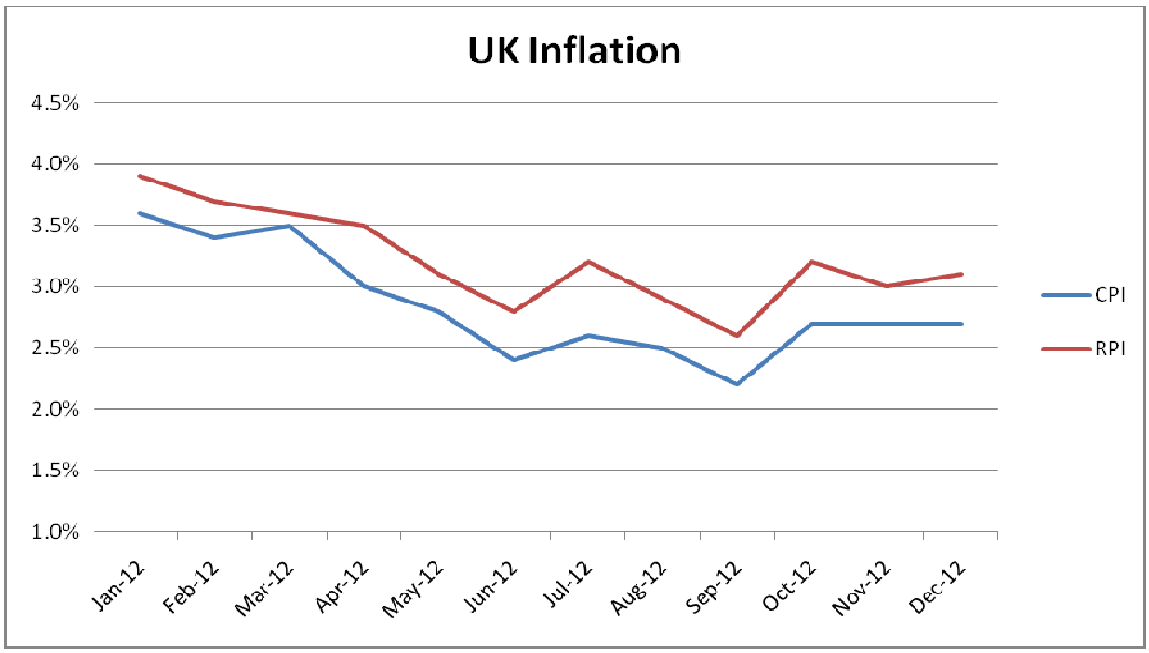


Source: Office for National Statistics, *Summary of Labour Market Statistics December 2012*

A.1.6. CPI in the year to December 2012 showed an increase of 2.7% (a rate unchanged since October 2012). The largest price increase was in bills for gas and electricity but

all increases were offset by downward pressures such as air fares rising at a slower rate than last year. The Retail Price Index (RPI) annual inflation stood at 3.1% (up 0.1 percentage points on November 2012). The main contributors to the rise were utility bills going up.

Graph A1:3: UK annual inflationary measures of CPI and RPI between January 2012 and December 2012.



Source: Office for National Statistics, *Consumer Price Indices October 2012.*

A.1.7. 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. Many economic analysts are predicting that the rate will have to stay at this historic low for some time until the recovery is well established and growth levels are sustainable, with many independent forecasts not predicting an increase in the BoE base rate until 2014.

Public spending

A.1.8. On 5th December 2012 the Chancellor George Osborne presented the Autumn Statement to Parliament and in response to the economic environment the Government will continue to pursue its deficit reduction. The planned austerity programme will be extended by an additional year to 2017/18 and is an eighth year of cuts. A £6.6bn package of savings will be delivered from welfare, international development and departmental current spending. This will include a 1% reduction for the majority of departmental budgets in 2013/14, increasing to 2% in 2014/15. £5.5bn of the revenue savings will be re-invested in infrastructure as capital expenditure and provide support for long-term private investment, including science infrastructure and schools.

A.1.9. The Institute for Fiscal Studies (IFS) states that given the protection status of the NHS, schools and the aid budgets, spending on other public services will have to fall by around 3% in 2015/16. Local government will be exempt from a 1% budget reduction in 2013/14, but will be required to find 2% savings in 2014/15. For Surrey County Council (SCC) this is estimated to be a further savings requirement of between £6m and £10m.

A.1.10. Welfare spending is a significant call on central government spending, so the Government is implementing a package of welfare reforms aiming to reduce overall expenditure. These include:

- the introduction of universal credit
- the introduction of a benefits cap
- changes to housing benefit
- changes to the social fund
- the abolition of the Disability Living Allowance
- localisation of council tax support
- changes to child maintenance

A.1.11. The Government aims to make £3.7bn savings through cuts to benefits by 2015/16. Most working age benefits and tax credits will be up-rated by 1% for three years from April 2013 (below the rate of inflation). Disability and carers benefits will be up-rated by price inflation. The above changes will have both direct and indirect impacts on the council, some of which are outlined in other parts of this report. In consequence, through a cross service group, the county council is looking to anticipate and identify these and manage any service impacts arising.

A.1.12. The Government has set a target of 2% for the underlying rate of inflation as measured by the Consumer Price Index (CPI). The annual rate of inflation has been running higher than this for the entirety of 2012 but is on a downward trend and significantly below the 5.2% peak in September 2011. This has been ascribed to lower energy prices and a fall in the price of imports in quarter two of 2012. The Bank of England (BoE) predicts inflation will stay above target in the first half of 2013 but move closer to 2% in the latter half as increased productivity and the easing of external prices such as commodities lower the pressure on companies' costs.