Spring Statement 2018

London Councils' On The Day Briefing

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

Overview

The Chancellor of the Exchequer, Philip Hammond, has delivered the first Spring Statement of the new fiscal event cycle responding to the spring economic forecast by the Office for Budget Responsibility (OBR).

Rather than making new policy announcements relating to taxation and public spending, the Chancellor's speech focussed on the performance of the economy and the state of the public finances. The Government did not publish an official Spring Statement document, but a number of consultations were announced and there were a few useful announcements relating to local government.

The key headlines for London Local government are summarised below.

Key Headlines

- Forecasts for public sector net borrowing have been revised downwards in all years from 2017
- But GDP growth forecasts remain weak at 1.5% or below for the next 5 years
- The Spending Review was confirmed for 2019, although no specific date has been fixed yet
- The next Business Rates Revaluation will be brought forward by a year to 2021-22
- The VOA will continue to assess rateable values rather than introducing either self-assessment or formula-based options for valuations
- Government has committed to ensuring the VOA is "sufficiently funded" at the Spending Review
- London will receive £1.67 billion to start building a further 26,000 affordable homes by the end of 2021-22
- OBR has conducted an assessment of financial health across upper tier local authorities finding that "inflexible spending" (on debt servicing and social care) has steadily increased and reserves have declined - especially in the last two years.

Economic Outlook

- In the latest Economic and Fiscal Outlook (EFO) published today, the OBR states that "the outlook for the economy and public finances looks broadly the same" as set out at Autumn Budget 2017. There has been a slight improvement to the overall short-term economic position due to the strength of the global economy, but medium-term growth potential is broadly unchanged
- The OBR has published an updated assessment of progress towards the Government's four fiscal objectives. The Government remains on target to meet three of its four fiscal objectives:
  - The **fiscal mandate** targets a structural deficit below 2 per cent by 2020-21. The cyclically adjusted deficit is forecast to fall below 2 per cent in 2018-19.
  - The **supplementary target** requires debt to fall as a % of GDP in 2020-21. Public sector net debt is expected to fall by 3 per cent in 2020-21.
  - Spending is expected to be £1.5 billion lower than the **welfare cap** set for 2022-23
- The OBR assesses that the fourth objective of implementing a balanced budget by the middle of the next decade (the **'fiscal objective'**) looks challenging, but falls beyond its formal forecast period if applied to 2025-26. If the objective is interpreted as applying by the end of the current parliament in 2022-23, the OBR assesses that the target will be missed, with a forecast headline deficit of 0.9 per cent of GDP in 2022-23.

Key Economic & Fiscal Indicators

- Overall, key economic and fiscal indicators are broadly in line with forecasts at Autumn Budget 2017.
- Forecasts for public sector net borrowing have been revised downwards in all years from 2017. Borrowing is now forecast to fall from £45.2 billion to £21.4 billion between 2017 and 2022, compared to a forecast fall over the same period from £49.9 to £25.6 billion at the Autumn Budget
- Inflation is on track to fall below the Bank of England's 2 per cent target in 2019.
- Unemployment of 4.4 per cent has been forecast for 2018, an upwards revision of 0.1 per cent since the Autumn Budget.

Table 1 – Key Economic & Fiscal Indicators

	2016	2017	2018	2019	2020	2021	2022
Gross domestic product (GDP) growth (%)	1.9	1.7	1.5	1.3	1.3	1.4	1.5
Public sector net borrowing (£bn)	45.8	45.2	37.1	33.9	28.7	26.0	21.4
Public sector net borrowing (deficit % of GDP)	2.3	2.2	1.8	1.6	1.3	1.1	0.9
Public sector net debt (%)	85.3	85.6	85.5	85.1	82.1	78.3	77.9
LFS unemployment (% rate)	4.9	4.4	4.4	4.5	4.6	4.6	4.6
Employment (millions)	31.7	32.1	32.2	32.4	32.5	32.6	32.7
CPI Inflation (%)	0.7	2.7	2.4	1.8	1.9	2.0	2.0

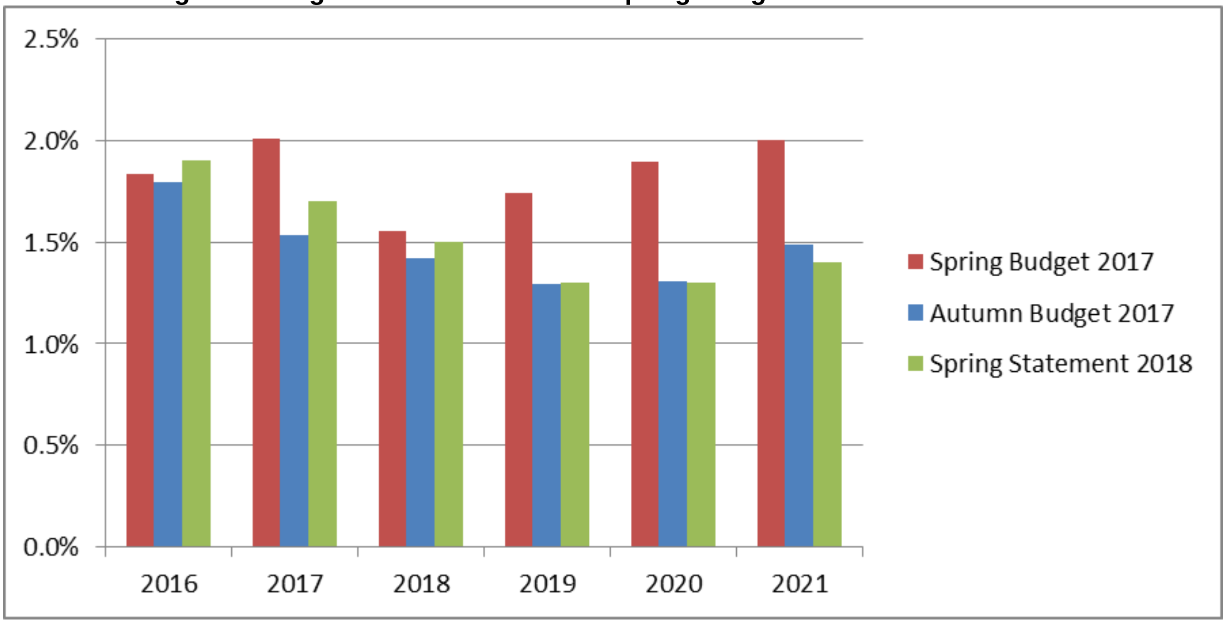
Source: Office for Budget Responsibility – EFO March 2018

Growth

- There has been a slight shift in the profile of forecast GDP growth since Autumn Budget 2017. Forecast growth in 2018 has been revised upwards by 0.1 per cent to 1.5 per cent. Growth forecasts for 2019 and 2020 are materially unchanged, followed by a 0.1 per cent downwards revision to 1.5 per cent in 2021.

- From 2017, all GDP growth forecasts remain lower than forecasts made at the Spring Budget 2017.
- Productivity growth, measured as output per hour, has been stronger than expected, largely driven by a reduction in average hours worked.

Chart 1 - Change in GDP growth forecasts since Spring Budget 2017



Source: Office for Budget Responsibility – EFOs

Key Announcements & findings from the OBR's EFO

Public Spending

- Overarching public spending figures have been updated since the Autumn Budget 2017 (see Table 2 below), but have changed little.
- Annually managed expenditure (AME) is expected to increase by 15 per cent from £396 million in 2017-18 to £454 million in 2022-23. This is almost double the forecast 8 per cent growth in Departmental Expenditure Limits (DEL) from £317 million to £342 million over the same period.

Table 2 – Total Managed Expenditure – 2017-18 to 2022-23 (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Resource AME	396.3	410.5	418.4	425.7	439.0	453.9
Resource DEL	316.6	322.5	326.9	330.3	336.2	342.2
Public sector current expenditure	**713.0**	**733.0**	**745.3**	**755.9**	**775.2**	**796.1**
Capital AME	34.8	27.4	29.0	29.4	30.1	31.3
Capital DEL	49.6	52.4	59.7	68.3	68.2	70.6
Public sector gross investment	**84.4**	**79.8**	**88.7**	**97.7**	**98.3**	**101.9**
TOTAL MANAGED EXPENDITURE	**797.4**	**812.9**	**834.0**	**853.6**	**873.4**	**898.0**

Source: Office for Budget Responsibility – EFO March 2018

Spending Review

- The next Spending Review will take place in 2019 (although no date has yet been fixed), and the 2018 budget will "set an overall path" for public spending for 2020 and beyond.
- The Chancellor stated that, if in 2018, "public finances continue to reflect the improvements that today's report hints at", then public spending investment may increase.

Business rates valuations

The Government published a summary of responses to its consultation on more frequent business rates revaluations (published in 2016). The response sets out that:

- The **next revaluation will be brought forward to 2021** - 4 years after the last revaluation
- **Three-year revaluations** will take effect in 2024
- The VOA will continue to assess rateable values, so **government will not pursue the self-assessment and formula-based options** at this stage.
- The **VOA will be sufficiently funded** to continue to carry out high quality valuations at the next spending review.
- The Government will **delay implementation of linking the business rate systems to HMRC digital tax accounts** by 2022 (announced at Budget 2016) until after 2024 to prioritise the delivery of the next revaluation one year earlier than planned, and the move to three-year revaluations.
- The Government will aim to implement this new business rate digital system at the earliest opportunity after the start of the three-year revaluation cycle from 2024.
- For the 2021 revaluation, the VOA will continue to use an Antecedent Valuation Date length of two years, that is, the **revaluation will be based on the rental market on 1 April 2019**.
- The Government will continue to set out the design of the transitional relief scheme at future revaluations
- The response can be found here. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/689236/Business_rates_revaluations.pdf

Council Tax growth forecasts

- The OBR EFO includes updated forecasts for council tax receipts. These may provide be helpful context for informing MTFS forecasts.
- Council tax receipts for England are forecast to increase at 6% in 2017-18 rising to 6.8% in 2018-19 (likely as a result of the increased referendum limit on main council tax), and to reduce to 5.3% in 2019-20 (the final year of the ASC precept flexibility). Annual increases in receipts then fall to around 3% for the next three years.

Table 3 – Council tax receipts forecast

	Forecast					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
England council tax receipts (£bn)	27.6	29.5	31.1	32.0	33.0	33.9
Annual % change	6.0%	6.8%	5.3%	3.1%	2.9%	2.8%

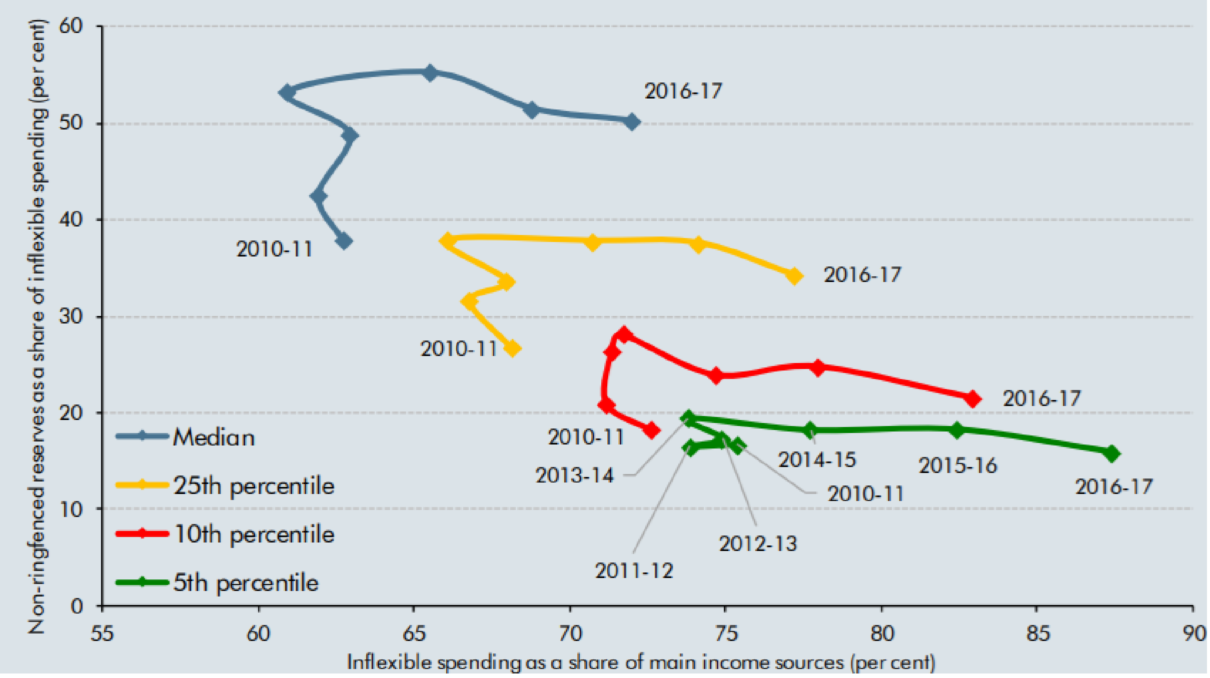
Source: Office for Budget Responsibility – EFO March 2018

Financial outlook for Local Government

- The OBR has conducted a broader assessment of financial health across local authorities, considering pressures on budgets, reserve use, and types of spending driving these pressures.

- The chart below shows budget pressures coming from “inflexible spending” as a share of three main income sources - council tax, business rates, revenue support grant – against non-ringfenced revenue reserves.
- In essence, it demonstrates how inflexible spending has steadily increased and reserves have declined, after a “stocking up” period in the early years of central government funding cuts.
- The median spend as a share of income increased from 61 to 72% between 2013-14 and 2016-17, whereas for the bottom 5th percentile over the same period it has increased from 74 to 87%.
- The OBR found that this pressure has not been as evident amongst lower tier authorities, which tend to have proportionately higher reserves.
- This analysis corroborates that of the recent NAO report on financial sustainability.

Chart C: Financial health indicators: upper-tier English authorities



Source: OBR, EFO March 2018

Housing

- Following the announcement of at least £44 billion of investment over the next five years at Autumn Budget 2017 (with the aim of increasing the supply of homes to 300,000 a year on average by the mid-2020s), the Spring Statement confirms:
  - 44 areas have bids into the £4.1 billion Housing Infrastructure Fund
  - the Housing Growth Partnership, which provides financial support for small housebuilders, will be more than doubled to £220 million
  - **London will receive £1.67 billion to start building a further 26,000 affordable homes by the end of 2021-22.** This additional funding will deliver homes for social rent, as well as homes for London Affordable Rent, flexible shared ownership and rent to buy. At least two-thirds of the homes built with this additional funding will be for rent.

- This deal, as part of the Government's commitment to actively boost affordable housing supply, will see at least 116,000 more affordable homes in London, bringing the total funding for affordable housing in London to £4.8 billion.

- The Government has published a letter from Oliver Letwin to the Chancellor and Secretary of State for Housing, Communities and Local Government on the Independent Review of Build Out.
  - The letter sets out progress with the review to date (which is at the very early stages) and summarises initial thinking.
  - It suggests that the review will explore whether build out rates on large sites could be improved by disaggregating them – the idea being that increasing on site completion on price and product choice would lead to faster completion of the site overall.
  - The review may also consider reducing reliance on major house builders for delivery of social housing.
  - The letter can be found here.

  https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/689430/Build_Out_Review_letter_to_Cx_and_Housing_SoS.pdf

Environment

- The Chancellor announced a consultation on "tackling the plastics problem" which seeks evidence from local authorities as users of/creators of demand for plastics.
- It is also considering the future direction of landfill tax as an instrument for dis-incentivising plastic use – increases here would put financial pressure on authorities either directly or indirectly. Controlling this may be difficult where authorities are locked into multiyear waste contracts.
- The Government is also seeking to understand how, and the extent to which, single-use plastics are used within the public sector, for example by local authorities, and to understand the barriers to better forms of waste treatment.
- In particular, the Government hopes to receive evidence in this section from local authorities and the waste management sector.
- The consultation can be found here. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/689226/PU2154_Call_for_evidence_plastics_web.pdf

Pay

- The OBR EFO has published forecasts for the National Living Wage and National Minimum Wage up to 2022 (see below).

National Minimum Wage and National Living Wage (£ per hour)

	2017	2018	2019	2020	2021	2022
National Minimum Wage (NMW)	7.05	7.38	7.57	7.76	7.97	8.21
National Living Wage (NLW)	7.50	7.83	8.20	8.57	8.82	9.09
Note: The NMW and NLW have been set for 2018 and all other figures are OBR estimates consistent with the rest of our economy forecast. Our estimates are based on the 'bite' of the NLW increasing linearly to reach 60 per cent of median earnings in 2020. Our estimates for the NLW in 2021 and 2022 are based on the rate remaining at 60 per cent of median earnings. The increases in these years are therefore driven by our forecast for average hourly earnings.						

Source: Office for Budget Responsibility – EFO March 2018