

Spring Statement 2019

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 his Spring Statement responding to the latest economic forecast by the Office for Budget Responsibility (OBR).

Although the Chancellor has reserved the right to announce actions at the Spring Statement, has stated his intention not to make significant changes to fiscal policy twice a year "just for the sake of it". As such his Spring Statement speech again focussed on the performance of the economy and the state of the public finances. However, **but a number of consultations were announced and there were some 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
- Business Rates?
- Housing
-

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

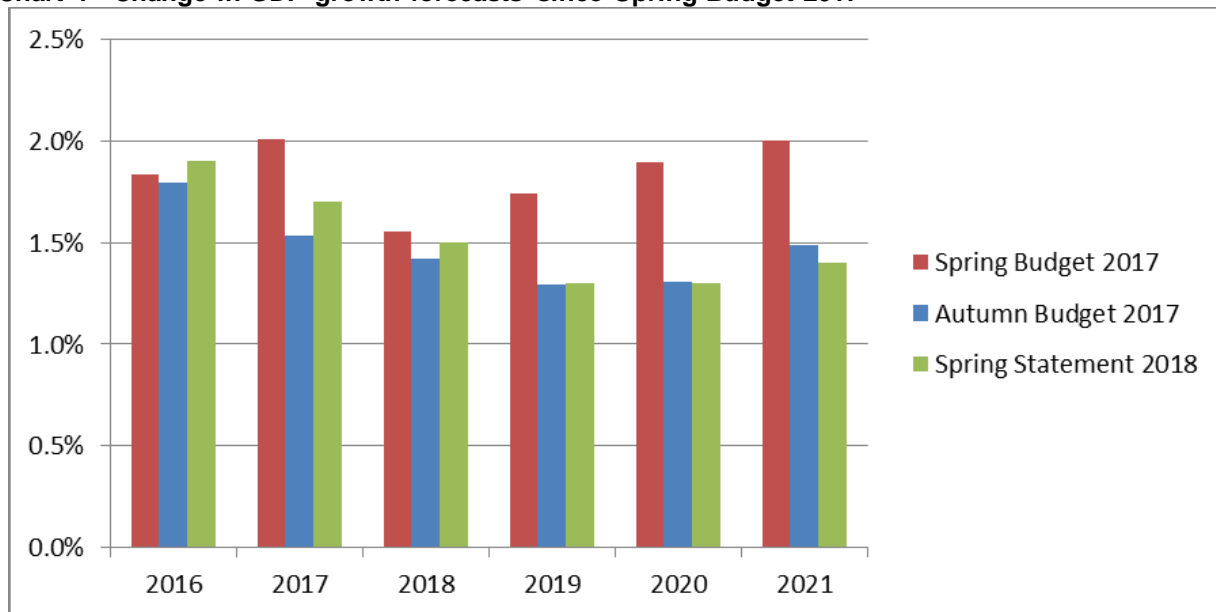
	2016	2017	2018	2019	2020	2021	2022
Gross domestic product (GDP) growth (%)	1.9	1.7	1.5	1.3	1.3	1.4	1.5
Public sector net borrowing (£bn)	45.8	45.2	37.1	33.9	28.7	26.0	21.4
Public sector net borrowing (deficit % of GDP)	2.3	2.2	1.8	1.6	1.3	1.1	0.9
Public sector net debt (%)	85.3	85.6	85.5	85.1	82.1	78.3	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

Headline:

- Bullets

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.

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.

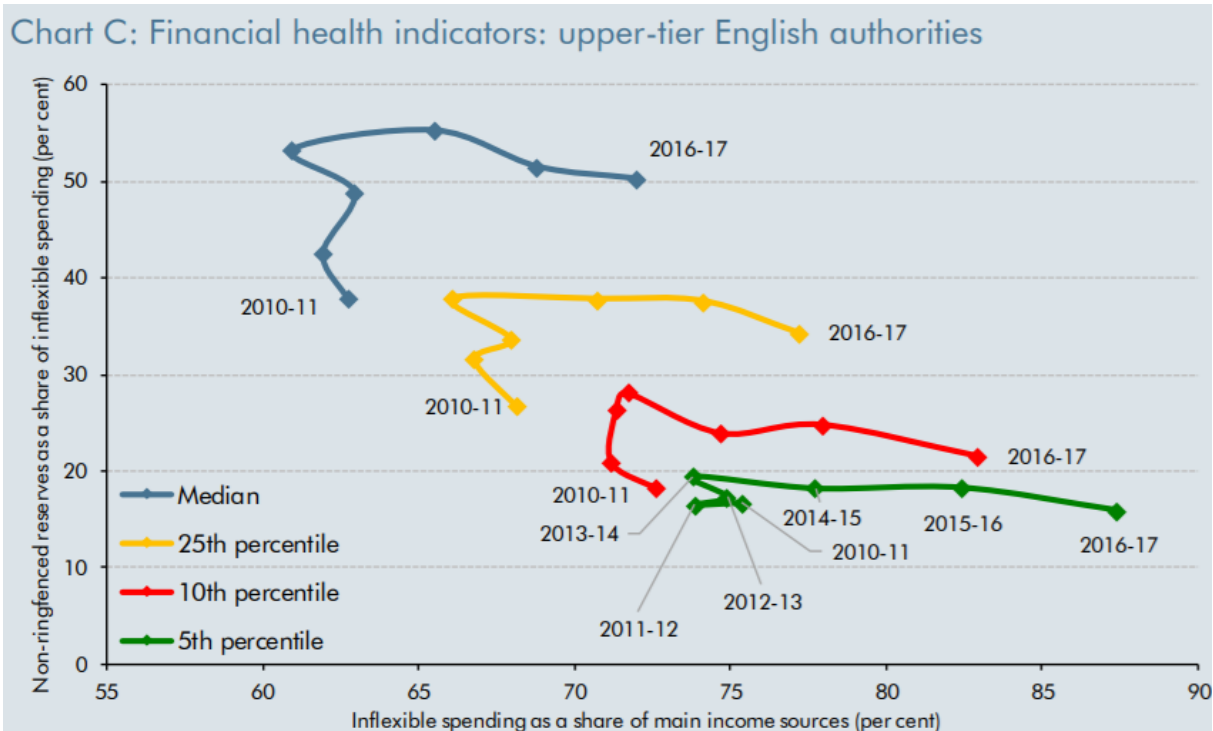
Table 3 – Council tax receipts forecast

	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.



Source: OBR, EFO March 2018

Housing

- **Headline:**
- **Bullets**

Environment

- **Headline:**
- **Bullets**

Other announcement 1

Headline:

- **Bullets**

Other announcement 2

Headline:

- **Bullets**

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