West Lothian Council

COUNCIL EXECUTIVE

SPRING STATEMENT 2019

REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES

A. PURPOSE OF REPORT

To provide the Council Executive with an update in relation to the announcements contained in the Chancellor of the Exchequer's Spring Statement 2019.

B. RECOMMENDATION

It is recommended that the Council Executive:

1. Notes the latest economic position outlined in the Spring Statement 2019;
2. Notes the Chancellor's statement on future public spending and that a detailed spending review will be undertaken in 2019 and announced as part of the Autumn Budget 2019;
3. Agrees that the Head of Finance and Property Services should continue to report to Council Executive on relevant UK and Scottish Government funding and spending announcements and provide quarterly horizon scan reports to Partnership and Resources Policy Development and Scrutiny Panel (PDSP);
4. Agrees that the Head of Finance and Property Services should ensure that information contained within the Spring Statements, Autumn Budgets and 2019 Spending Review is taken into account when updating the council's financial plans to 2022/23.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making best use of our resources.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	The council is required to approve a balanced revenue budget for each financial year. Audit Scotland and Chartered Institute of Public Finance and Accountancy (CIPFA) best practice guidance recommends financial plans are prepared for at least five years in duration, and detailed budgets are prepared for at least three years.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	Ongoing restraint in relation to government funding inevitably has implications for the council's budget and performance.

V	**Relevance to Single Outcome Agreement**	Government funding provides the resources necessary to help deliver the Single Outcome Agreement, Corporate Plan priorities and council activities. Effective prioritisation of resources is essential to achieving key outcomes.
VI	**Resources - (Financial, Staffing and Property)**	Spending decisions made by the UK Government impact on the Scottish Government's budget through the Barnett formula. This in turn has implications for available resources for the council through the local government finance settlement received from the Scottish Government. The economic and fiscal position outlined in the announcement emphasises the importance of proactive financial planning, linked to priorities and outcomes, to address public spending challenges.
VII	**Consideration at PDSP**	Quarterly horizon scan reports on the latest economic indicators and announcements and the council's estimated revenue budget position are considered by Partnership and Resources PDSP.
VIII	**Other consultations**	This report is part of the ongoing process of briefing elected members on issues relating to future year funding and the council's financial strategy to 2022/23.

D. TERMS OF REPORT

D.1 Introduction

The Chancellor of the Exchequer delivered his Spring Statement to the House of Commons on 13 March 2019. As previously outlined by the Chancellor, the UK Government's approach has changed to a single fiscal event each Autumn with major tax and spending changes being made once a year.

The Spring Statement is not a budget update, as has been the case previously, but provides a more general statement on the UK economy and the Office for Budget Responsibility (OBR) economic forecasts. The statement also sets out details on other forthcoming government policies.

D.2 Overall Economic Position

The Chancellor's Spring Statement 2019 included the OBR's updated projections for the economy, growth and government borrowing.

In summary, the key economic announcements were as follows:

- Since Autumn 2018 there has been a slowdown in economic growth both in the UK and globally. This has resulted in the OBR revising down its forecast for growth for 2019, with little change for the medium term. This is based on the assumption of a managed Brexit.
- Consumer Price Index (CPI) inflation is expected to be 2.1% in 2019 and then fall below the target of 2% in 2020, before rising to be back in line with target for the remainder of the period to 2022/23.
- The UK is borrowing less than forecast this year due to higher income tax receipts and lower debt interest costs.

- Even with the downgrade to GDP growth the fiscal balance has improved. This is largely attributed to higher than expected income tax and national insurance receipts.

The revised projections compared to the Autumn Budget 2018 are as follows:

Autumn Budget 2018	**2019**	**2020**	**2021**	**2022**	**2023**
Growth (GDP)	1.6%	1.4%	1.4%	1.5%	1.6%
Public Sector Net Borrowing	£32bn	£27bn	£24bn	£21bn	£20bn
Government Debt (% GDP)	82.8%	79.7%	75.7%	75.0%	74.1%

Spring Statement 2019	**2019**	**2020**	**2021**	**2022**	**2023**
Growth (GDP)	1.2%	1.4%	1.6%	1.6%	1.6%
Public Sector Net Borrowing	£29bn	£21bn	£18bn	£14bn	£14bn
Government Debt (% GDP)	82.2%	79.0%	74.9%	74.0%	73.0%

When published, the Charter for Budget Responsibility, had three fiscal rules:

- Public finances should be returned to balance as early as possible in the next UK Parliament and by 2025, and that borrowing should be below 2% of GDP by the end of this Parliament in 2020/21.
- Public sector net debt as a share of GDP should be falling in 2020/21.
- Maintain welfare spending within a cap set by the UK Government; this includes a continuation of a freeze on working ages benefits in 2019/20.

The OBR has assessed that, based on current policy; the broader balanced fiscal objective in 2025/26 looks challenging, particularly taking into account an ageing population which is exerting additional pressure on spending. However, the chances of the government balancing the budget by 2025/26 have improved since the October 2018 forecasts. As monitored by the OBR, welfare spending continues to be maintained within the set cap.

The OBR has stressed that the forecast has been produced against the backdrop of uncertainty in the Brexit process and, in line with government policy, the forecast has been based on the assumption that the UK makes an orderly departure from the EU on 29 March 2019 with a transition period that lasts until the end of 2020.

The OBR has reiterated that the biggest short-term risk to the forecasts set out above is a ‘no deal’ Brexit, however the exit from the EU is one step in the process as the UK future relationship with the EU has still to be negotiated which will determine the eventual impact of Brexit on the economy and public finances.

D.3 Public Services and Public Spending

The Spring Statement did not include any substantial changes to UK spending. No major tax or spending policies were announced in the Spring Statement as changes of this nature now take place in the Autumn budget announcements.

The Chancellor announced that the UK Spending Review will be announced in line with the Autumn Budget in late 2019. The Spending Review will set out an indicative path for the future five years with 1.2% per annum real terms growth in public services. The Institute for Fiscal Studies (IFS) has estimated that an extra £15 billion a year in addition to the government’s current plans could allow for a real terms growth of unprotected budgets in the Spending Review, while largely meeting the fiscal targets set out earlier in this report.

The launch of the Spending Review process is due to commence before summer recess, assuming that a Brexit deal is agreed over the coming weeks. The Chancellor suggested that if an orderly Brexit deal was agreed there is a potential additional £26 billion of “deal divided” which will be considered for release to

increase public spending.
The following tables set out the changes to UK public spending for 2019/20 to 2022/23 compared to the Autumn Budget 2018.

Revenue Expenditure – Cash Figures	2019/20 £'bn	2020/21 £'bn	2021/22 £'bn	2022/23 £'bn
Autumn Budget 2018	751.9	773.6	798.1	824.4
Statement 2019	752.6	772.1	797.2	824.0
Difference	0.7	-1.5	-0.9	-0.4

Capital Expenditure – Cash Figures	2019/20 £'bn	2020/21 £'bn	2021/22 £'bn	2022/23 £'bn
Autumn Budget 2018	89.7	93.5	95.2	97.2
Spring Statement 2019	88.1	93.0	94.5	97.0
Difference	-1.6	-0.5	-1.0	-0.2

The movement in the above forecasts is following the effect of a number of changes, most notably reduced Retail Price Index (RPI) inflation has reduced debt interest payments and revenue departmental budgets (RDEL) are now forecasting greater underspends than originally expected.

For the next spending review, the Chancellor made a commitment of annual average growth of 1.2% in departmental spending budgets. Based on the NHS commitment, the majority of that increase will be directed to health. It is expected that this increase will feed through to the Scottish block grant, however given the commitment to health at a UK and Scottish level, it is anticipated that non protected areas will not see real terms increases in budget.

D.4 Other Key Announcements

The UK Government has launched a number of consultations on future policies ahead of the Budget 2019. Views are being sought on the following:

- Planning for future high streets consultation on potential changes and use of planning tools for local areas to support their local high streets.
- Future of Mobility – Urban Strategy, setting out an approach to make the UK at the forefront of mobility.
- National Living Wage – Low pay commission and Professor Dube to review international evidence on minimum wages.
- Financial Services legislation consultation following leaving the EU.
- Future Homes Standard – to be introduced by 2025, future-proofing new build homes with low carbon heating and world-leading levels of energy efficiency.
- Insurance Premium Tax review
- VAT simplification and the Public Sector - exploring a potential reform to VAT refund rules, with the aim of reducing administrative burdens and improving public sector productivity.

D.5 Main Implications for Scotland

The Chancellor made no substantial changes to public sector spending; therefore there are no updated Departmental Expenditure Limits (DEL) and minimal additional Barnett Consequentials for Scotland. As outlined in previous reports, if there were any changes to Scotland's DEL through the application of the Barnett Formula, the

Scottish Government would determine the distribution of these changes.
The Scottish Government is required to determine the distribution of departmental spending figures, including the additional funding received through Barnett Consequentials. The Cabinet Secretary for Finance, Economy and Fair Work and the Health Secretary have publicly announced that the funding arising from the NHS commitment, will be directed to health in Scotland. It is anticipated that health will be interpreted to incorporate all aspects of health and social care.

Following the transfer of income tax responsibilities to Scotland, the block funding provided by the UK Government only represents a proportion of the total resources available to the Scottish Government, and it is for the Scottish Government to decide changes to Scottish tax revenues. However recent analysis undertaken by the Fraser of Allander Institute (FoA) on Scottish earnings related taxes presents a risk for future Scottish Government finances, with income per capita growth slower in Scotland than the rest of the UK in 2017/18 as well as the first half of 2018/19.

Scottish tax revenue growth is more vulnerable that the rest of the UK and this was already reflected in the Scottish Fiscal Commission (SFC) forecasts for the 2019/20 Scottish Budget. If 2017/18 and 2018/19 tax forecasts by the Scottish Government are not achieved there is the potential that the Scottish Government could face a significant pressure to reconcile its budgets in 2020/21 and 2021/22 reflecting the difference between the forecast when the budgets were set and the actual outturn data. According to the SFC latest forecast, the differences could potentially be a shortfall of £145 million in 2020/21 and £472 million in 2021/22, which would impact adversely on future funding levels.

D.6 Main Implications for West Lothian

Due to the lack of Barnett Consequentials, the Spring Statement does not have an impact on the level of funding confirmed for West Lothian Council. Any future changes to the Scottish Block and the Scottish Government's allocation of this funding will be reported to the Council Executive to consider within the context of the council's financial strategy to 2022/23 which was approved on 19 February 2019. With a UK Government spending review scheduled for later this year and with the Scottish Government commitment to providing a three year funding settlement it is anticipated that by the end of 2019 a three year funding position will be known for West Lothian Council.

Audit Scotland and CIPFA have both identified the need for public bodies to focus on their medium to long term financial sustainability. This means that councils are expected to produce medium to long term financial strategies. In addition, the Accounts Commission believe that all councils should have a long term financial strategy and that these long term strategies should be supported by detailed plans.

The council has complied with this best practice by agreeing a long term financial plan for five years and detailed revenue budgets for 2019/20 and 2020/21. This plan is based on a number of income and expenditure assumptions, providing a framework to deliver local services required to support the Corporate Plan and bridge the anticipated budget gap. This approach provides a sound foundation to deliver services, allowing the council to be clear regarding its future financial and corporate planning assumptions. Agreement of the long term financial plan also allows the council to respond proactively to the magnitude of the challenge in delivering essential services whilst financial resources are constrained.

In line with other local authorities, and as outlined in the council's approved five year financial plan to 2022/23, West Lothian Council continues to face substantial budget challenges. The council has an approved financial plan but there remains a high level of uncertainty regarding the council's financial position. In addition to Brexit potentially impacting on economic growth, and therefore public sector funding, there are a number of specific risks related to the assumptions in the budget model. In particular, developments such as increased pay awards, recurring service budget pressures and greater than anticipated increases in energy costs could all have a substantial negative impact on the council's financial position. Should these risks transpire, with no corresponding increase in government grant funding, it is likely that additional budget saving measures, over and above the current forecast gap of £4.4 million, may be required over the period to 2022/23.

Officers continue to review budget model assumptions in line with developments and announcements. Information contained within Spending Review 2019, Autumn Budget 2019 and the Scottish Government Budget announcements will be taken into account when updating the council's financial plans to 2022/23.

E. CONCLUSION

The Chancellor's Spring Statement 2019 provides an update on the UK's economic position whilst also providing an update on the OBR's economic forecasts. The statement does not include any major tax and spending changes.

The economic forecasts included within the statement are slightly more positive than previously anticipated, however the impact of uncertain economic factors, such as Brexit, and the desire of the UK Government to reduce the deficit means that it remains a challenging position for the UK economy and public sector spending.

A UK spending review has been confirmed and will coincide with the Autumn Budget 2019, with the potential that if the economy continues on the current trajectory, there could be some improvement in public sector funding. The results of this review will be reported to Council Executive, including the potential impact on the council's resources.

The continued uncertain economic outlook, and its effect on public sector expenditure, emphasises the importance of the council having a robust financial strategy. This strategic and integrated approach to corporate and financial planning helps the council to ensure that outcomes are achieved and balanced budgets are delivered.

F. BACKGROUND REFERENCES

Spring Statement 2019 – Published on HM Treasury website

Office for Budget Responsibility Economic and Fiscal Outlook March 2019 – Published on OBR website

Autumn Budget 2018 – Report by Head of Finance and Property Services to Council Executive on 13 November 2018

Appendices/Attachments: None.

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