

DATA LABEL: PUBLIC



COUNCIL EXECUTIVE

SPRING BUDGET 2020

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 Budget 2020.

B. RECOMMENDATION

It is recommended that Council Executive:

1. Notes the latest economic position outlined in the Spring Budget 2020 and capital;
2. Notes the other key announcements, including those relating to Universal Credit;
3. Notes that, as a result of spending announcements in the Spring Budget, the Scottish Government will receive an additional £640 million by 2020/21;
4. Agrees that the Head of Finance and Property Services should ensure that the information contained with the Spring Budget, the 2020 Comprehensive Spending Review and the Autumn Budget is taken into account when updating the council's financial plans for 2020/21 to 2022/23.

C. SUMMARY OF IMPLICATIONS

I	Council Values	Being honest, open and accountable, making the 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, Accounts Commission 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 resources available.
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, although improved from recent budget statements, continues to emphasise the importance of proactive financial planning based on priorities and outcomes.

VII Consideration at PDSP

Quarterly horizon scan reports on the latest economic indicators and announcement, and the council's estimated revenue budget position, are considered by the 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 approved five year financial strategy to 2022/23.

D. TERMS OF REPORT

D.1 Introduction

The Chancellor of Exchequer delivered his Spring Budget 2020 to the House of Commons on 11 March 2020. The Spring Budget 2020 is the first budget announcement following the UK's exit from the European Union in January 2020. It also includes an assessment and forecast from the Office for Budget Responsibility (OBR) on borrowing, growth and employment. Since 11 March the coronavirus situation has had a major impact which has resulted in an announcement of further additional funding of £350bn to help mitigate the impact of the coronavirus through providing government backed loans and business rates holidays and this is covered in a separate report.

D.2 Overall Economic Position

The Chancellor's Spring Budget 2020 included the OBR's updated projections for the economy, growth and government borrowing.

In summary, the key economic announcements were as follows:

- In line with the 2019 Spring Statement, the UK economy is expected to continue to grow for every year of the forecast. However GDP growth continues to be low. The 2020/21 forecast growth figure is 1.1%, revised down from 1.4% a year ago.
- Public borrowing in 2020 is higher than forecast in the 2019 Spring Statement.
- The government is set to borrow £14.6bn more in 2020/21 than previously forecast
- Total additional borrowing of £96.6bn is forecast by 2023/24 to pay for spending commitments.

As noted the in-year performance of the economy is less than previously forecast

with GDP growth being revised down from 1.4% to 1.1%. This largely reflects that productivity growth has not returned to its historical level of 2008

The OBR has stressed that the current forecasts do not reflect the impact of the coronavirus. It has stated that the coronavirus is likely to have a significant adverse effect on the economy and public finances in coming quarters. But neither the size nor duration of this effect are possible to predict with any confidence. The Bank of England Governor has said that the shock to the economy “could prove large”.

The revised projections compared to the Restated March 2019 forecast are as follows:

Restated March 2019 Forecast	2020	2021	2022	2023
Growth (GDP)	1.4%	1.6%	1.6%	1.6%
Public Sector Net Borrowing	£40bn	£38bn	£35bn	£33bn
Government Debt (% GDP)	56.3%	42.5%	42.5%	41.6%

Spring Budget 2020	2020	2021	2022	2023
Growth (GDP)	1.1%	1.8%	1.5%	1.3%
Public Sector Net Borrowing	£55bn	£67bn	£62bn	£60bn
Government Debt (% GDP)	77.4%	75.0%	75.4%	75.6%

The Charter for Budget Responsibility, has three fiscal rules:

- Public finances should be returned to balance as early as possible in the next UK Parliament, 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.

The UK Government is no longer on course to meet these rules with a budget deficit forecast for 2020/21. The Government has stated that they will review these rules ahead of the Autumn Budget.

D.3 Public Services and Public Spending

Public sector spending has risen very significantly in 2020/21, partly reflecting the spending announcement made in September 2019. Furthermore, while detailed allocations are not yet available, overall spending totals suggest that 2021/22 will also see a big increase, followed by smaller real terms boosts up to at least 2024/25. The increases are split between day-to-day spending and investment spending in terms of the extra funding involved. However, in % terms they are far larger for investment spending, up by 37% in cash terms between 2019/20 and 2021/22;.

Revenue Expenditure – Cash Figures	2020/21 £'bn	2021/22 £'bn	2022/23 £'bn	2023/24 £'bn
Spring Statement 2019	772.1	797.2	824.0	853.7
Public Sector Current Expenditure Spring Budget 2020	815.8	854.1	881.5	909.9
Increase	43.7	56.9	57.5	56.2

Capital Expenditure – Cash Figures	2020/21 £'bn	2021/22 £'bn	2022/23 £'bn	2023/24 £'bn
Spring Statement 2019	93.0	94.5	97.0	101.2
Public Sector Current Expenditure Spring Budget 2020	111.9	123.3	129.2	135.0

Increase	18.9	28.8	32.2	33.8
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The Spring Budget also launches the **Comprehensive Spending Review 2020** (CSR) by setting out the overall level of public spending within which the CSR will be delivered. The CSR scheduled to conclude in July will set out detailed spending plans covering resource budgets for three years, from 2021/22 to 2023/24, and capital budgets up to 2024/25. The coronavirus situation may impact on this timescale.

The Autumn Budget is also likely to determine a number of key decisions, including:

- the distribution of high levels of public sector investment, as a key tool in attempting to reduce economic inequalities across the UK;
- ways of raising overall tax revenues in order to fund increased spending while staying within any new Fiscal Rules. Given the Manifesto commitment not to raise Income Tax, National Insurance or VAT (the three largest individual sources of tax revenue) before the next election, then other sources will need to be found. This may include environmental based taxes, potentially including an end to the freeze in fuel duty;
- a possible agreement to overhaul Adult Social Care funding.

Overall, the future funding outlook remains highly uncertain, although this has as much to do with external forces, such as the coronavirus situation, than with regards to the UK Government's intentions.

D.4 Other Key Announcements

Personal Tax

The personal allowance threshold and the higher rate income tax threshold will remain frozen at £12,500 and £50,000 respectively. Under the Fiscal Framework this will not have a direct impact on the Scottish budget with an offsetting adjustment being made to the block grant.

National Insurance

The tax threshold of National Insurance Contributions will rise from £8,632 to £9,500

National Living Wage

The National Living Wage, set by the UK Government, will increase from £8.21 to £8.72 from April 2020. There will also be the following increases to the National Minimum Wage from April 2020:

- increasing the rate for 21 to 24 year olds from £7.70 to £8.20 per hour
- increasing the rate for 18 to 20 year olds from £6.15 to £6.45 per hour
- increasing the rate for 16 to 17 year olds from £4.35 to £4.55 per hour
- increasing the rate for apprentices by from £3.90 to £4.15 per hour

West Lothian Council's living wage is based on the Living Wage Foundation rate. A new living wage rate of £9.30 was announced on 11 November 2019.

Pensions

The Budget confirms a change to pension tax breaks for high earners. This will increase the income threshold at which tax relief on pension contributions starts to reduce from £110,000 to £200,000. This measure is aimed at encouraging hospital consultants and GPs to work additional hours.

Universal Credit

The budget has confirmed the ending of the benefit freeze and announced a 1.7% increase in working age benefits from April 2020

A number of temporary coronavirus measures were also announced including the following:

- A temporary suspension of the Minimum Income Floor to help support self-employed workers if they have to self-isolate
- A temporary suspension of the requirement to visit job centres
- The repayment period for advance payments of Universal Credit, to pay for specific bills or other costs, will be extended to two years from the current 12 months. This measure will be introduced from October 2021
- A reduction in the deduction rate (amount that can be taken from benefits to pay other debts) from 30% to 25%

Alcohol Tobacco and Fuel

- For the tenth consecutive year the Budget has announced that fuel duty will remain frozen at 57.95 pence per litre.
- Duties on spirits, beer, cider and wine to be frozen
- Tobacco taxes will rise by 2% above the rate of retail price inflation

Business, digital and science

- System of High Street business rates to be reviewed later this year
- Firms eligible for small business rates relief will get £3,000 cash grant
- Entrepreneurs' Relief will be retained, but lifetime allowance will be reduced from £10m to £1m
- £5bn to be spent on getting gigabit-capable broadband into the hardest-to-reach places
- Science Institute in Weybridge, Surrey to get a £1.4bn funding boost
- An extra £900m for research into nuclear fusion, space and electric vehicles
- VAT on digital publications, including newspapers, e-books and academic journals to be scrapped from December

Environment and energy

- Plastic packaging tax to come into force from April 2022
- Manufacturers and importers whose products have less than 30% recyclable material will be charged £200 per tonne
- Subsidies for fuel used in off-road vehicles - known as red diesel - will be scrapped "for most sectors" in two years' time
- Red diesel subsidies will remain for farmers and rail operators
- £120m in emergency relief for English communities affected by this winter's flooding and £200m for flood resilience
- £640m "nature for climate fund" to protect natural habitats in England, including 30,000 hectares of new trees

Transport, infrastructure and housing

- More than £600bn is set to be spent on roads, rail, broadband and housing by the middle of 2025
- There will be £27bn for motorways and other arterial roads, including new tunnel for the A303 near Stonehenge
- £2.5bn will be available to fix potholes and resurface roads in England over five years
- Further education colleges will get £1.5bn to upgrade their buildings
- £650m package to tackle homelessness, providing an extra 6,000 places for rough sleepers
- Stamp duty surcharge for foreign buyers of properties in England and Northern Ireland to be levied at 2% from April 2021
- New £1bn fund to remove all unsafe combustible cladding from all public and private housing higher than 18 metres

D.5 Main Implications for Scotland

Scotland received an extra £640 million of Barnett Consequential's for 2020-21 as a result of the Spring Budget, an additional £220m of resource spending and £410m of capital spending. These sums are additional to the consequential announced at the time of the September Spending round. The £640 million figure is thought to be over £100 million more than was assumed at the time of the Scottish Budget in February, mainly due to the extra coronavirus related funding made available for the NHS and the Business Rates relief.

There has subsequently been a further announcement outlining the intention to make further funding of £350bn available to cover government back loans and business rates holidays for businesses affected by the coronavirus which will also be reflected in additional funding for Scotland.

It now seems likely that an update of the Scottish Budget will take place in the near future.

Plans for the Scottish Government to undertake its own (Comprehensive) Spending Review remain unclear, in particular whether this might occur in tandem with the UK Review or subsequent to it.

D.6 Implications for West Lothian Council

Since the Scottish budget has already been announced it is likely that the recent UK Budget announcement will have limited impact on West Lothian Council in 2020/21. The additional Barnett Consequentials are likely to be targeted towards supporting Health Services and businesses through the current coronavirus outbreak. It is anticipated that the council will be in receipt of additional resources to help support local citizens and businesses in coming months. It is likely that these resources will be for specific ring-fenced purposes.

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 five year budget model. In particular, developments such as increased pay award offers, recurring service budget pressures, increase in teachers' pension costs and greater than anticipated increases in energy costs could all have a substantial negative impact on the council's financial position. It is also likely that the coronavirus will have a significant impact on the economy which could result in reduced income and increased costs in supporting the local community in the challenging time ahead.

Officers continue to review budget model assumptions in line with developments and announcements. The budget model will be reviewed to incorporate any potential changes arising from the Spring Budget 2020, the Scottish Budget and the local government finance settlement

E. CONCLUSION

The Chancellor's Spring Budget 2020 provides an update on the UK's fiscal outlook, providing information on the UK's economic position, public services expenditure and economic forecasts as provided by the OBR.

Changes to public expenditure plans in England will be passed onto the Scottish Budget through the Barnett Formula. Although there will be additional funding of

£640 million in 2020/21 along with as the result of a number of spending decisions in England, it is for the Scottish Government to decide on the allocation of the total Scottish block budget to their priorities. Of this amount £523 million was already allocated in the Scottish Budget earlier this year. The remaining £117 million will be allocated over 2020/21. At this stage no further information is available to determine how this additional funding will be allocated, however it is likely that a significant element of the additional funding is allocated to alleviate the economic impact of the coronavirus.

The continued uncertain economic outlook, and its effect on public sector expenditure, emphasises the importance of the council having an approved five year financial strategy. The strategic and integrated approach to corporate and financial planning helps the council to ensure that outcomes are achieved and balanced budgets are delivered within the context of uncertain, constrained public sector funding.

F. BACKGROUND REFERENCES

Spring Budget 2020 – Published on HM Treasury website

Office for Budget Responsibility Economic and Fiscal Outlook March 2020 – Published on OBR website

Spring Statement 2019 – Report by Head of Finance and Property Services to Council Executive on 26 March 2019

Appendices/Attachments: None.

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