Renfrewshire Council

To: Council

On: 15 December 2016

Report by: Director of Finance & Resources

Heading: **UK Government Autumn Statement**

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1. Summary and Key Messages

1.1 The Chancellor of the Exchequer on the 23rd of November announced the UK Government's Autumn Statement. The announcement set out the current position and forecast expectation across a range of key economic and fiscal indicators for the UK and also included a range of measures the Government will take with regards tax and spending.

1.2 The Autumn Statement was the first fiscal event since the EU Referendum, and was widely expected to include measures which would address the challenges facing the UK over the coming period up until and after formal exit from the EU. As anticipated, the Office of Budget Responsibility (OBR) has revised down the UK's medium term economic prospects with levels of uncertainty at a new high. A substantive revision of the Comprehensive Spending Review announced in November 2015 was a distinct possibility and which could have had a consequentially negative impact on funding made available to Scotland and ultimately the local government budget.

1.3 The purpose of this report is to highlight the principal elements of the announcement by the UK Government and how this may influence the financial settlement provided by the Scottish Government to local government and ultimately the Council. The following key messages are highlighted for the group:

- The measures and decisions taken by the UK Government in this Autumn statement have focused on broadly maintaining short to medium term stability in the existing revenue spending plans announced in the 2015 CSR along with boosted capital investment spending.

- The impact of lower tax receipts arising from poorer economic growth prospects will be supported by higher levels of borrowing and pushing out to some point in the next UK parliamentary period the objective of removing the ongoing budget deficit in UK public finances.

- In terms of departmental resource spending (including the Scottish Government revenue block grant), the changes announced are relatively moderate although the 2017/18 Scottish budget has received a cash boost of around £217m, increasing the cash growth to 1.5%.

- Beyond 2017/18 the revised growth in revenue spending plans broadly reflect the shape of the plan announced last year with cash growth in 2018/19 – 2019/20 being distinctly poorer than 2017/18 with minimal cash growth for Scotland of between 0.2% - 0.4%.

- Overall for Scotland the revenue budget is set to grow in cash terms by around 2.2% (£580 million) over the three year period through to 2019/20 – equivalent to a 4.2% real terms cut.

- As widely reported Scotland will benefit from the extra capital investment funding announced by the UK Government, totalling approximately £800 million through to 2020/21. It is not clear what proportion of this additional funding will be allocated to local government.

- Moving into 2017/18, the UK Government budget announcement presents only part of the picture for Scotland with a larger proportion of the budget than ever driven by devolved tax powers. The overall impact on the Scottish budget for 2017/18 and beyond will not therefore be known until the Scottish Government budget announcement on 15th December.

- The challenges for the Council in terms of revenue funding have been outlined in the Financial Outlook report discussed at the September 2016 Council meeting. It remains to be seen whether the more positive outcome for 2017/18 Scottish Block settlement feeds through to a less significant cut for local government than has been outlined.

2. Recommendations

2.1 Members are asked to note the content of the report and that the Scottish Government will make their own budget announcement today, 15 December 2016.

3. Key Highlights from the Autumn Statement 2016

3.1.1 Forecasts by the Office for Budget Responsibility (OBR) for the main economic measures have deteriorated markedly since the Budget in March 2016; largely as a result of the Brexit vote. Real terms (i.e. inflation adjusted) growth of GDP is still forecast to be 2.0% in the current financial year (2016-

17), then forecast to fall to 1.3% in 2017-18 (2.2% forecast in March), returning to 1.9% and then 2% in the years up to 2012-22. Inflation (CPI) is forecast to increase to 2.5% in 2017-18 and 2018-19, returning to the 2% target by 2019-20. However, it should be noted that overall economic conditions as ever are subject to change and a high degree of uncertainty remains.

3.1.2 Although the outlook for public finances has worsened, this has been compensated for by increased borrowing (up to £100 billion more than previous estimates over the CSR period), rather than by further public spending cuts. As a consequence of this, the UK Government has abandoned its pre-Brexit fiscal targets (to deliver an in year surplus 2019/20); with a surplus now not being achieve until some time in the next Parliament. In the meantime, public sector debt is forecast to peak at 90% of GDP in 2017-18.

3.2 UK's fiscal outlook

3.2.1 The UK's fiscal outlook has also deteriorated, with total revenue receipts being hit by lower GDP growth and a trend towards self-employment. Total expenditure is higher in 2017-18 than was outlined in the CSR and included in the March Budget; but its growth thereafter in cash terms is little changed; meaning in real terms a reduction from levels previously announced as inflation is forecast to be higher.

3.2.2 As mentioned above, no specific date has been set to achieve fiscal balance; allowing for more borrowing and a slower pace of adjustment. The Chancellor has however announced three new fiscal rules:

- The public finances should be returned to balance as early as possible in the next Parliament, and borrowing should be below 3% by the end of this Parliament

- Public sector net debt as a share of GDP must be falling by the end of this Parliament

- Welfare spending must be within a cap, set by the government and monitored by the OBR.

3.2.3 Table 1 below details the main fiscal indicators which reflect the UK Government's plans outlined in the Autumn Statement. Debt as a percentage of GDP is set to fall from a peak of 90% each year from 2018-19. In cash terms, revenue spending across the UK is planned to grow, albeit in real terms there is still expected to be a reduction due to higher inflation. In contrast, there is planned to be significant growth in capital spend over the period in both cash and real terms.

Table 1 - UK public finances, key measures

	2017-18	2018-19	2019-20	2020-21	2021-22
Debt (% of GDP)	90.2	89.7	88	84.8	81.6
(cash terms % changes)					
Total Expenditure (TME)	2.3%	2.2%	1.1%	3.9%	3.6%
AME	3.1%	2.8%	1.6%	3.4%	4.5%
Resource DEL	0.5%	0.9%	0.1%	1.9%	2.0%
Capital DEL	8.3%	5.5%	3.2%	19.2%	5.2%
Resource DEL (real terms)	-1.0%	-1.2%	-1.7%	0.0%	0.0%

- ***TME represents the total managed expenditure of the UK Government: AME + DEL(Revenue) + DEL(Capital)***
- ***AME represents annual managed expenditure and reflects for example includes welfare spend, public sector pension costs, tax credits etc***
- ***DEL Resource represents Delegated Expenditure Limits and reflects the day to day revenue spend of Government Departments (including resources devolved to national administrations)***
- ***DEL Capital represents Delegated Expenditure Limits and reflects planned capital investment spend by Government Departments (including resources devolved to national administrations)***

3.3 Scottish Budget

3.3.1 Changes to specific UK Government departmental budgets mean that, via the workings of the Barnett formula, there is a knock on impact on the **Scottish Budget**, amounting to almost a £0.5 billion of additional growth in annual funding by 2019-20.

Table 2: Changes to the Scottish DEL vs 2015 Announcement

	2016/17 £ms	2017/18 £ms	2018/19 £ms	2019/20 £ms
DEL resource	18	217	232	227
DEL capital	13	128	208	254

3.3.2 In terms of departmental resource spending the changes announced are relatively moderate although in 2017/18 the Scottish budget has received an additional boost in growth of around £217m, increasing the cash growth to 1.5%. Beyond 2017/18 the revised growth in revenue spending plans broadly reflect the shape of the plan announced last year with 2018/19 – 2019/20 being distinctly poorer with minimal cash growth for Scotland of between 0.2% - 0.4%. Overall cash growth in revenue spend is around 2.2% (£580 million) over the three year period through to 2019/20 – equivalent to a 4.2% real terms cut. In contrast, the capital budget is set to rise considerably, with a headline £800m additional capital being allocated through to 2020-21.

3.3.3 Overall, the settlement for Scotland has improved since last year, particularly moving into 2017/18 and in capital terms across the full CSR period. However, it should be noted that moving into 2017/18, the Scottish Government budget will be influenced more significantly than ever before by devolved powers, in particular on tax and borrowing. Only once decisions around these are taken by the Scottish Government will the more complete picture emerge for the overall Scottish budget.

3.3.4 From a local government perspective, it remains to be seen whether any of the revenue or capital improvements that have emerged through the Autumn statement for Scotland will feed through to local government and improve the position previously indicated in the Financial Outlook report to members in September, or whether the Scottish Government will choose to divert funding uplifts to other stated priorities such as Health and Police.

3.3.5 It is expected that the Scottish Government will announce their budget plans on the 15th of December and that this may be for one year only with future years not expected to emerge until a later point in 2017. At that point, clarity is expected to emerge of the impact on the Council's grant settlement and the extent to which this aligns with projections that underpin the Council's budget planning process for 2017/18 through to 2019/20.

Implications of this report

1. **Financial Implications**
The Council's budget strategy has been framed on an assumed loss of revenue grant in 2017/18 over a wide range recognising the uncertainty that currently exists. The Autumn Statement announcement by the UK Government is the first step in clarity emerging over the Council's grant settlement with the anticipated Scottish Government budget announcement on the 15th December expected to clarify fully this position only for 2017/18. The full impact of this on the Council's medium term budget strategy will be outlined in the report to the Council's February budget meeting.

2. **Personnel Implications**
As previously reported to the Council, the anticipated medium term reduction in resources available to deliver services will require the Council to continue to review and assess the shape and size of the workforce as part of modernising services and delivering significant and sustained budget savings.

3. **Community Plan/Council Plan Implications**
The Council's financial planning takes full account of the objectives outlined in the Community Plan and Council Plan.

4. **Legal Implications**

5. **Property Implications**

6. **Information Technology Implications**

7. **Equal Opportunities Implications**
No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report.

8. **Health and Safety Implications**

9. **Procurement Implications**

10. **Risk Implications**
The Council's financial planning arrangements remain a key measure to manage and mitigate financial risk across the organisation and ensure the Council maintains a medium term perspective to its financial decision making as part of managing financial risk and ensuring the Council remains financial stable in the short term and financial sustainable over the medium to longer term.

11. **Privacy Impact –** None.

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