

INTRODUCTION

On 13 March the Chancellor of the Exchequer, Philip Hammond, made his Spring Statement 2018 announcement in the House of Commons. This was the Chancellor's first *Spring Statement*.

Alongside the Chancellor's announcement, the OBR published its [Economic and Fiscal Outlook](#) (EFO), containing its forecasts for the economy and the public finances.

In the 'build-up' to the Statement the Treasury stressed that it would contain "no red box, no official document, no spending increases, [and] no tax changes" but would rather be a relatively short response to the latest forecast from the Office for Budget Responsibility (OBR).

This briefing outlines the key announcements in the Spring Statement and Economic and Fiscal Outlook. References to the relevant paragraphs in the EFO are included in square brackets.

BACKGROUND

As this was the first Spring Statement, the usual list of expectations seen in past Budgets and Autumn Statements were replaced with political and economic commentators being entirely unsure as to the content and detail of Hammond's speech. This led to commentators attempting to establish the tone of Hammond's speech and to whether it would include any early indicators of what might be expected in the 2018 Autumn Budget (and any consultations that might lead up to the Budget).

Regarding the effects of Brexit on forecasts the OBR has stated that "in the absence of a meaningful basis upon which to adjust our forecasts bottom-up we take the fiscally neutral approach that, from 2019-20 onwards, any reduction in expenditure transfers to the EU would be recycled fully into extra domestic spending".

ECONOMY

GDP – GDP is predicted to grow by 1.5% in 2018. This is 0.1 percentage points more than the 1.4% predicted in the 2017 Autumn Budget though less than in the 2017 Spring Budget (the first post-Brexit forecast). Despite this increase forecasts for 2021 and 2022 have slightly decreased compared to 2017 Autumn Budget forecasts. [Table 1.1]

GDP	2017 Spring Budget	2017 Autumn Budget	2018 Spring Statement
2017	2.0%	1.5%	1.7%
2018	1.6%	1.4%	1.5%
2019	1.7%	1.3%	1.3%
2020	1.9%	1.3%	1.3%
2021	2.0%	1.5%	1.4%
2022		1.6%	1.5%

Inflation – In 2017, CPI Inflation was 2.7%; significantly higher than the 0.7% in 2016. Currently, CPI is forecasted at 2.4% for 2018, equal to the 2017 Autumn Budget forecast. CPI forecasts for both 2019 and 2020 have decreased slightly. [Table 1.1]

CPI	2017 Spring Budget	2017 Autumn Budget	2018 Spring Statement
2017	2.4%	2.7%	2.7%
2018	2.3%	2.4%	2.4%
2019	2.0%	1.9%	1.8%
2020	2.0%	2.0%	1.9%
2021	2.0%	2.0%	2.0%
2022		2.0%	2.0%

Comparatively, RPI is forecasted to be 3.7% in 2018, up on the 2017 Autumn Budget forecast of 3.3%. [Table 3.10]

Employment– The 2017 Autumn Budget highlighted that “Employment remains near the record high set earlier [in 2017], and unemployment is at its lowest rate since 1975”. Forecasts suggest a total UK labour market of 32.2m people in 2018 (this was forecasted to be 32.3m in the 2017 Autumn Budget). [Table 3.10]

Year	Wages and Salaries		Average Earnings	
	Autumn 2017	2018 Spring Statement	Autumn 2017	2018 Spring Statement
2017	3.4%	3.8%	2.3%	2.6%
2018	2.9%	3.4%	2.3%	2.7%
2019	2.6%	2.7%	2.3%	2.4%
2020	2.7%	2.7%	2.6%	2.5%
2021	3.2%	2.9%	3.0%	2.8%
2022	3.3%	3.1%	3.1%	3.0%

Average Earnings is calculated as Wages and Salaries divided by employees.

Debt, Deficit and Borrowing – In Autumn 2017, the OBR forecasted that debt would peak at 86.5% of GDP in 2017-18; this has been revised down to 85.6%. Debt as a proportion of GDP is then forecast to be 85.5%, 85.1%, 82.1%, 78.3%, 77.9% from 2018-19 to 2022-23 (this is approximately one percentage point less than 2017 Autumn Budget forecasts for each year). These forecasts correspond to public sector net borrowing (deficit) forecasts of 2.2%, 1.8%, 1.6%, 1.3%, 1.1% and 0.9% of GDP for 2017-18 to 2022-23. Borrowing is lower in the near term than that planned in the Spring Budget but is higher in the medium term. [Table 1.2]

	Public Sector Net Borrowing		
	2017 Spring Budget	2017 Autumn Budget	2018 Spring Statement
2017-18	£58.3bn	£49.9bn	£45.2bn
2018-19	£40.8bn	£39.5bn	£37.1bn
2019-20	£21.4bn	£34.7bn	£33.9bn
2020-21	£20.6bn	£32.8bn	£28.7bn
2021-22	£16.8bn	£30.1bn	£26.0bn
2022-23		£25.6bn	£21.4bn

PUBLIC SPENDING

Summary - The OBR is forecasting local authority self-financed expenditure (LASFE) as the second largest source of upward revision to their public spending forecasts. However, figure 1 below demonstrates how spending has been cut since 2010 as a share of GDP.

Chart 4.8: Local authority total current spending in England

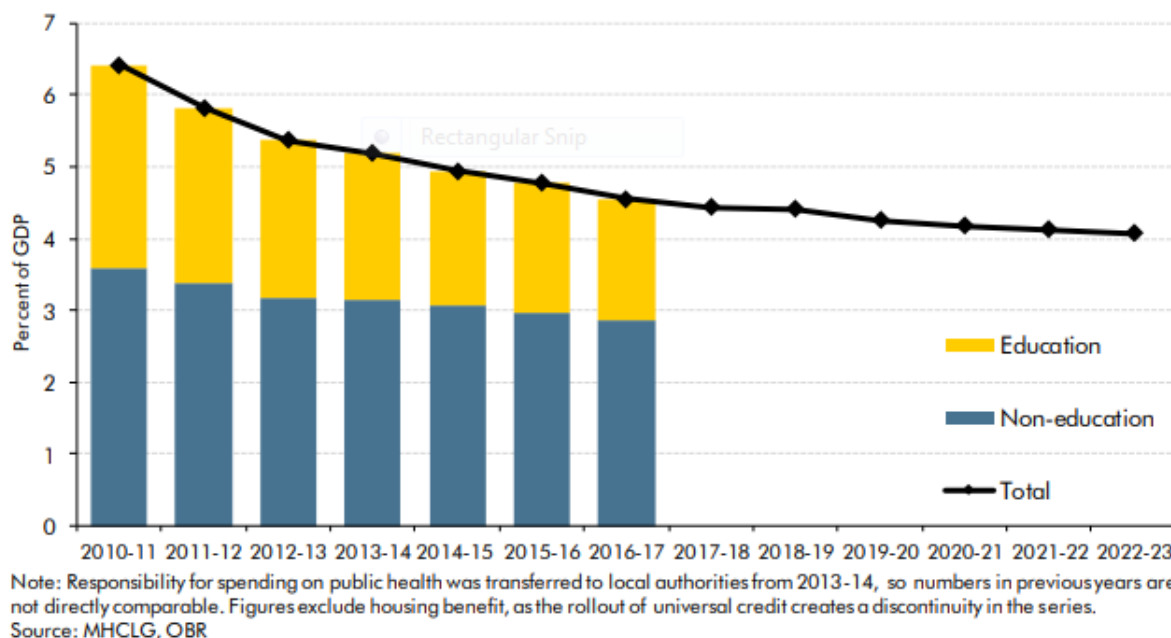


Figure 1 – LA Total current spending in England

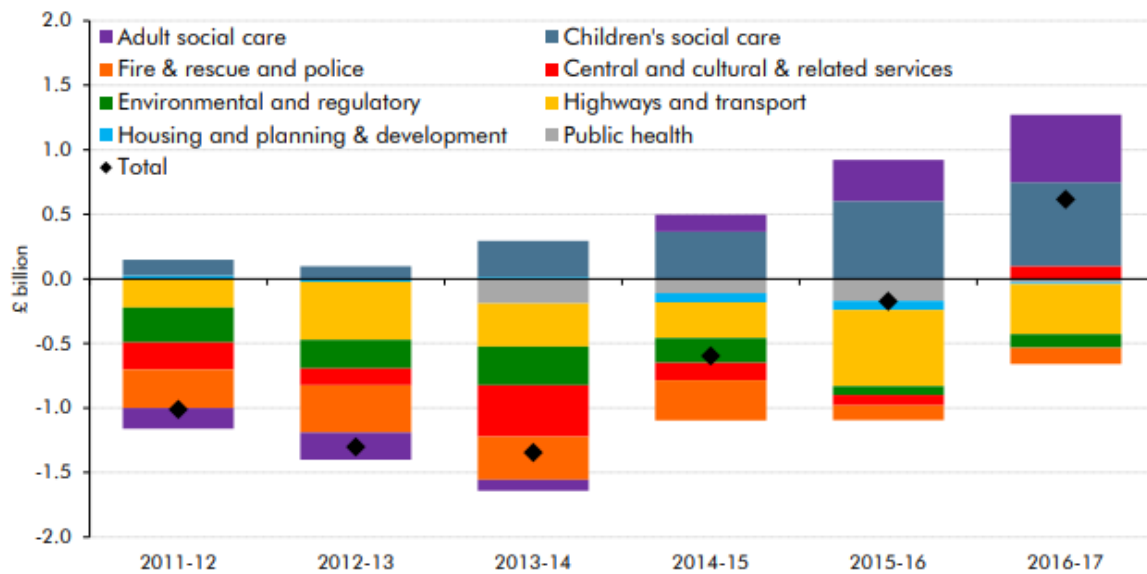
This upward revision to financing has come from a mixture of sources – the primary ones being council tax, retained business rates (mainly pilots) and the use of reserves [Table 4.29]. The current OBR forecasts do not reflect the 75% BRR in 2020-21 “as the precise policy parameters and timing of implementation are not yet sufficiently certain”. The OBR goes on to state that “it is not clear how local authorities’ behaviour has been affected by the many announcements in this area and the uncertainty over when and how these policy aims will be implemented” [4.129]

In November the OBR forecasted that in 2017-18, local authorities would overspend by £1.8bn and use £1.0bn of reserves. This predicted overspend has now fallen to £1.1bn but the use of reserves is predicted to be higher – at £1.5bn. [4.124]

The OBR is not forecasting reserves will no longer be spent past 2020-21; leaving £20.2bn in reserves - £3.8bn more than in 2010-11. This being said, the OBR is also careful to point out the great uncertainty around predicting the use of reserves. [4.126]

Alongside the [2017 Autumn Budget](#), the EFO included the graph given as Figure 2 below – not only did it highlight the growing pressures in Children’s and Adults Social Care but it also pointed out that drawdowns from reserves were far greater in authorities with social care responsibilities (see also Figure 3 below).

Chart 4.9: English local authority under- and over-spends against revenue budgets by service area



Note: Excludes spending on education and 'other' spending (which has not been allocated to one of the service areas listed). Housing services covers general fund revenue account (GFRA) spending only. Responsibility for spending on public health was transferred to local authorities from 2013-14, so numbers in previous years are not directly comparable.
Source: DCLG, OBR

Figure 2 – English LA under- and over-spends against revenue budgets by service area

Box 4.4 (given as Figure 3 below) in the November 2017 EFO said the following regarding the use of reserves; which was highlighted again in today's updated forecasts.

- The stock of reserves increased **between 2011-12 and 2014-15** for each of the three identified categories of local authority identified – with the only exception being the Greater London Authority (GLA) in 2014-15.
- **This trend was reversed in 2015-16**, when local authorities with upper-tier responsibilities, including education and social care, and the GLA both drew down from their reserves (by £0.2 and £0.5 billion respectively). Other authorities, without upper-tier responsibilities, added £0.2 billion to their stocks of reserves. In total, English local authorities drew down £0.4 billion in net terms from reserves in 2015-16.
- **In 2016-17**, upper-tier authorities drew down again, and by more than in 2015-16 (£1.4 billion). The GLA once again drew down from reserves (by £0.4 billion), while other authorities added further to their stock of reserves (by £0.2 billion).

Figure 3 – Excerpt from November 2017 EFO (published alongside the 2017 Autumn Budget)

The OBR highlighted and continue to highlight that LAs do presently have a “healthy stock of reserves that could cushion the squeeze on other sources of income (if temporary)”, before going on to highlight Northamptonshire’s s114 notice and the pressures that budgets are under. [4.129]

Spending Review – In his 2018 Spring Statement the Chancellor of the Exchequer, Phillip Hammond confirmed that the next Spending Review will take place in 2019. It is expected to take place in the spring/summer.

DEVOLUTION AND GROWTH

Devolution – As part of the National Productivity Investment Fund, Hammond made further reference to the housing infrastructure fund and transport funding. Much of this funding is targeted towards cities and combined authorities.

PAY AND PENSIONS

Public Sector Pay – In September 2017 the government announced its intention to move away from the 1% basic public sector pay award policy. A 2% Pay offer has been made for 2018-19. The Chancellor made no mention of Public Sector Pay in his speech. [6.27]

National Living Wage and National Minimum Wage – As announced at the 2017 Autumn Budget, the NLW will rise by 4.4% from £7.50 per hour to £7.83 from April 2018. The National Minimum Wage rates will be increased to £7.38 for 21-24 year olds, £5.90 for 18 to 20 year olds, £4.20 for 16-17 year olds and £3.70 for apprentices, an increase of 4.7%, 5.4%, 3.7% and 5.7% respectively.

COUNCIL TAX

Council Tax Forecasts – Forecasted council tax receipts, levels and taxbase are below. Forecasts are slightly higher than the corresponding 2017 Autumn Budget forecasts (which were higher again than corresponding 2017 Spring Budget forecasts). [Supplementary Expenditure Tables 2.15]

Year	Council Tax Receipts		Council Tax Level		Council Taxbase	
	Autumn 2017	Spring 2018	Autumn 2017	Spring 2018	Autumn 2017	Spring 2018
2017-18	£27.6bn	£27.6bn	4.0%	4.0%	1.8%	1.9%
2018-19	£29.1bn	£29.5bn	4.0%	5.2%	1.3%	1.5%
2019-20	£30.2bn	£31.1bn	2.4%	3.8%	1.3%	1.4%
2020-21	£31.1bn	£32.0bn	1.9%	1.9%	1.1%	1.2%
2021-22	£32.0bn	£33.0bn	1.9%	1.9%	1.0%	1.0%
2022-23	£32.9bn	£33.9bn	1.9%	1.9%	0.9%	0.9%

BUSINESS RATES

Revaluation – The Chancellor announced that the next business rates revaluation will be in 2021 and that subsequent revaluations would take place every three years. This will continue to be carried out by the Valuation Office Agency (VOA). The Government has also released a summary of [responses](#) to the 2016 discussion paper.

EDUCATION AND SKILLS

Apprenticeships – Philip Hammond has announced that an extra £80million will be released to regarding the recruitment of apprentices however this is being directed exclusively to small businesses.

ENVIRONMENT

Tackling the plastic problem Consultation - The Chancellor [announced](#) the opening of a call for evidence to explore how changes to the tax system or charges could be used to reduce the amount of single-use plastics wasted. This includes reducing unnecessary production, increasing reuse, and improving recycling. This consultation closes on 18 May 2018.

BREXIT

At the 2017 Autumn Budget the Chancellor of the Exchequer also announced funding worth £3bn for departments over the next 2 years. Today he [published](#) a breakdown of those figures by department for 2018-19 (worth £1.52bn) – the Home Office gets £395m whilst the Ministry of Housing, Communities and Local Government receives nothing.

Department	£m
Cabinet Office	49.4
Competition and Markets Authority	23.6
Department for Business, Energy and Industrial Strategy	185.1
Department for Digital, Culture, Media and Sport	26.2
Department for Environment, Food and Rural Affairs	310
Department for International Trade	74
Department for Transport	75.8
Department of Health and Social Care	21.1
Food Standards Agency	14
Foreign and Commonwealth Office	29.6
HM Revenue & Customs	260
HM Treasury	24.8
Home Office	395
Ministry of Defence	12.7
Ministry of Justice	17.3
Northern Ireland Office	0.4
Office for National Statistics	2
Scotland Office	0.3
The National Archives	1.2
Wales Office	0.3

REACTION

Labour – Shadow Chancellor John McDonnell responded to the Spring Statement saying that the Chancellor was being complacent and that “We face – in every public service – a crisis on a scale we’ve never seen before”.

ANNEX

For more information please see the document embedded below.



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