National Fiscal and Economic Context

A) Public Spending

Spending Review 2020 (SR2020) sets out the government's spending plans. The total public spending is referred to as Total Managed Expenditure (TME). This is broken down into departmental expenditure limits (DEL) and annually managed expenditure (AME). Fixed DEL budgets are set for each department. Spending that is considered difficult to control within fixed budgets due to its size or volatility is categorised as AME. Budgets are separated into capital, which generally equates to spending that scores within Public Spending Gross Investment (PSGI) in the national accounts, and resource, generally within Public Sector Current Expenditure (PSCE). Table 1 provides a high-level summary of spending plans from SR2020. TME accounts for 39.8% of the country's total output (measured as Gross Domestic Product, (GDP)) in 2019-20, 56.3% forecast for 2020-21 and 45.6% forecast for 2022-23. Further statistical tables from SR2020 are reproduced at the end of this appendix.

Table 1

	£ billion						
	Outturn	Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Public sector current expenditure (PSCE)							
PCSE in AME	409.1	494.0	422.9	435.6	450.0	463.4	481.0
PSCE in RDEL	345.2	506.1	439.6	397.0	412.8	430.5	449.1
of which:							
Core RDEL	343.0	369.9	384.6	397.0	412.8	430.5	449.1
Covid-19 related	2.2	141.1	55.0				
Ring-fenced Depreciation	35.6	28.8	30.3	31.3	32.5	33.9	35.4
Total PCSE	**790.0**	**1,028.9**	**892.8**	**863.8**	**895.3**	**927.8**	**965.4**
Public sector gross investment (PSGI)							
PSGI in AME	23.3	29.4	18.3	19.4	22.9	23.3	23.3
PSGI in CDEL	70.4	106.3	100.4	107.3	109.1	112.8	117.4
of which:							
Core CDEL	70.4	97.2	98.8	107.3	109.1	112.8	117.4
Covid-19 related		9.1	0.6				
Total PSGI	**93.7**	**135.7**	**118.7**	**126.7**	**132.0**	**136.1**	**140.7**
Total Managed Expenditure	**883.7**	**1,164.6**	**1,011.5**	**990.5**	**1,027.4**	**1,064.0**	**1,106.1**

The element of local government expenditure funded by central government grants is included in Resource DEL (RDEL)/Capital DEL (CDEL). The element funded from local taxation is included in AME. Table 2 is an extract from the SR2020 publication showing the amounts included in Ministry of Housing, Communities and local Government (MHCLG) DEL for local government, and the government's estimate of the overall core spending power (CSP) for local government as a whole taking account of the departmental element and the assumed tax receipts included in AME. The increased RDEL for 2021-22 includes the inflationary uplift in Revenue Support Grant (RSG) and an additional £300m social care support grant (in addition to the social care support grants included in the current year settlement)

Table 2 – in £ billions

	2019-20	2020-21	2021-22
Resource DEL excluding depreciation[1]	7.5	8.6	9.1
Covid-19 resource DEL excluding depreciation	1.6	3.52	3.0
Total DEL3	9.1	12.1	12.0
Core Spending Power (CSP)	**46.2**	**49.0**	**51.2**

1 Local government DEL figures provide a consistent series for core local government grant, adjusting for technical budget switches and movements in grant between years. They reverse the switch from DEL to AME for Business Rates Retention Pilots, of £1.4 billion in 2019-20, £0.8 billion in 2020-21 and £0.6 billion in 2021-22. They remove the £0.9 billion New Homes Bonus switch from LG DEL to MHCLG Communities DEL in 2020-21 and the early payment of £1.5 billion business rates reliefs compensation, moved from 2020-21 to 2019-20.
2 Covid-19 Resource DEL does not include compensation for the additional Covid-19 business rates reliefs, which totals £11.0 billion in 2020-21.
3 Total DEL figures represent the sum of rows above, including adjustments to provide a more consistent time series. They therefore differ from the LG DEL control totals in the DEL table in the statistical annex

The £3bn Covid-19 resource is to provide local authorities with additional funding in 2021-22 to support the response to the pandemic including:

- £1.55bn of additional grant funding to help local authorities to meet additional spending pressures as a result of Covid-19 in 2021-22
- £0.67bn of additional grant funding to help local authorities manage the cost of households least able to afford council tax payments
- An estimated £0.762bn to compensate local authorities for 75% of irrecoverable loss of council tax and business rates revenue in 2020-21 that would otherwise need to be funded through local authority budgets in 2021-22 and later years
- Extending the existing Covid-19 sales, fees and charges reimbursement scheme for a further 3 months until June 2021.

Further details of the allocations of the core grants and Covid-19 are included in the section on the provisional local government finance settlement in the main report. This settlement does not include specific grants from other government departments RDEL such as Department for Health and Social Care, Department for Education, Department for Transport, Home Office, etc. Notifications of the grants from these departments are received separately.

B) Borrowing and Debt

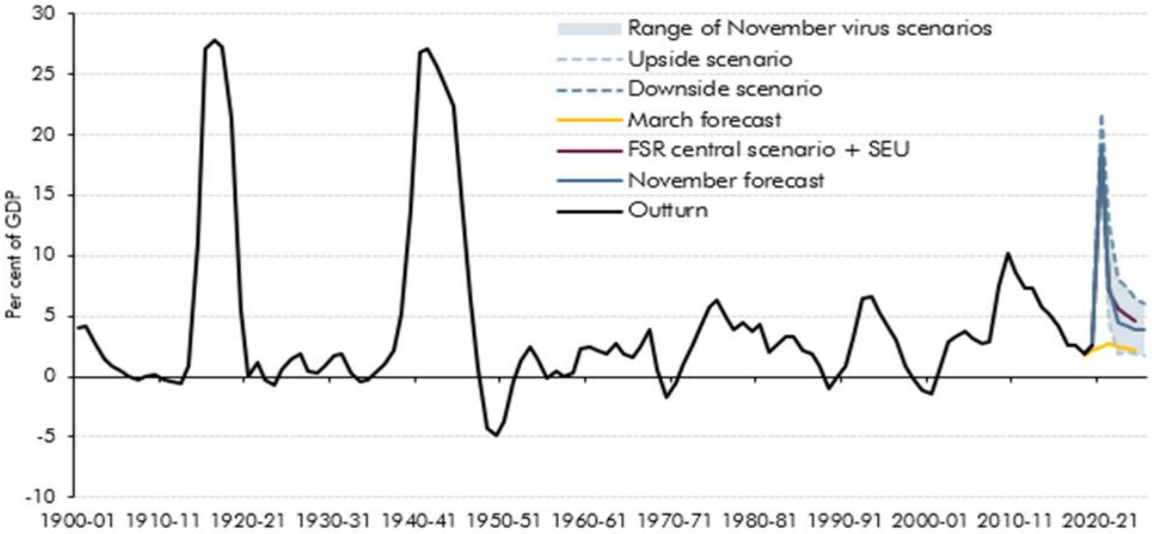
The Covid-19 pandemic has presented an extraordinary and unexpected challenge to the UK economy and economies across the world. The combination of additional public spending both on dealing with the pandemic and the economic fallout from the subsequent recession, and reduced tax yields, has resulted in an unprecedented peacetime budget deficit. Table 3 shows the central Office for Budget Responsibility (OBR) fiscal forecasts for public sector spending, receipts, net borrowing, and total debt. In the central scenario spending in 2020-21 is forecast to be £281bn higher than the previous year and receipts £57bn lower, resulting in an annual deficit of £394bn. It should be noted that the economic outlook remains highly uncertain and the OBR have produced a number of alternative scenarios reflecting different assumptions on the path of the virus and its impact on the economy (with a range for the annual deficit of £353bn to £440bn under the various scenarios for the pace of economic recovery).

Table 3

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
OBR Fiscal Forecasts	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Total Public Spending	883.7	1,164.6	1,011.5	990.5	1,027.4	1,064.0	1,106.1
(as % of GDP)	39.8%	56.3%	45.6%	42.1%	42.1%	42.0%	41.9%
Total Public Receipts	827.6	771.0	847.3	885.9	927.0	964.4	1,004.3
(as % of GDP)	37.3%	37.3%	38.2%	37.7%	38.0%	38.0%	38.1%
Net Borrowing	56.1	393.5	164.2	104.6	100.4	99.6	101.8
(as % of GDP)	2.5%	19.0%	7.4%	4.4%	4.1%	3.9%	3.9%
Total Accumalted Debt	1,800.5	2,273.9	2,478.4	2,602.2	2,720.9	2,714.1	2,816.6
(as % of GDP)	85.5%	105.2%	108.0%	108.6%	109.4%	105.0%	104.7%

Under the OBR forecasts government borrowing is at its highest level since 1944-45, and total accumulated debt at 105% of GDP at its highest level since 1959-60. Chart 1 is an extract from the OBR report showing current borrowing forecasts in an historical context.

Chart 1



Source: ONS, OBR

In the OBR central forecast borrowing reduces to around £102bn (3.9% of GDP) by 2025-26, but even on the loosest conventional definition of balancing the books, a fiscal adjustment of £27 bn (1% of GDP) would be required to match day-to-day spending to receipts by the end of the five-year forecast period.

C) Economic Forecasts

The OBR central forecast is that the size of the UK economy, as measured by Gross Domestic Product (GDP), will reduce by 11.3% in the current year (11.8% per capita). This is the largest annual reduction in over 300 years. Under the various scenarios, the upside GDP shrinks by 10.6% in the current year, and the downside by 12%.

In the OBR's upside scenario, consistent with a vaccine becoming widely available in the spring of 2021, activity rebounds quickly and GDP recovers to pre-virus levels by the end of 2021, and there is no enduring economic scarring. However, under the downside scenario, where subsequent waves of infection require periodic re-imposition of health restrictions, output does not recover to its pre-virus levels until the third quarter of 2024 with persistently higher levels of unemployment and enduring economic scarring.

Table 4 is an extract from the OBR report which summarises the scenarios and economic impact, which was produced before the introduction of the new tier 4 and latest national lockdown restrictions.

Table 4

	Virus scenarios		
	Upside	Central	Downside
Public health assumptions			
Lockdown ends	2 December	2 December	2 December
Test, trace and isolate	Effective	Partly effective	Ineffective
Public health restrictions: lockdown to vaccine[1]	Medium-low	High-medium	Very high2
Vaccines widely available	From Spring 2021	From mid-2021	Ineffective
Economic effects (per cent, unless otherwise stated)			
Real GDP growth in 2020	-10.6	-11.3	-12.0
Return to pre-virus peak (2019Q4)	2021Q4	2022Q4	2024Q4
Peak unemployment rate	5.1	7.5	11.0
Long-term GDP scarring	0.0	3.0	6.0
Fiscal effects (per cent)			
Public sector net borrowing in 2020-21	16.7	19.0	21.7
Public sector net borrowing in 2025-26	1.7	3.9	6.1
Public sector net debt in 2025-26	90.5	104.7	123.1
Budget 2020 fiscal targets			
Current budget balance in 2023-24	Met	Not Met	Not Met
Net investment below 3 per cent of GDP	Met	Met	Not Met
Debt interest to revenue ratio below 6 per cent	Met	Met	Met

[1] Low, medium and high are broadly equivalent to October 2020 tiers 1, 2 and 3 in England. Very high is between October 2020 tier 3 and November 2020 lockdown in England.
[2] Restrictions to ease to low by end of 2021.

All the OBR scenarios assume a smooth transition to a free-trade agreement with the EU in the new year. However, they also described an alternative scenario in which the Brexit negotiations ended without a deal. This would have further reduced output by 2% initially, and by 1½% at the end of the forecast period.

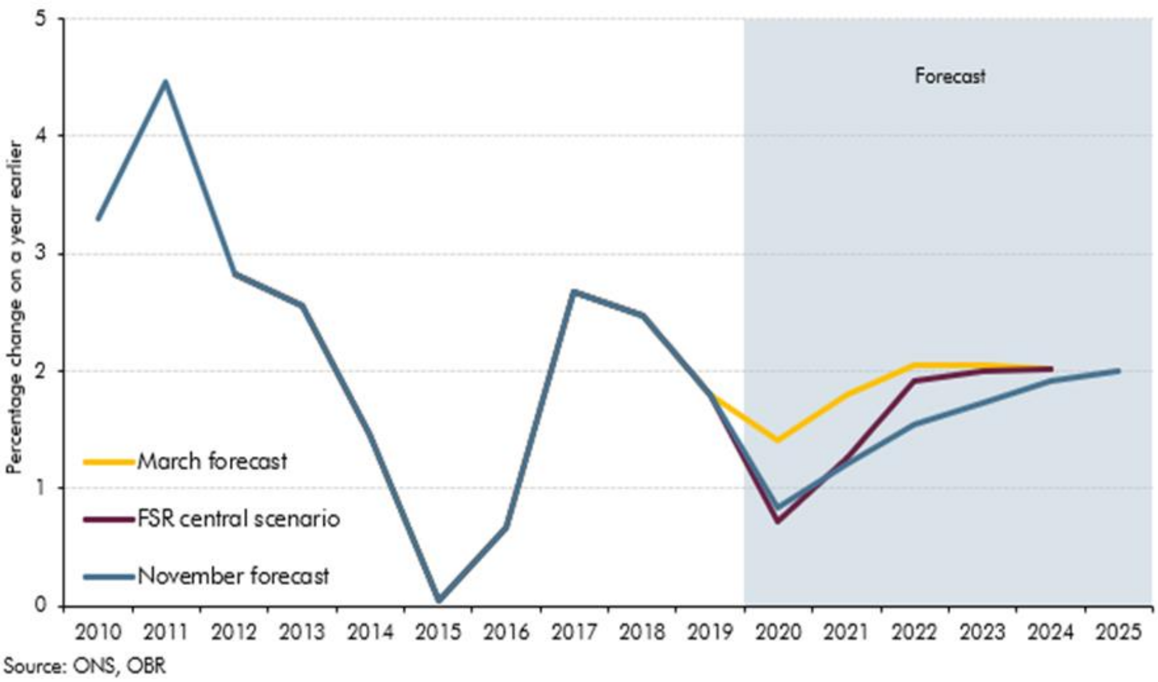
The OBR central forecast for unemployment is for it to peak at 7.5% in quarter 2 of 2021 (up from 4% in quarter 1 of 2020), with a subsequent recovery to 4.4% by quarter 4 of 2024. Under the upside scenario unemployment would peak at 5.1% in quarter 2 of 2021, with a more rapid and full recovery to 3.9% by quarter 1 of 2022. Under the downside the peak would be higher and later at 11% in quarter 1 of 2022, recovery would be slower and more damaging with unemployment at 5.2% at quarter 1 of 2025. The changes in forecast unemployment levels are shown in table 5. Unemployment will have a greater impact on the Council than previous recessions following the localisation of council tax support for low income households.

Table 5

	Central Forecast		Upside Scenario		Downside Scenario	
Unemployment Forecasts	Rate	Quarter	Rate	Quarter	Rate	Quarter
Prior to Pandemic	4.0%	2020Q1	4.0%	2020Q1	4.0%	2020Q1
Peak Rate	7.5%	2021Q2	5.1%	2021Q2	11.0%	2022Q1
Recovery to	4.4%	2024Q4	3.9%	2022Q1	5.2%	2025Q1

3.14 Forecasts for Consumer Price Index (CPI) inflation fall under all three scenarios from 1.8% last year to 0.8% in 2020, due in part to lower indirect taxes and energy prices, as well as increased slack in the economy. Inflation remains subdued over the next three years, primarily due to relatively weak average earnings growth, returning to the 2% target by the end of 2024. Chart 2 shows the OBR forecasts for CPI.

Chart 2



Average earnings are forecast to continue to rise this year in the upside and central scenarios, despite the pandemic. In the medium term, earnings growth picks up steadily as labour market slack declines, reaching 3.5% by 2025. Chart 3 shows the OBR forecasts for earnings growth.

Chart 3

Source: ONS, OBR