

Economic & Fiscal Context

Introduction

The national fiscal and economic context is an important consideration for the Council in setting the budget. This context not only determines the amount received through central government grants, but it also sets out how local government spending fits in within the totality of public spending and the wider economy. The Autumn Budget and Local Government Finance Settlement LGFS set the government's expectations of how much local authorities can raise through local taxation as well as departmental spending from which central government grants to local government are funded. The Office for Budget Responsibility (OBR) produces an Economic and Fiscal Outlook (EFO) report to provide the Chancellor of the Exchequer with an independent and up to date fiscal and economic forecast including impact of government policy decisions. This section of the report highlights the key elements of the Autumn Budget with separate sections covering economic outlook (growth, inflation, bank rate) and fiscal outlook for public sector spending, tax revenues and borrowing.

Autumn Budget 2024

The Chancellor of the Exchequer published the Autumn Budget 2024 (AB24) on 30th October. AB24 set out the government's public spending plans, taxation, and borrowing. The announcement included revised fiscal rules with a stability rule for spending on day to day services to be brought into balance by 2029-30¹, and new investment rule to reduce net debt as proportion of overall economy also by 2029-30 whilst accommodating some additional investment in short term. As acknowledged by OBR the AB24 represents a large and sustained increase in spending by an average of approx. £70bn per year (a little over 2% of GDP) over the period 2025-26 to 2029-30 compared to previous plans. Of this approximately 2/3 will go on current day to day spending and 1/3 capital spending. As a result public spending will settle at around 44% of GDP by 2029-30, almost 5% higher than before the pandemic.

Around half of the increased spending in the period 2025-26 to 2029-30 is funded through changes in taxation, mainly falling on employers, assets and through greater tax compliance. The tax changes are forecast to raise an average of £36bn a year over the five-year period with the amounts forecast to be raised increasing year on year. By 2029-30 tax revenue would equate to an historic high of 38% of GDP. The remainder of the increased spending is funded from borrowing which the OBR has commented as one of the largest fiscal loosening of any fiscal event in recent decades. The spending and taxation policy decisions are set out in table 5.1 of the AB24 report (and summarised in table 1 below).

Table 1 Policy Decisions	2024-25 Plans	2025-26 Plans	2026-27 Plans	2027-28 Plans	2028-29 Plans	2029-30 Plans
	£m	£m	£m	£m	£m	£m
Spending	25,865	63,550	70,115	75,645	78,500	74,160
Tax Raising	1,160	24,005	34,785	39,065	39,725	41,170
Net Balance - borrowing	24,705	39,550	35,330	36,585	38,775	32,990

¹ Balance being defined as in surplus or a deficit of no more than 0.5% of GDP

Appendix L

The 2025-26 spending plans for local government included £1.3bn (5%) increase in the settlement from central government which together with council tax and retained business rates provides an overall 3.2% real terms increase in spending power. £600m of the £1.3bn is for social care. Since AB24 there has been policy statement published at the end of November and provisional local government finance settlement. The £1.3bn increase in government funding to local authorities has increased to £1.625bn in the provisional settlement

AB24 included a 6.7% increase in the National Living wage for those aged over 21 (16.3% for those aged 18-20 on National Minimum wage). It also increased Employer's National Insurance Contribution (NIC) rate from 13.8% to 15%, and lowered the threshold where contributions are payable from £9,100 to £5,000 pa. There was some additional relief through the Employment Allowance which previously allowed small employers with NIC costs of £100k up to £5k reduction on their overall NIC bill. The changes to the Employment Allowance will now allow a discount of £10.5k on all Employer NICs. Table 2 shows the changes in National Living/Minimum wages and employer's National Insurance contributions and since 2019-20.

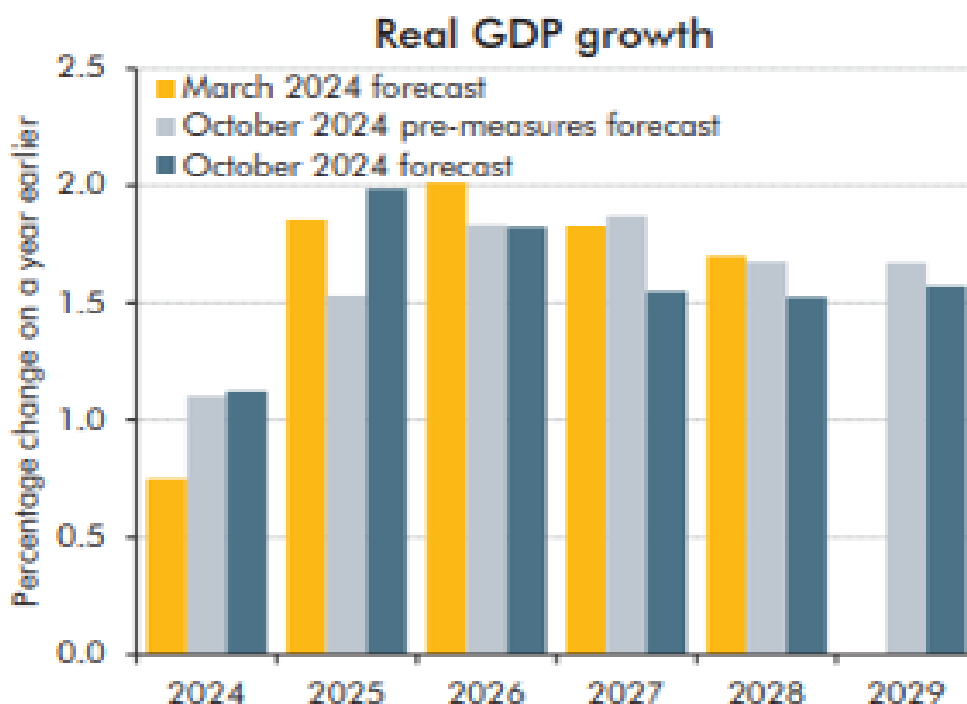
Table 2 Employer's National Insurance and National Living/Minimum Wage	2019-20	2021-21	2021-22	2022-23 Original from April	2022-23 Revised from November	2023-24	2024-25	2025-26
Employer's National Insurance								
Threshold	£8,632	£8,788	£8,840	£9,100	£9,100	£9,100	£9,100	£5,000
Rate	13.8%	13.8%	13.8%	15.05%	13.8%	13.8%	13.8%	15.0%
National Living/Minimum Wage								
Aged 25 and over	£8.21	£8.72	£8.91	£9.50	£9.50	£10.42	£11.44	£12.21
Aged 23 to 24	£7.70	£8.20	£8.91	£9.50	£9.50	£10.42	£11.44	£12.21
Aged 21 to 22	£7.70	£8.20	£8.36	£9.18	£9.18	£10.18	£11.44	£12.21
Aged 18 to 20	£6.15	£6.45	£6.56	£6.83	£6.83	£7.49	£8.60	£10.00
Under 18 (but above school age)	£4.35	£4.55	£4.62	£4.81	£4.81	£5.28	£6.40	£7.55

Economic Outlook - Growth

“Budget policies deliver a temporary boost to GDP in the near term and some crowing out of private equity in the medium term.”

The November 2024 OBR report focusses on the change in forecasts for real GDP over the period 2024-29, rather than as in previous reports the relative overall GDP over a longer period. The forecasts for 2024 both before and after the measures announced in AB204 are an improvement on previous March 2024 forecasts. There are some minor movements in subsequent years although OBR noted the impact of a temporary stimulus from the fiscal loosening within in AB24. This temporary stimulus fades over time to zero with GDP lower than forecasts before the AB24 measures higher in later years than the forecasts after the AB24 measures as excess demand is reigned in and policies affect supply within the economy. Chart 1 is an extract from the OBR report.

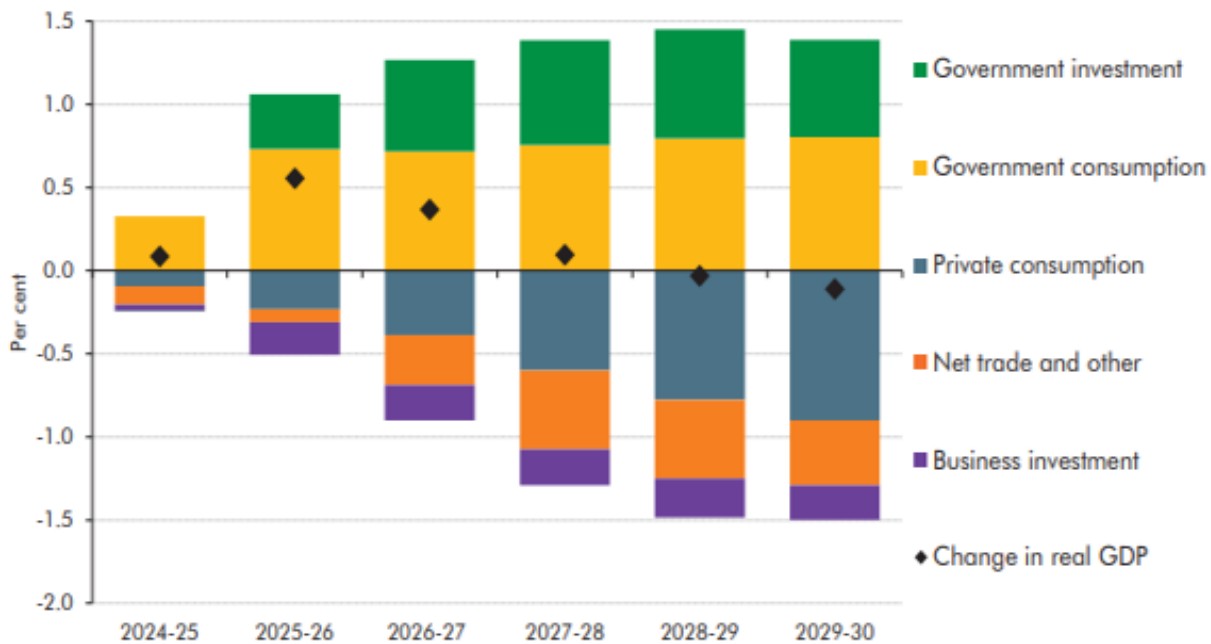
Chart 1 – Real GDP



Source: ONS, OBR

A separate chart shows how the effect of government stimulus compared lower private consumption, trade and business investment on the overall change in GDP growth forecast.

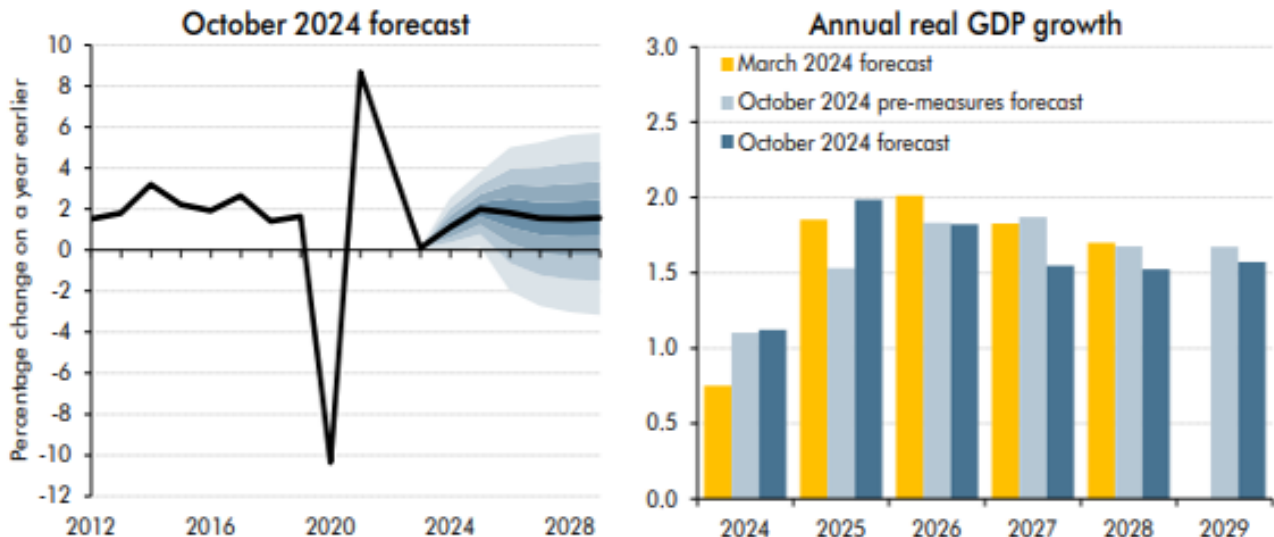
Chart 2 - Policy Impacts on Real GDP and its components



Source: OBR

A separate chart in the report shows the customary fan graph for GDP forecasts based on different scenarios and uncertainties. This shows a roughly one in five chance of negative GDP growth within the forecast horizon.

Chart 3 – GDP Growth Fan Chart



Note: Successive pairs of lighter-shaded areas around our forecast represent 20 per cent probability bands.

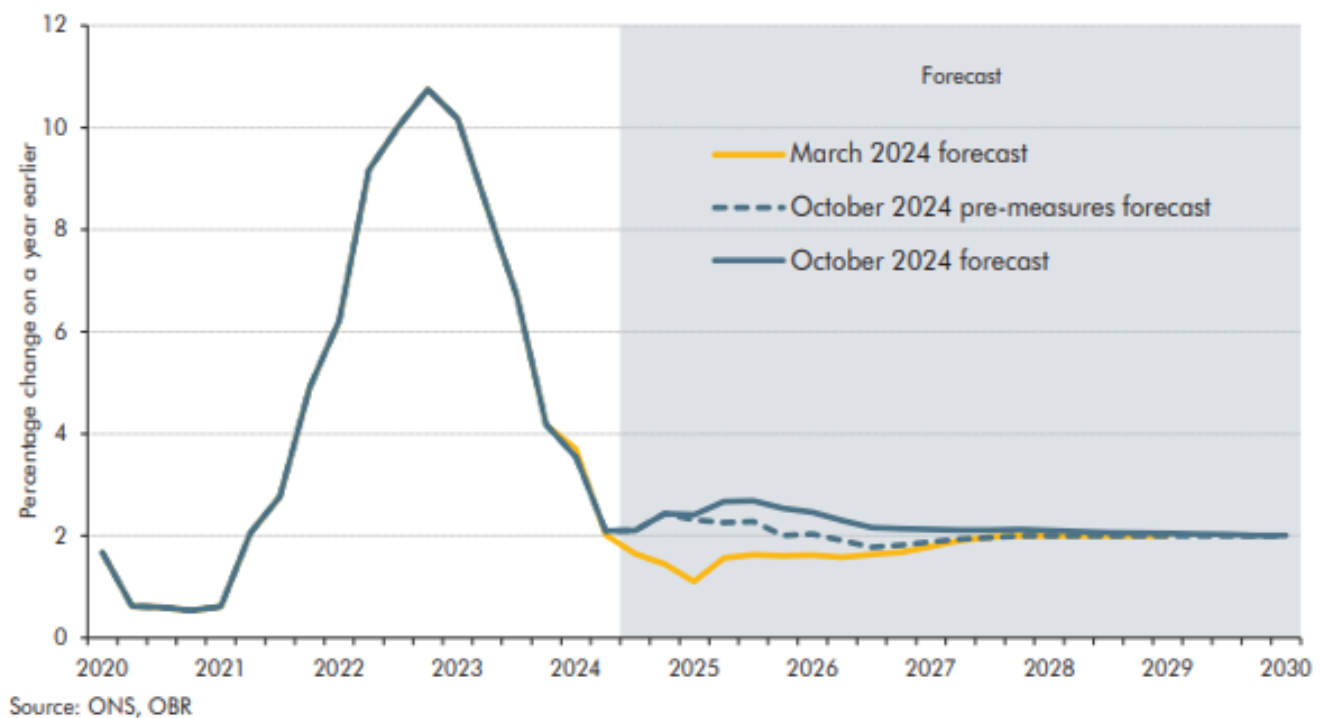
Source: ONS, OBR

Economic Outlook - Inflation

“Having fallen back to around the 2% target in mid 2024, we expect CPI inflation to pick up to 2.6% in 2025 partly due to direct and indirect impact of Budget measures.”

The OBR is forecasting that inflation will be 1.1% higher in 2025 and 0.6% higher in 2026 than previous forecasts in March 2024 and above the 2% target before falling back to this target in the latter half of the forecast. They say this is due greater than expected persistence in wage growth and impact in the near term of fiscal loosening in the budget.

Chart 4 – CPI Inflation



The OBR has identified the risks from the external environment given the continuing war in Ukraine and widening conflicts in the Middle East to the inflation forecast initially via its impact on energy prices. Gas prices are 16% higher than assumed in previous inflation forecast, oil prices were 7% higher than original forecast in first half of 2024 but are 3% lower in the forecast thereafter. The energy assumptions within the CPI forecast and potential volatility are shown in chart 5.

Chart 5 – Impact of Gas and Oil Prices

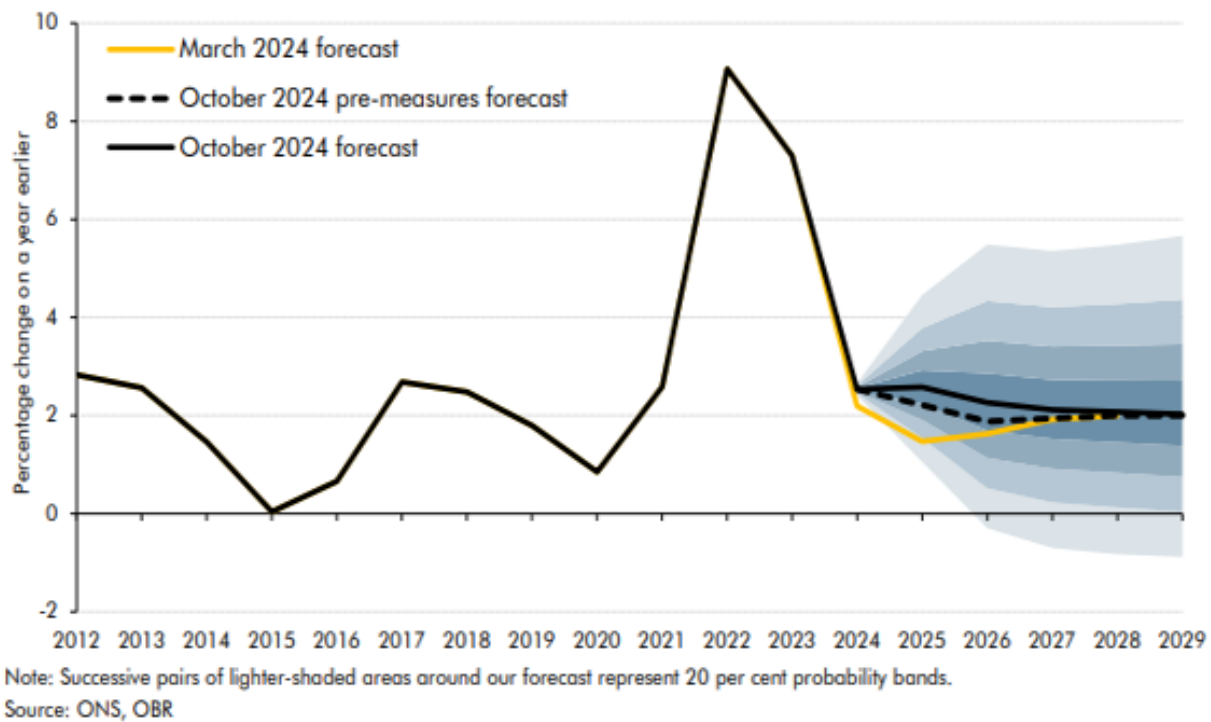


Note: March 2024 forecast is the average of 10 working days to 23 January. October 2024 forecast is the average of 10 working days to 12 September. Range is the minimum and maximum daily value between our March forecast and 23 October.

Source: Datastream, Eikon, Ofgem, OBR

The fan chart for CPI inflation shows a roughly one in five chance of CPI inflation being above 4.5% or below 1.1%.

Chart 6 – CPI Inflation Fan Chart



Economic Outlook – Interest Rates

“From its current level of 5%, Bank Rate is expected to fall to 3.5% in the final year of the forecast.”

Bank rates are forecast to be around 0.5% higher than March 2024 forecast in 2025 and 2026 and 0.3% to 0.4% over the forecast period. Chart 7 shows bank rate and five-year gilt yield forecasts from the OBR report.

Chart 7 – Bank Rate and five-year gilt yield



Note: March 2024 forecast is the average of 10 working days to 23 January. Pre-measures forecast is the average of 10 working days to 12 September. Range is the minimum and maximum daily value between our March forecast and 23 October.

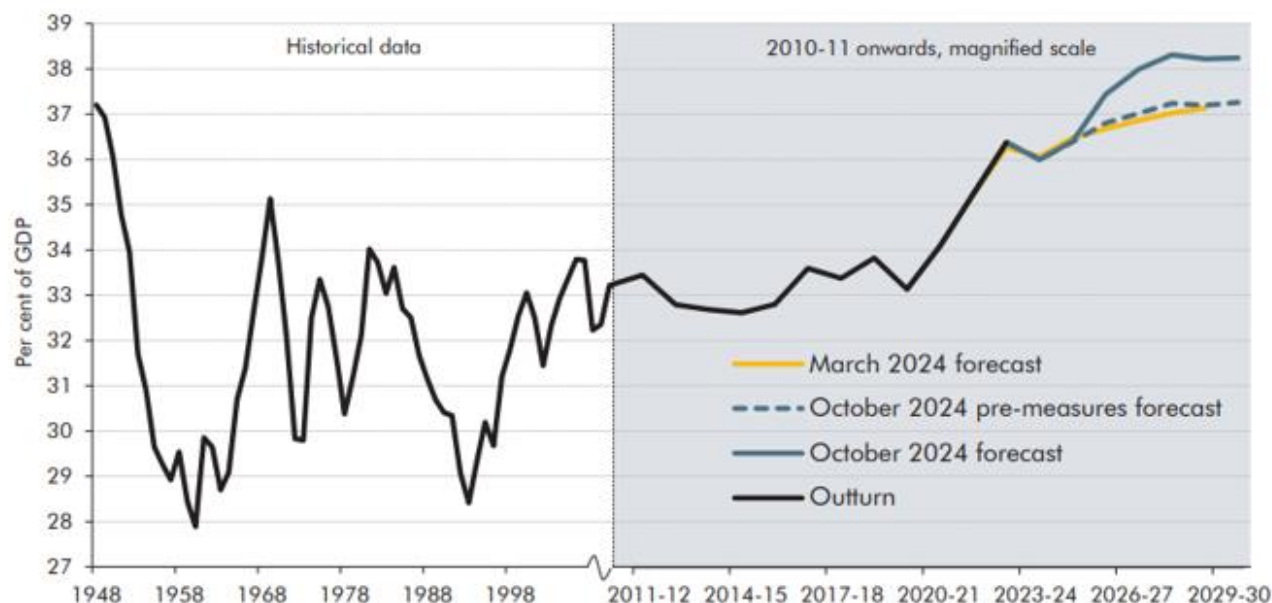
Source: Bank of England, OBR

Fiscal Outlook – Public Sector Receipts

“Tax as a share of GDP is forecast to rise from 36.4% of GDP this year to a historic high of 38.2% in 2029-30, 5.1% of GDP higher than before the pandemic.”

Total public sector receipts in 2023-24 were 40.5% of GDP, a 3.6% increase on the pre-pandemic level of 36.9% of GDP in 2019-20. Public sector receipts are forecast to continue rise faster than GDP reaching 42.4% by 2029-30. National Account taxes² (the “tax take”) equated to 36.0% of GDP in 2023-24 and are forecast to rise to 38.3% of GDP in 2027-28 before stabilising at 38.2% of GDP over the remainder of the forecast period. This would be an historic high and the peak is 5.2% above the pre-pandemic level of 33.1% of GDP.

Chart 8 – National Account Taxes as a share of GDP



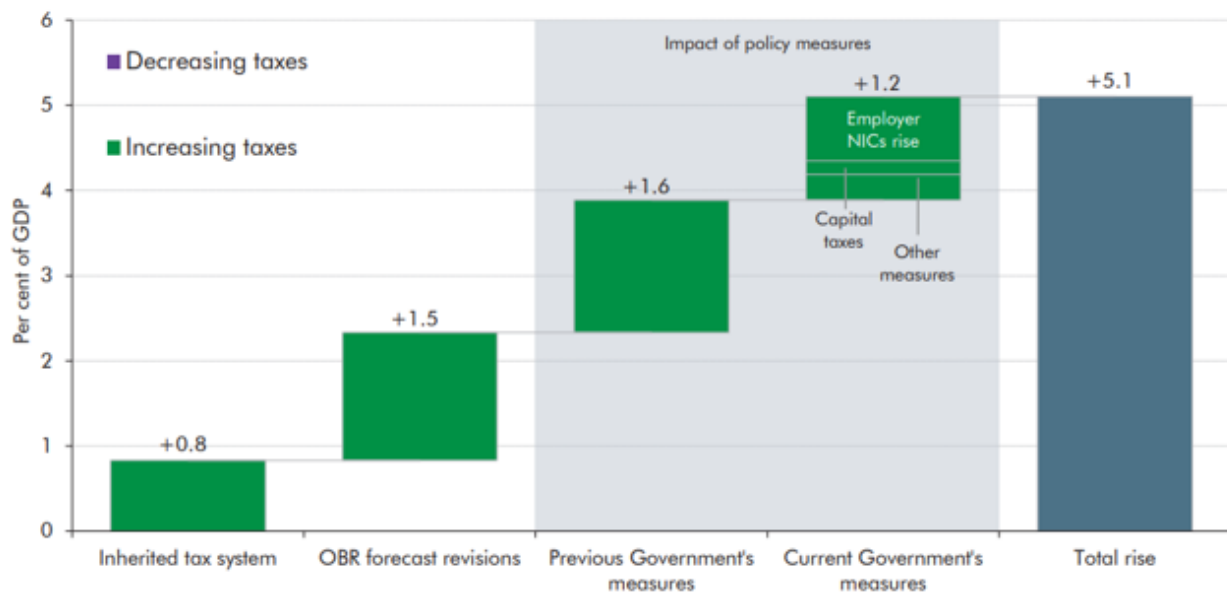
Note: Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre-measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts published on 30 September 2024. All else equal, applying the upward revision to 2023-24 nominal GDP of 1.1 per cent to all years of the forecast would reduce the National Accounts tax-to-GDP ratio by 0.4 per cent of GDP across the forecast. This would still leave the tax-to-GDP ratio at a record level.

Source: ONS, OBR

² National account taxes are a narrower measure of public sector current receipts and are more comparable over longer historical periods as they exclude public sector gross operating surplus, interest and dividend receipts and other non-tax receipts.

The OBR has analysed the contributory factors to the increase in National Account taxes from 33.1% in 2019-20 to forecast 38.2% in 2029-20., as shown in chart 9.

Chart 9 – The rise in the tax-to-GDP ratio from 2019-20 to 2029-30



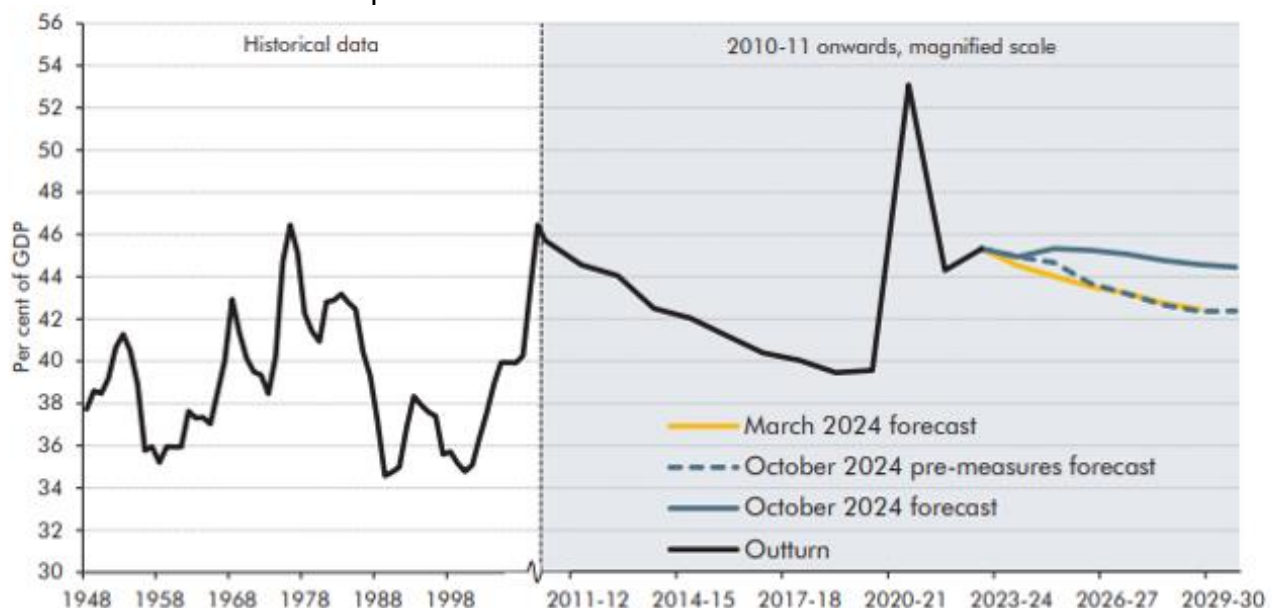
Source: ONS, OBR

Fiscal Outlook – Public Sector Expenditure

“Spending as a share of GDP is forecast to rise from 44.9% last year to 45.3% this year, falling back slightly to 44.5% in 2029-20, 4.9% higher than pre-pandemic.”

Total public spending has fallen from a peak of 53.1% of GDP in 2020-21 to 45.3% of GDP in 2022-23. Total public spending is forecast to remain static at 45.3% of GDP in 2023-24 and 2024-25 before reducing gradually each year thereafter to 44.5% of GDP by 2029-30. However, at this level it's still 4.9% higher than the year before the pandemic (2019-20).

Chart 10 – Public Sector Expenditure as share of GDP

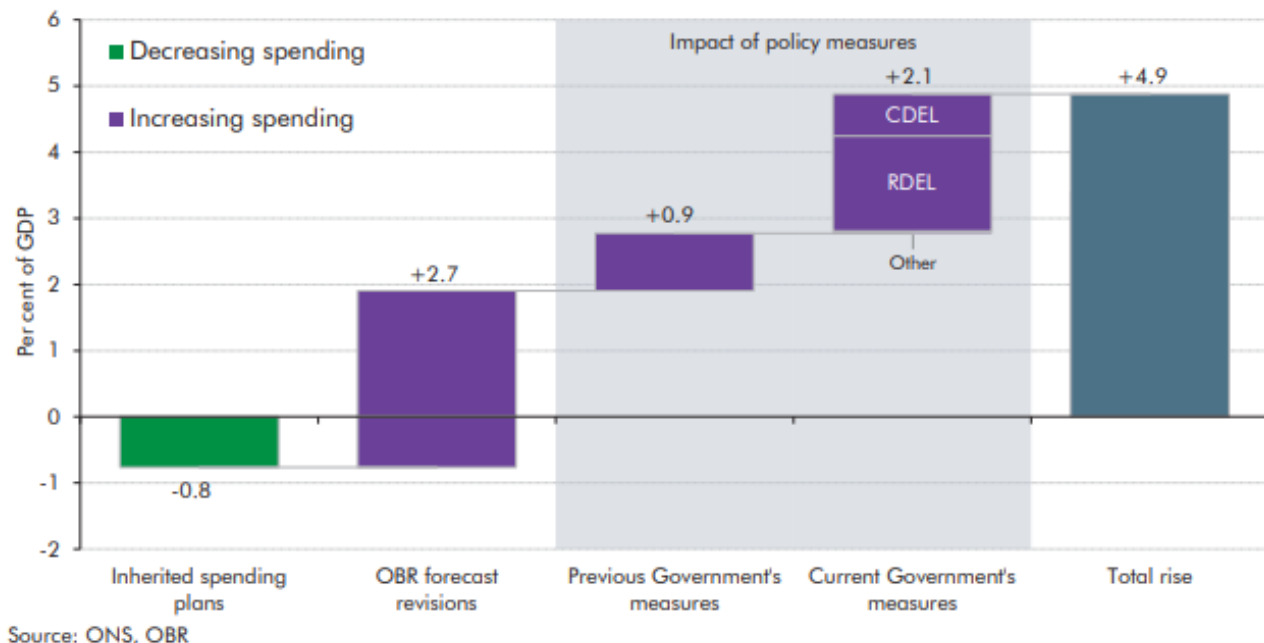


Note: Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre-measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts published on 30 September 2024. All else equal, applying the upward revision to 2023-24 nominal GDP of 1.1 per cent to all years of the forecast would reduce the National Accounts spending-to-GDP ratio by 0.5 per cent of GDP across the forecast.

Source: ONS, OBR

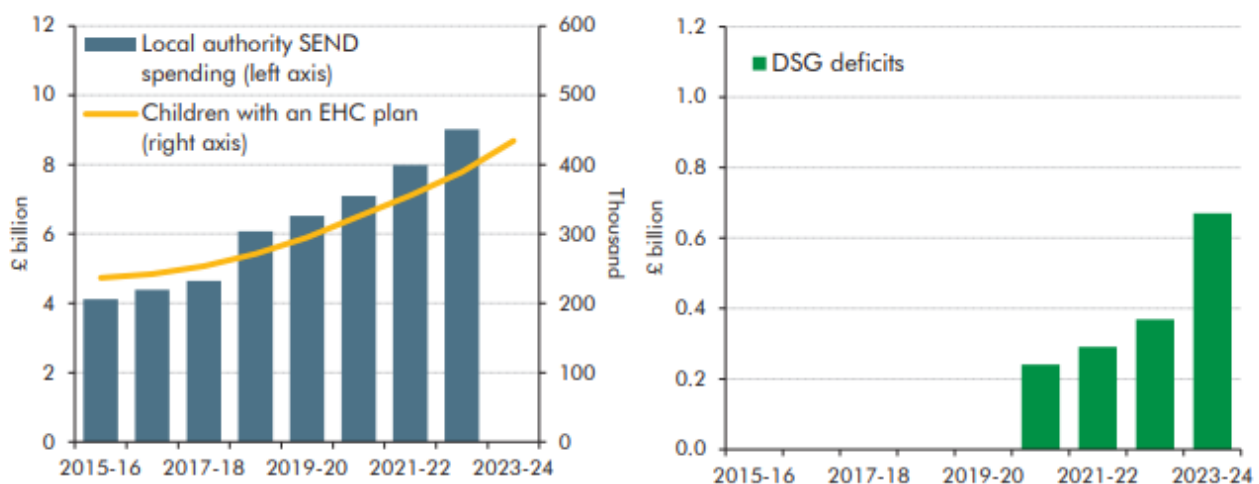
The OBR has analysed the contributory factors to the increase in public spending from 39.6% in 2019-20 to forecast 44.5% in 2029-30, as shown in chart 11.

Chart 11 – The rise in the spending-to-GDP ratio from 2019-20 to 2029-30



The OBR has identified the rise in spending on education for those with special educational needs and disabilities (SEND) from the grant from DfE and DSG deficits. DSG deficits were first separately recorded in 2020-21 and have grown to £0.7bn by 2023-24. Total spending on SEND has doubled from £4.6bn in 2017-18 to £9.0bn in 2022-23. The OBR has acknowledged that if the current statutory override ends in March 2026 and SEND spend continues to rise by more than the available funding that some local authorities “may be placed in financial distress or may be unable to set balanced budgets from 2026-27 onwards. In addition the cumulative DSG deficits would then need to be recognised on local authority balance sheets which would create additional financial pressures.” Chart 12 shows the rise in SEND spending and DSG deficits.

Chart 12 – Special educational needs-related child numbers, spending and deficits



Note: Data on SEND spending is not available for 2023-24. DSG deficits were not recorded prior to 2020-21.

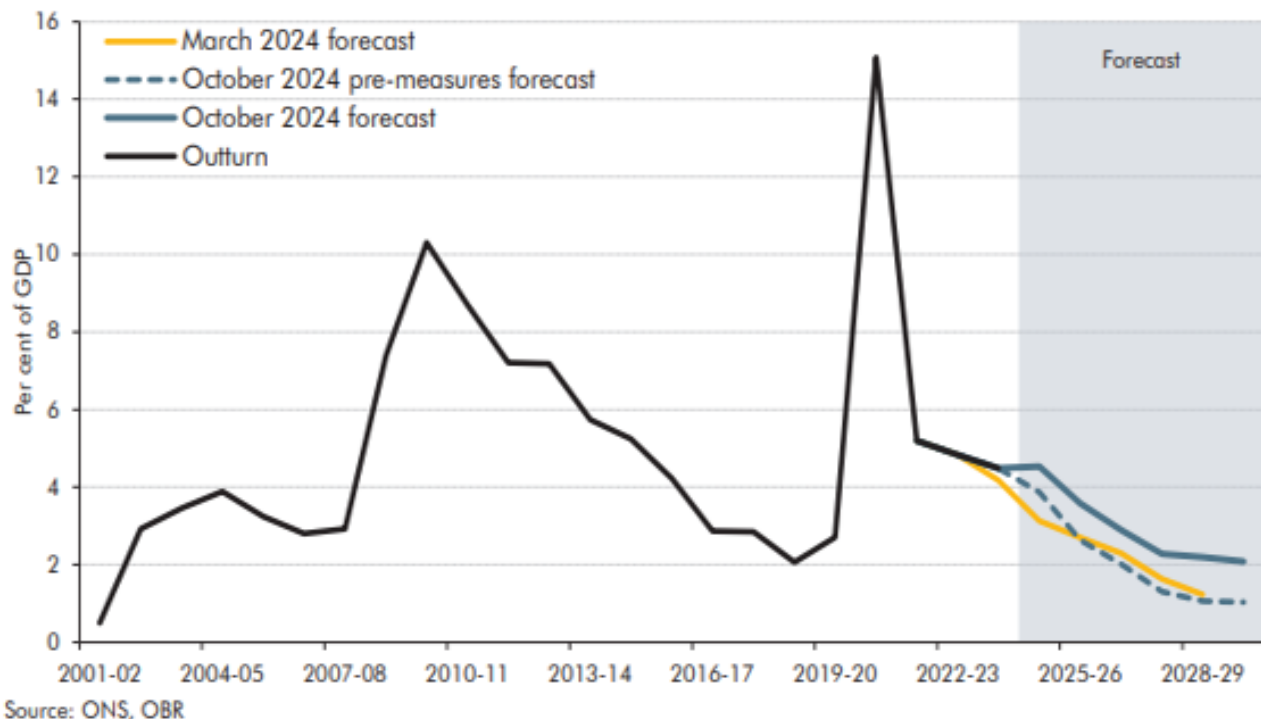
Source: DfE, OBR

Fiscal Context – Public Sector Borrowing and Total Debt

“Public sector net borrowing is forecast to rise from £121.9bn (4.5% of GDP) last year to £127.5bn (4.5% of GDP) in 2024-25 and then fall in each year to £70.6bn (2.1%) by 2029-30.”

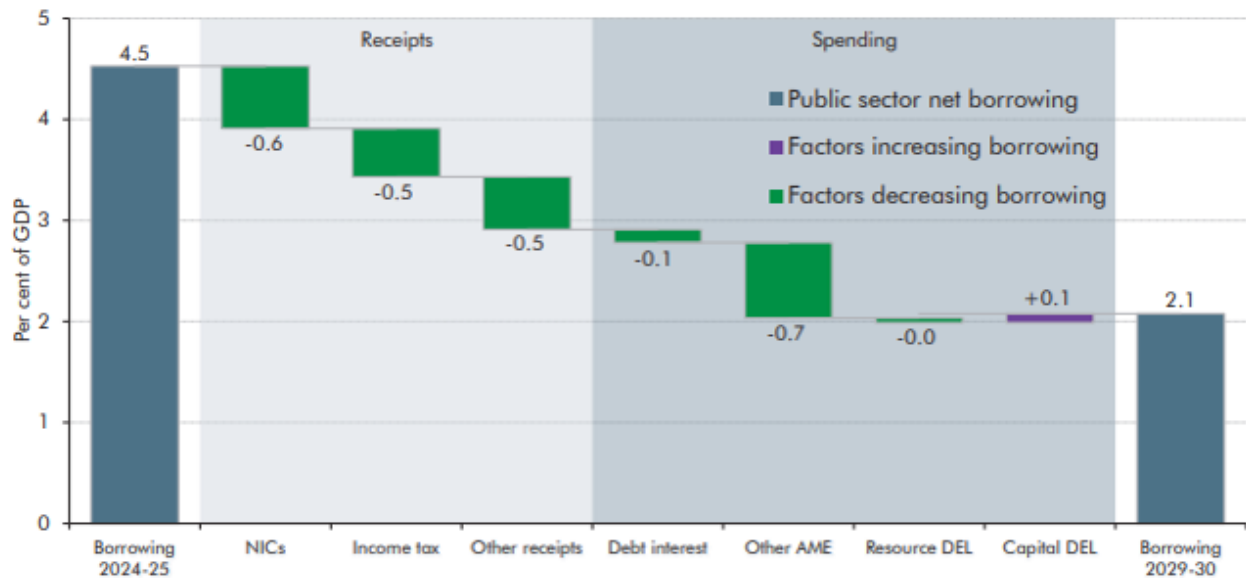
Public sector borrowing has fallen from a peacetime high of £314.3bn (15.1% of GDP) reached during the pandemic (2020-21) to £121.9bn (4.5% of GDP) in 2023-24. It is forecast to increase to £127.5bn (4.5% of GDP) in 2024-25 and then fall in each year to £70.6bn by 2029-30. Borrowing is forecast to be an average of £28.4bn (0.9% of GDP) higher per year than expected in the March 2024 forecast, primarily due to the effect of policy measures announced in the Budget.

Chart 13 – Public Sector Net Borrowing



Around 2/3 of the projected 2.5% of GDP reduction in borrowing is due to increased receipts over the forecast period (in particular NICs are forecast to increase by 0.6% of GDP and income tax 0.5% of GDP). The remainder of the reduction in borrowing is due to forecast lower spending as % of GDP.

Chart 14 – The fall in borrowing as a share of GDP for 2024-25 to 2029-30

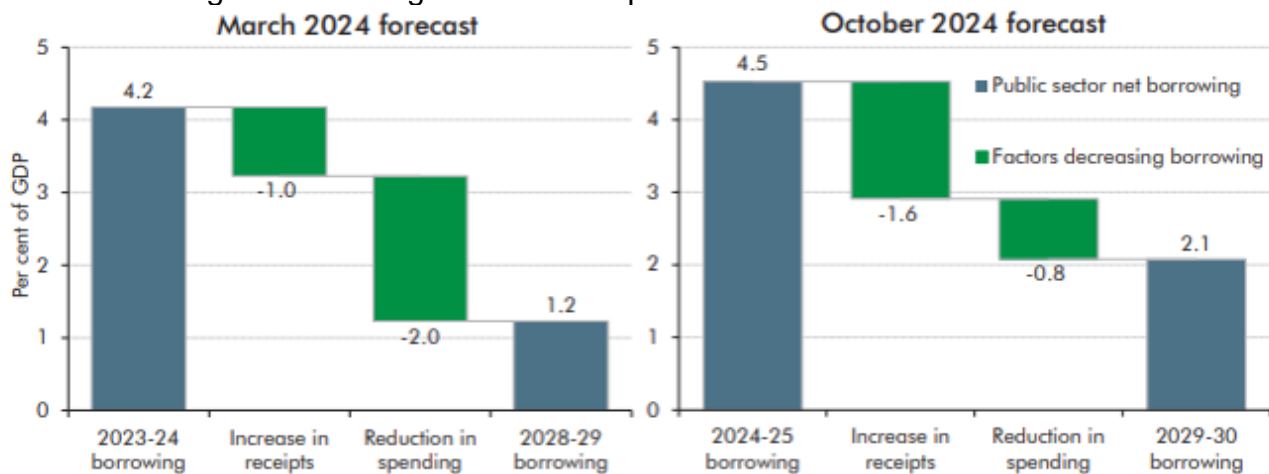


Note: This chart does not include the effects of changes in our underlying forecasts for most environmental levies, VAT refunds, or depreciation, as each change both receipts and spending by equal amounts and therefore do not change borrowing.

Source: OBR

The change in borrowing between the March 2024 forecast has a greater contribution from increased receipts and lesser contribution from spending reductions.

Chart 15 – Change in borrowing over forecast periods March to October



Note: This chart does not include the effects of changes in our underlying forecasts for most environmental levies, VAT refunds, or depreciation, as each change both receipts and spending by equal amounts and therefore do not change borrowing.

Source: OBR

Public sector net accumulated debt was 97.8% of GDP in 2023-24, an increase from 95.7% in 2022-23. Total debt is forecast to increase 98.4% of GDP in 2024-25 reducing to 97.1% by 2029-30. The fall is mainly driven by Term Funding Scheme repayments and borrowing is 3% of GDP higher in 2028-29 than projected in March 2024. The measure of debt excluding Bank of England rises every year as a share of GDP 88.9% in 2023-24 to 91.8% in 2024-25 reaching 95.8% in 2029-30. A wider measure of public sector net financial liabilities including all financial assets (but not physical assets such as schools, hospitals, etc.) is forecast to rise from 82.8% of GDP in 2023-24 to 83.5% of GDP in 2024-25 before then remaining largely stable over the remainder of the forecast period.

Chart 16 – Public Sector Balance Sheet Measures

