Briefing Note - Wednesday 18th March 2015

Initial analysis of the 2015 UK Budget

UK’s economic position: Office for Budget Responsibility (OBR) forecasts

Growth in GDP is now expected to have been 2.5% in 2015, then forecast to fall a little to 2.3% a year unto 2018.

Inflation (CPI) is forecast to bottom out at 0.2% in 2015, then to gradually rise back to its 2% target by 2019.

Average earnings are forecast to recover to 4% by 2018 and to be around 2% above inflation for each year up to 2018.

Interest rate (i.e., LIBOR 3-month interbank rate) is expected to slowly but steadily rise from 0.6% in 2015 to 1.9% in 2019-20.

UK’s fiscal position: OBR forecasts

On austerity, the UK coalition government has kept a similar profile to before, up to 2018-19. That means deep cuts in the two financial years following 2015-16 remain in place. In both those years day-to-day spending on public services is projected to fall by around 5% in real terms, well over double the average rate of decline seen over the period 2010-11 to 2015-16. However, the position in 2019-20 is now drastically different to before. Back in December, cuts in day-to-day spending on public services were projected to continue in 2019-20, whereas now there is expected to be a rise in such spending, of over 4% in real terms.

Nevertheless most of the upcoming cuts to public services continue to involve day-to-day spending rather than capital projects.

The UK capital budget will be higher, in real terms, in 2019-20 than it is now. However, this rise is very much back-ended, largely taking place in 2018-19 and 2019-20, and may be subject to revision by whatever party, or parties, form the next UK government.

The UK fiscal mandate target to balance the cyclically adjusted current budget or CACB, (which excludes spend on capital projects), by the end of the third year of rolling a 5 year forecast period, has a greater than 50% chance of being met. The OBR now forecast a small surplus of taxes over public spending for the UK in financial year 2017-18.

BN/2015/Budget
The **supplementary target** to see public sector debt falling (as a % of GDP) between 2015-16 and 2016-17, is also on course to be achieved.

As a result of the workings of the Barnett formula, the knock on impact of any UK Budget changes for the **Scottish budget** are minor, amounting to only around £30 million.

**Offshore tax structure and related tax revenues**

While future oil revenues no longer have the importance in the political debate post referendum as they did pre, they will no doubt continue to be monitored closely.

North Sea related revenues are projected, yet again, to be lower than previously expected. For 2015-16 the Office for Budget Responsibility now estimates £0.7 billion, as against £3.8 billion at the time of the 2014 Budget.

This fall is primarily driven by the rapid decline seen over the past 6 months, in the price of oil. This in turn is expected to have the knock on effect of lowering production, due to new projects appearing less profitable.

The Chancellor attempted to improve the long term prospects of the oil industry by, again, cutting its tax rate and raising tax allowances. This is unlikely to be the end of such measures to improve the longevity of North Sea operations. For example, further incentives to maintain the integrity of the existing infrastructure may well still be needed.

The short term net impact of these policy changes has been to reduce the tax take from the North Sea.

ENDS
Contact details

John McLaren  m: 07429 508 596  
e: john.mclaren@btinternet.com

Jo Armstrong  m: 07740 440 766  
e: jo@jo-armstrong.co.uk

Charity details

Fiscal Affairs Scotland SCIO  
SC044827

Website  fiscalaffairsscotland.co.uk