1 Autumn Statement

Protecting the economy

1.1 The UK economy is recovering from the biggest financial crisis in generations. Prior to the crisis, underlying competitiveness fell and economic growth was driven by unsustainable levels of debt, with the UK seeing the greatest expansion in debt of all the world's major economies over the last decade.[1] As a result, the UK experienced the deepest recession of any major economy except Japan and the Government inherited a budget deficit forecast to be the largest in the G20.[2] The June Budget 2010 set out the Government's strategy to address this legacy.

1.2 That emergency Budget succeeded in restoring stability and has secured low market interest rates. Since then, the economy has been hit by a series of further shocks. A sharp increase in global commodity prices has pushed up inflation. The Office for Budget Responsibility (OBR) estimate that *"the main reason that GDP has grown less quickly over the past 18 months than the interim OBR expected in its June 2010 forecast is higher-than-expected inflation squeezing household incomes and consumption."*[3]

1.3 The intensifying euro area debt crisis, driven by excessive levels of debt, now represents the most dangerous threat to the world economy since Lehman Brothers collapsed in autumn 2008. Even if this crisis is resolved quickly, the financial instability and uncertainty it has caused has been a blow to confidence and is damaging the UK economy.

1.4 It has been clear that the financial crisis of 2008 and 2009 reduced the UK's growth potential relative to the unsustainable pre-crisis trend, but the extent of that loss is uncertain. Most significantly for medium-term growth prospects, the OBR has now substantially revised down its assessment of the level of potential output. That is consistent with evidence from previous financial crises, which have shown large output losses typically persist for many years.

1.5 As a result of these three factors — the inflation shock, the impact of the euro area debt crisis on confidence, and the ongoing structural impact of the financial crisis — the OBR's November 2011 *Economic and fiscal outlook* shows that:

- economic growth has been revised down to 0.9 per cent for 2011 and 0.7 per cent in 2012, with a slower recovery thereafter;
- the trend level of economic output has been revised down by about 3½ per cent by the end of the forecast period. Comparing the OBR's trend output projection with an extension of the Budget 2008 projection, trend output will be around 13 per cent below the pre-crisis assumption by the end of the forecast;
- public sector net borrowing and the structural deficit have been revised up in every year of the forecast as a consequence of the weaker economy; and
- public sector net debt as a proportion of GDP is forecast to peak at 78.0 per cent in 2014–15, 7.5 percentage points higher than forecast at Budget 2011.

[1] *The real effects of debt,* Bank for International Settlements, working paper No. 352, September 2011.
[2] *Fiscal Monitor*, IMF, May 2010.
[3] *Economic and fiscal outlook*, OBR, November 2011.

1.6 If left unaddressed, high levels of public borrowing and debt risk undermining growth and economic stability in the UK. They would also undermine fairness, as future generations bear the burden of this greater debt.

1.7 The intensifying international sovereign debt crisis has demonstrated the economic risks of high deficits and rapidly rising debt. Many countries have been forced to make faster and deeper cuts to their public expenditure than previously planned to maintain market confidence and restore stability.

1.8 In comparison, as a result of the clear and credible consolidation plans the Government has set out, the UK has been seen as a relative safe haven, with interest rates at record lows. This has helped keep interest rates lower for families, businesses and the taxpayer. The heightened risks to stability and growth in the current international environment make it all the more critical for the UK to maintain this market confidence.

1.9 The Government is therefore taking action to ensure that its fiscal mandate and debt target are met. The Autumn Statement confirms the spending totals for the years 2015–16 and 2016–17 and makes additional savings to current spending over the Spending Review 2010 period.

1.10 The Government will use all the levers at its disposal to protect the economy and rebalance growth for the future:

- returning the public finances to a sustainable position and **meeting the Government's fiscal targets**;
- taking tough decisions to deliver permanent savings in the medium and long term, including by **setting plans for public spending in 2015–16 and 2016–17 in line with the spending reductions over the Spending Review 2010 period, increasing the State Pension age to 67 between 2026 and 2028, further controlling public sector pay and tax credits, and adjusting the allocation of Official Development Assistance in line with the OBR's revised growth forecast**;
- using the savings from current spending generated over the Spending Review 2010 period to fund **£6.3 billion of additional infrastructure spending, of which £1.3 billion was announced earlier in the autumn. Alongside this, around £1 billion of new private sector investment in regulated industries will be supported by government guarantee. The Government is also announcing commitments to £5 billion of capital projects in the next Spending Review period as part of the National Infrastructure Plan and is working with UK pension funds to unlock an additional £20 billion of investment in UK infrastructure. In total, the Autumn Statement supports around £30 billion of new capital investment**;
- **launching a package of credit easing measures, worth up to £21 billion, to improve the flow of credit to smaller and mid-sized businesses,** complementing the monetary activism of low interest rates and quantitative easing;
- **reforming the financial system to improve the regulatory framework,** reduce risks and lower taxpayers' exposure to shocks in the financial system; and
- building on its major reforms to education, welfare, taxation and regulation with **a new wave of supply-side reforms including changes to employment regulation, planning reform and active interventions, such as new Enterprise Zones,** with tax incentives to support business creation and growth.

Recent economic developments and prospects

1.11 Revised data from the Office for National Statistics (ONS) show the peak-to-trough fall in UK output during the 2008–09 recession is now estimated to have been 7.1 per cent, deeper than for any major economy except Japan.

1.12 In line with recoveries from previous financial crises, growth in the UK has been subdued; and as with all recoveries, particularly from deep recessions, quarterly growth has been choppy. Growth has been modest in the first half of 2011 at 0.5 per cent. The ONS estimates that GDP grew by 0.5 per cent in the third quarter of this year.

Commodity prices

1.13 Over the past 18 months, the economy has been hit by a series of shocks, the largest of which was the sharp increase in global commodity prices that began at the end of 2010. As Chart 1.1 shows, oil prices remain 40 per cent higher than the 2010 average due to a combination of growing demand from emerging economies and supply disruptions in the Middle East.[4] Food prices also increased sharply.

1.14 High commodity prices have pushed up inflation, reducing real incomes and weighing on growth around the world. The OBR estimate that since the June Budget 2010, for the UK economy *"most of the weakness can be explained by an external inflation shock constraining real household consumption".*[5]

1.15 Forecasters expect the inflationary impact of high commodity prices to recede over the coming year and inflation to fall sharply from its current elevated level. The OBR forecast Consumer Prices Index (CPI) inflation to fall sharply in the first quarter of 2012 as the January 2011 VAT increase falls out of the annual comparison. The OBR forecast inflation to fall to 2.4 per cent in 2012 Q4 and to return to the 2 per cent target by the end of 2013, as external pressures fade and the disinflationary impact of spare capacity in the economy bears down on inflation. Lower inflation will provide a degree of support to real incomes and the recovery.

Short-term economic prospects

1.16 The impact of the euro area crisis on confidence and export prospects is making the recovery more difficult still. The latest phase of the debt crisis continues to play out around the world because fundamental problems of excessive levels of debt have yet to be comprehensively addressed.

1.17 Credit conditions have tightened due to strains in bank funding markets. Confidence indicators and business surveys have weakened due to the instability and uncertainty caused by the crisis. That uncertainty has fed through to household spending and to companies' investment and hiring decisions, causing GDP and private sector employment growth to slow. Unemployment has risen in recent months, with labour market conditions particularly challenging for young people.

1.18 As a result, growth forecasts for 2012 have been revised down significantly around the world. The OBR has revised down its forecast for world growth in 2012 from 4.3 per cent to 3.5 per cent and for euro area growth from 1.8 per cent to 0.5 per cent. The OECD, European Commission and IMF forecasts for growth in 2012 have all been revised down in recent months.

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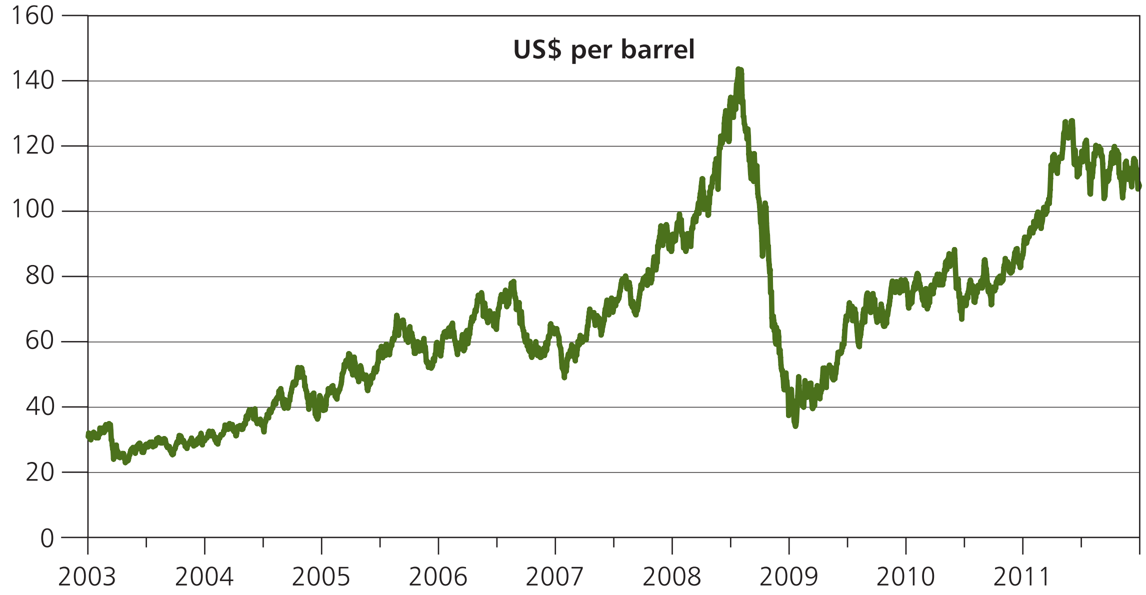
[4] The average price of Brent crude was around $80 in 2010. If the oil price remains at its current November level for the remainder of the year, the average price of Brent crude in 2011 would be $112. This would represent a 40 per cent increase compared with 2010.

[5] *Economic and fiscal outlook*, OBR, November 2011.

1.19 In the UK, global uncertainty and instability are also affecting confidence and slowing growth. The cost and availability of credit has deteriorated, particularly for smaller businesses that are most reliant on bank finance. In export markets, conditions are even more challenging, given Europe remains the UK's major trading partner, accounting for around half of all UK exports.

Chart 1.1: Brent oil price



Source: Ecowin.

Medium-term economic prospects

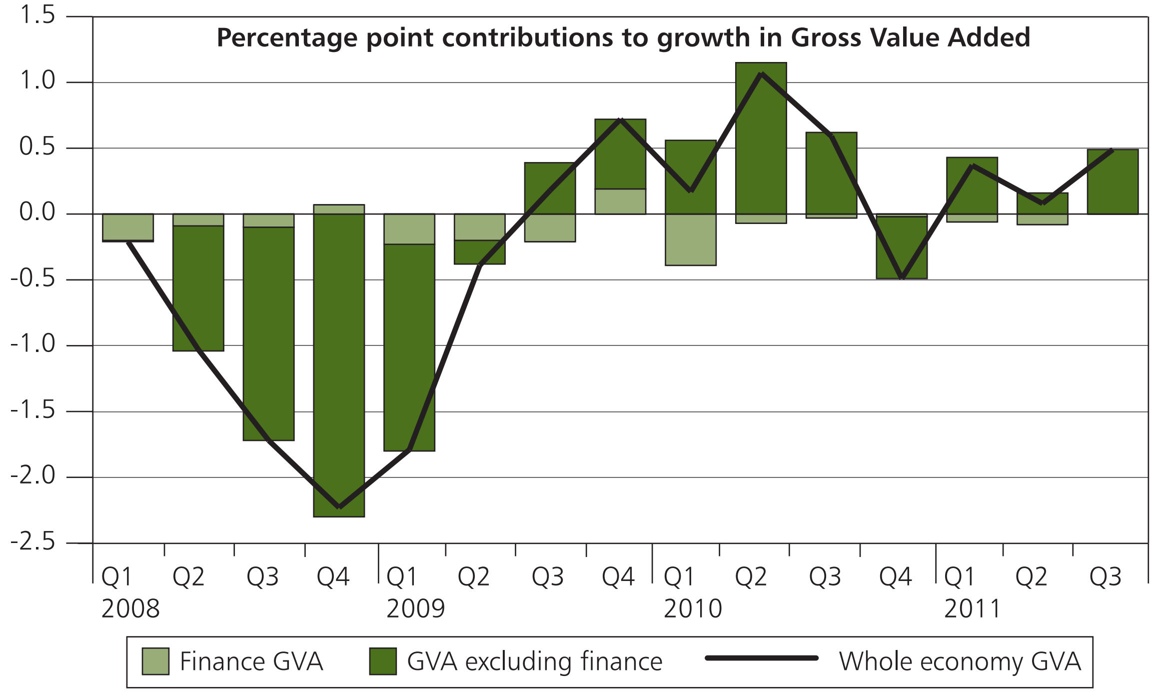
1.20 The UK saw the biggest expansion in debt of all the world's major economies over the past decade.[6] In the June Budget 2010, the Government acknowledged the likelihood that the financial crisis would have a lasting impact on the economy. The full scale and persistence of that impact is slowly becoming clearer.

1.21 Unsustainable borrowing in the private and public sectors was accompanied by an increasing reliance on poorly regulated growth in the financial sector. As Chart 1.2 shows, since the end of the recession the financial sector has acted as a drag on growth. In the two and a quarter years since the recession ended, whole economy output has grown by 3.2 per cent, but output excluding the financial sector has grown more strongly, by 4.3 per cent.

1.22 After such a large credit boom, the process of balance sheet repair in the UK is likely to continue to weigh on demand. This is reflected in the OBR forecast. The household saving ratio is forecast to average around 6 per cent over the forecast horizon, up from around 3½ per cent at Budget 2011.

[6] *The real effects of debt*, Bank for International Settlements, working paper No. 352, September 2011.

Chart 1.2: Growth in the financial and non-financial sectors



Source: Office for National Statistics and HM Treasury.

1.23 Compared with its previous forecasts, the OBR has substantially revised down its estimate of the level of potential output. While the OBR highlight the difficulties quantifying underlying productivity, they suggest the reduction is consistent with evidence that financial crises are typically associated with large output losses that persist for many years. The comprehensive analysis carried out by Reinhart and Rogoff concludes that *"the aftermath of severe post-war financial crises shows that these crises have had a deep and lasting effect on asset prices, output and employment."*[7]

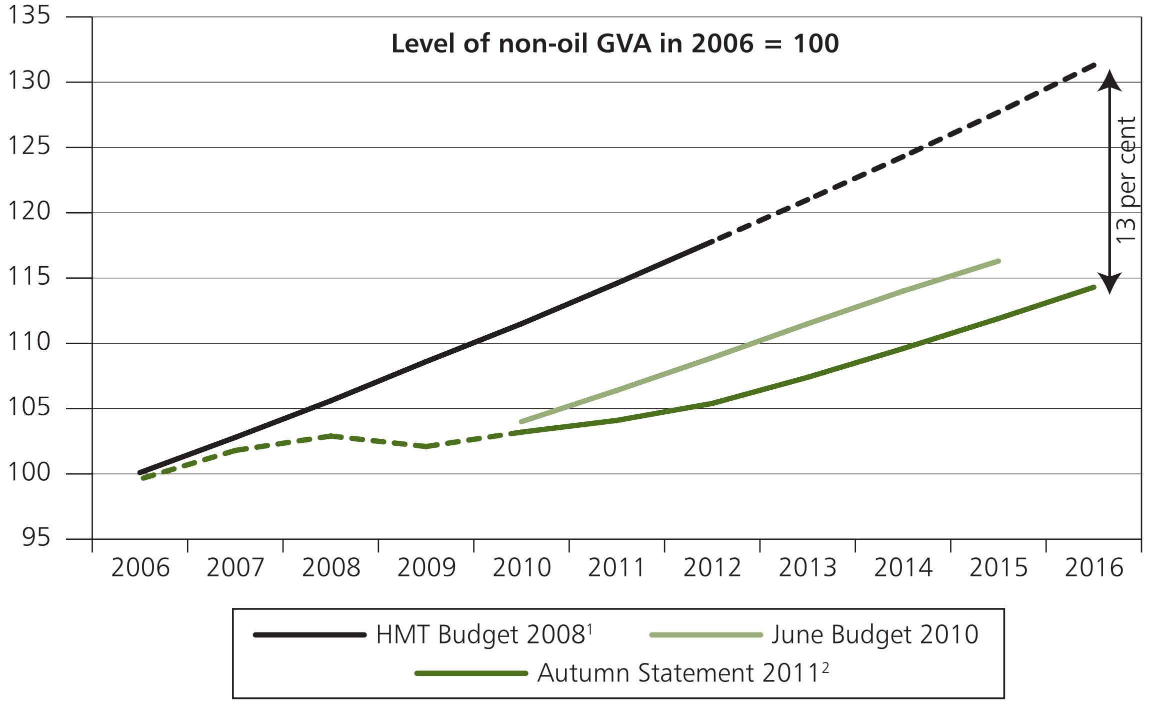
1.24 The OBR now projects the trend rate of growth to average 1.1 per cent a year in 2011 and 2012, rising to 2.0 per cent in 2013 and 2.3 per cent thereafter. That compares with 2.35 per cent a year over that period projected at Budget 2011. Overall, these revisions reduce the level of trend output at the end of the forecast horizon by around 3½ per cent. The OBR has not revised up its judgement of the structural rate of unemployment, which remains at around 5¼ per cent.

1.25 There is also uncertainty over the degree of spare capacity in the economy — the extent to which actual output is below trend output. The Bank of England's November 2011 *Inflation Report* highlights the difficulties of assessing current levels of spare capacity. This is evidenced by the range of external organisations' estimates of the output gap in 2011.[8] There is also uncertainty over the rate at which potential output will grow in the future.

1.26 Chart 1.3 compares the OBR's current and previous trend output projections with an extension of the Budget 2008 projection. It shows that by the end of the forecast, trend output is projected to be around 13 per cent below the level consistent with the pre-crisis projection. This difference suggests that the damage to potential output caused by the financial crisis has been greater than previously estimated.

[7] *This Time is Different: Eight Centuries of Financial Folly*, Reinhart C. and Rogoff K., Princeton University Press, 2009.
[8] External estimates of the output gap are discussed in *Economic and fiscal outlook*, OBR, November 2011.

Chart 1.3: Trend output projections



[1] Budget 2008 projection assumes trend growth of 2.75 per cent from 2013 onwards.
[2] Trend output for the Autumn Statement 2011 pre-2010 is based on the principle components analysis (PCA) estimate of the output gap published in OBR Working paper No.1: Estimating the UK's historical output gap. The Autumn Statement 2011 trend growth projection has been adjusted for changes to ONS deflation methodology introduced in Blue Book 2011, see OBR Economic and fiscal outlook, November 2011.

Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

OBR economic and fiscal forecasts

Economic forecast

1.27 Table 1.1 provides a summary of the OBR's central economic forecast. Annex C reproduces key tables from the OBR's economic and fiscal forecast. Further information is provided in the OBR's November 2011 *Economic and fiscal outlook*, published alongside the Autumn Statement. Like other recent external forecasts, their assessment is conditioned on the assumption that the euro area crisis does not escalate further and is eventually resolved, allowing a gradual improvement in credit conditions.

1.28 The OBR forecast a gradual recovery reflecting the impacts of higher inflation, difficulties in the euro area, and the medium-term impact of the financial crisis on trend output. The economy is forecast to grow by 0.9 per cent in 2011 and 0.7 per cent in 2012, significantly below the Budget 2011 forecast. The OBR forecast subdued growth in the first half of 2012 but a stronger performance in the second half. Growth is forecast to return to above trend rates from 2013, supported by growth in business investment and net trade.

Table 1.1: Summary of OBR's central economic forecast[1]

			Percentage points, unless otherwise stated					
	Pre crisis decade average contribution[2]		Forecast					
		2010	2011	2012	2013	2014	2015	2016
GDP growth, per cent	3.2	1.8	0.9	0.7	2.1	2.7	3.0	3.0
Main contributions								
Private consumption	2.3	0.7	-0.7	0.1	0.7	1.4	1.7	1.8
Business investment	0.4	0.1	-0.1	0.6	0.8	0.9	1.3	1.4
Dwellings investment[3]	0.3	0.3	-0.1	0.1	0.4	0.5	0.4	0.4
Government[4]	0.7	0.4	0.3	-0.3	-0.5	-0.5	-0.7	-0.7
Change in inventories	0.0	1.3	0.0	-0.3	0.0	0.1	0.0	0.0
Net trade	-0.5	-0.8	1.2	0.3	0.6	0.3	0.2	0.1
CPI inflation (Q4)		3.4	4.6	2.4	2.0	2.0	2.0	2.0

[1] *All figures in this table are rounded to the nearest decimal place. This is not intended to convey a degree of unwarranted accuracy. Components may not sum to total due to rounding, omission of transfer costs of land and existing buildings, and the statistical discrepancy.*

[2] *The average contribution to real GDP growth between 1997 and 2007. In 2006, private consumption accounted for 64 per cent of GDP, business investment for 9 per cent, dwellings investment for 6 per cent, Government for 24 per cent and change in inventories for less than 1 per cent.*

[3] *The sum of public corporations and private sector investment in new dwellings and improvement to dwellings.*

[4] *The sum of government consumption and general government investment.*

Source: Office for Budget Responsibility and Office for National Statistics.

1.29 There is a high degree of uncertainty over developments in the euro area, which could have a significant impact on the outlook for UK growth. The OBR highlight that a disorderly outcome to the euro area crisis poses a significant downside risk to their central forecast. The OBR set out the channels by which an intensification of the euro area crisis could affect the economy:[9]

- weaker net trade as a result of reduced euro area demand;
- elevated bank funding costs leading to tighter credit conditions that bear down on activity for longer and lead to a slower recovery in the housing market;
- financial system impairment through a disorderly sovereign default resulting in further negative feedback to credit, trade, the fiscal position and world output; and
- the fiscal position would also be impacted through movements in gilt yields, tax receipts and the operation of the automatic stabilisers.

Rebalancing the economy

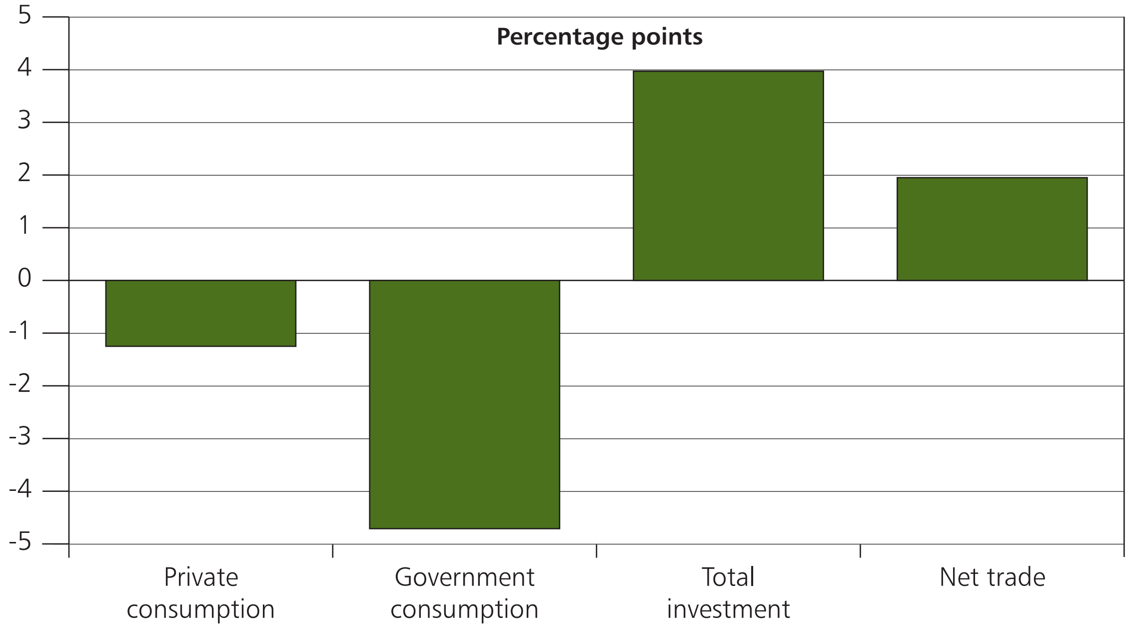
1.30 Rebalancing of expenditure in the UK economy away from government and consumer spending towards net trade and investment has been progressing, although the global backdrop is now acting as a significant headwind.

1.31 The OBR forecast the economy will rebalance in the coming years. As global conditions normalise, private sector investment is forecast to grow strongly. The OBR forecast business investment growth to pick up over the forecast period and to contribute over one percentage point a year on average to growth from 2014. The contribution from net trade over the previous few years has been revised up by the ONS, and is now more consistent with the response of net trade to previous periods of depreciation. Net trade, which made a negative contribution to growth on average in the pre-crisis decade, is forecast to make a positive contribution to growth over the forecast period.

[9] *Economic and fiscal outlook*, OBR, November 2011.

1.32 Chart 1.4 shows the extent of the rebalancing forecast by the OBR, with the share of net trade and total investment in GDP rising, while government and private consumption falls over the forecast period, remaining lower over the forecast horizon than in the pre-crisis decade.

Chart 1.4: OBR forecast change in shares of GDP between 2010 and 2016[1]



[1]Percentage point change in the share of nominal GDP between 2010 and 2016 for each expenditure component.
Source: Office for Budget Responsibility and Office for National Statistics.

Fiscal forecast

1.33 Table 1.2 provides a summary of the OBR's central forecast for the public finances based on this economic outlook and including the measures set out in the Autumn Statement.

1.34 Public sector net borrowing will continue to fall from its post-war peak of 11.2 per cent of GDP in 2009–10, but at a slower rate than previously forecast:

- at Budget 2011 it was forecast that borrowing would fall by 2.0 per cent of GDP in 2011–12 and by 1.7 per cent of GDP in 2012–13;
- borrowing is now forecast to fall by 0.9 per cent of GDP in 2011–12 and by 0.8 per cent of GDP in 2012–13; and
- the reduction in borrowing from 2012–13 to 2015–16 is forecast to remain broadly the same as predicted in March, with a reduction of 4.7 per cent of GDP over the period.

1.35 As set out above, the OBR have also reassessed the level of potential output in the UK economy in the medium term. This assessment implies that more of the UK's deficit is structural than estimated at Budget 2011. The structural deficit (cyclically-adjusted net borrowing) is projected to be 1.2 per cent of GDP higher in 2015-16. The cyclically-adjusted primary balance, a measure of the structural deficit excluding debt interest payments, is in surplus in 2014–15.

1.36 Higher borrowing feeds through into higher than expected debt levels. Public sector net debt as a proportion of GDP is forecast to be 8.6 per cent higher in 2015–16 than forecast at Budget 2011. But as a result of the fiscal consolidation plans reducing borrowing in the future, it is set to fall from a peak of 78.0 per cent of GDP in 2014–15 to 75.8 per cent of GDP in 2016–17.

Table 1.2: Overview of OBR central fiscal forecast

	Per cent of GDP							
	Outturn		Forecast					
	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Deficit								
Public sector net borrowing	11.2	9.3	8.4	7.6	6.0	4.5	2.9	1.2
Surplus on current budget	-7.7	-6.7	-6.5	-6.0	-4.7	-3.3	-1.8	-0.1
Primary balance	-9.1	-6.5	-5.4	-4.9	-3.2	-1.7	0.0	1.6
Cyclically-adjusted net borrowing	9.0	7.1	6.4	5.5	4.0	2.8	1.7	0.6
Cyclically-adjusted surplus on current budget	-5.5	-4.5	-4.6	-3.9	-2.7	-1.6	-0.6	0.5
Treaty deficit[1]	11.6	9.5	8.4	7.6	6.1	4.6	3.0	1.3
Cyclically-adjusted Treaty deficit	9.5	7.3	6.4	5.5	4.0	2.9	1.8	0.7
Debt								
Public sector net debt[2]	52.9	60.5	67.5	73.3	76.6	78.0	77.7	75.8
Treaty debt ratio[3]	71.5	76.5	84.2	90.1	93.1	93.9	92.6	89.7
Output gap	-4.0	-2.8	-2.8	-3.1	-2.8	-2.3	-1.5	-0.7
Memo: HMT estimate of cyclically-adjusted primary balance[4]	*-7.0*	*-4.4*	*-3.5*	*-2.7*	*-1.2*	*0.0*	*1.2*	*2.2*
Memo: Total policy decisions[5]			*0.0*	*0.0*	*0.0*	*0.0*	*0.5*	*0.8*

[1] *General government net borrowing on a Maastricht basis.*

[2] *Debt at end March; GDP centred on end March.*

[3] *General government gross debt on a Maastricht basis.*

[4] *This is a Treasury estimate of the cyclically-adjusted primary balance. It has been calculated by applying the cyclical-adjustment methodology set out in Public finances and the cycle: Treasury Economic Working Paper No.5 (November 2008), which the OBR also use for their forecast of cyclically-adjusted aggregates.*

[5] *Equivalent to the 'Total policy decisions' line in Table 2.1.*

Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

Performance against EU obligations

1.37 The Government remains committed to reducing the UK's deficit below the 3 per cent of GDP target set out in the Stability and Growth Pact (SGP). Given the level of global uncertainty, it is important to focus on the structural position.[10] As set out in Table 1.2, the cyclically-adjusted Treaty deficit is forecast to be 2.9 per cent of GDP in 2014–15, with the UK forecast to meet the SGP target for the Treaty deficit in 2015–16.

Debt management

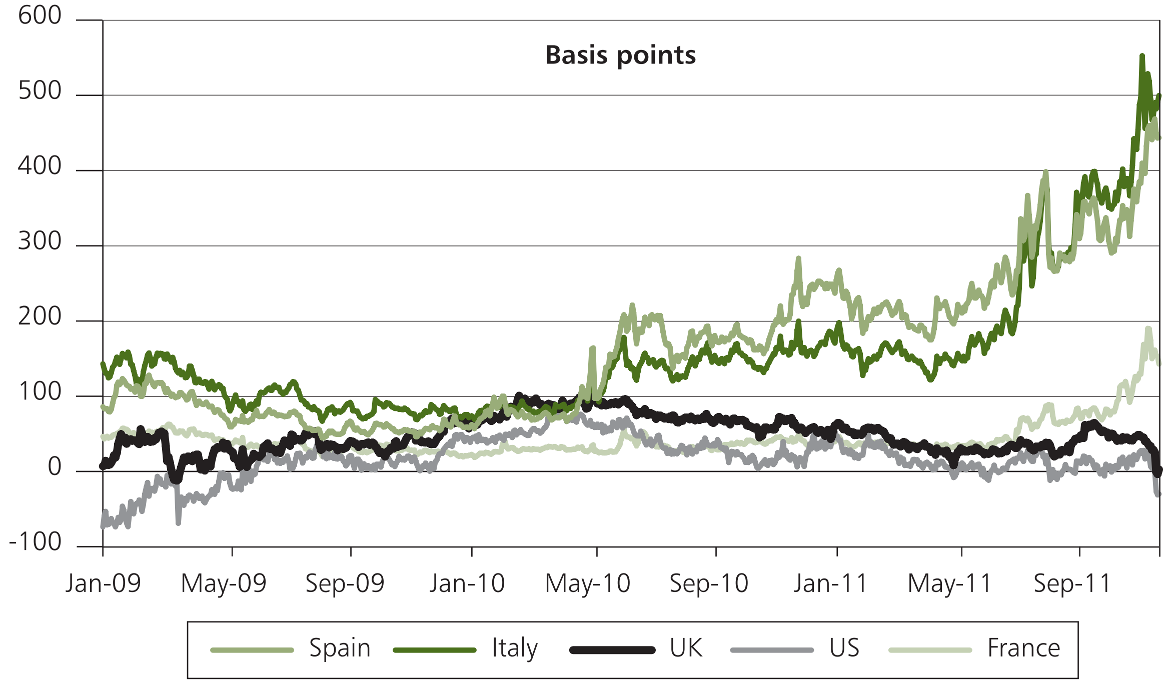
1.38 The Debt Management Office's (DMO) financing remit for 2011–12 has been revised to reflect the changes to the OBR's forecast for the central government net cash requirement in 2011–12. Details of the revisions, including the £13.8 billion increase in the net financing requirement in 2011–12 to £178.5 billion, are set out in Annex B.

[10] As highlighted in the European Commission's *European Economic Forecast*, autumn 2011.

Reducing risks

1.39 Clear and credible fiscal consolidation plans are essential to reduce the risk of a costly loss of market confidence in the UK. As Chart 1.5 shows, there is evidence that the Government's fiscal plans are contributing to improved market confidence, with UK long-term interest rates reaching a record low.

Chart 1.5: Spread to 10-year German government bonds



Source: Bloomberg.

1.40 As the international debt crisis intensifies, global developments have shown that the consequences of losing market confidence can be sudden and severe:

- some European countries have smaller budget deficits than the UK, but have had to specify additional consolidation measures in recent months as a result of deteriorating economic conditions in the euro area; and
- in May 2010 the spread of UK gilts to German bunds was around the same level as that of Italy and Spain. However, Spain now faces long-term interest rates above six per cent and Italy above seven per cent.

1.41 A sharp rise in interest rates would be particularly damaging to an economy with the UK's level of indebtedness. As Table 1.3 shows, a one percentage point rise in government bond yields would add around £7.5 billion to debt interest payments by 2016–17. A one percentage point rise in effective mortgage rates would add £12 billion a year to households' mortgage interest payments.

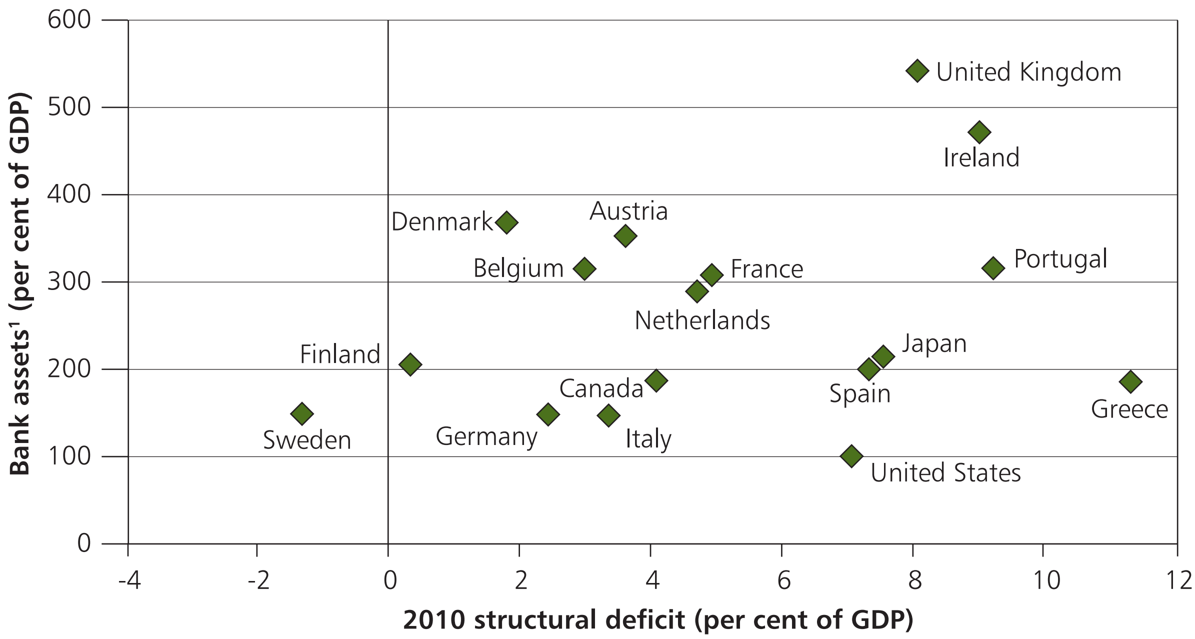
Table 1.3: Impact of higher interest rates on debt interest payments

	£ billion					
	Annual increase in debt interest payments					
	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Increase in interest rates[1]						
1 percentage point	0.7	2.5	4.3	6.0	7.5	**21.0**
2 percentage points	1.3	5.1	8.7	12.0	15.1	**42.2**
3 percentage points	2.0	7.7	13.1	18.2	23.0	**63.9**
4 percentage points	2.6	10.2	17.5	24.5	31.0	**85.8**
5 percentage points	3.3	12.8	22.0	30.8	39.3	**108.1**

[1] *Above market gilt rates, consistent with the OBR's November 2011 Economic and fiscal outlook. Increases are applied to each gilt maturity from 2012 Q2 and are assumed to continue throughout the forecast period.*
Source: HM Treasury.

1.42 Fiscal consolidation also reduces the risk of negative feedback loops between weak public finances and a strained financial sector. These feedback loops can be very damaging, as evidenced by recent events in the euro area. The UK has a very large financial sector, both globally and relative to the size of its economy (see Chart 1.6), meaning any loss of investor confidence in the UK's fiscal position would not only affect the UK, but also the global economy. As the IMF have stated *"the stability and efficiency of the UK financial system is a 'global public good' due to potential spillovers"*.[11] It is the IMF's view that the UK's economic and financial sector policies have a systemic impact on the global economy.[12, 13]

Chart 1.6: Relative size of banking sector and fiscal position



[1] *Total assets of commercial banks, including subsidiaries. For Austria, the data are from Austria National Bank. For Ireland, the data are from Central Bank of Ireland. For Portugal, the data are from Bank of Portugal.*
Source: IMF World Economic Outlook, September 2011 and Global Financial Stability report, September 2011.

[11] *Article IV staff report*, IMF, July 2011.
[12] *Spillover Report*, IMF, August 2011.
[13] As set out in the IMF's April 2011 *Fiscal Monitor*, the IMF consider risks in a similar framework, publishing the Fiscal Sustainability Risk Map which shows the relative risk to fiscal sustainability from core fiscal variables, financial sector risk and macroeconomic uncertainty. Their analysis also considers the long-term fiscal challenge, the risk from the liability structure of public debt and policy implementation risks.

1.43 Finally, recent research shows that higher levels of public debt would progressively weaken medium-term growth prospects.[14] The Bank for International Settlements estimate that once general government gross debt exceeds 85 per cent of GDP, it starts to act as a drag on economic growth. The Government's fiscal plans ensure that debt is set on a downward trajectory from 2015–16.

Government response

1.44 The Government's macroeconomic strategy is designed to protect the economy through this period of instability, to maintain market confidence in the UK and to lay the foundations for a stronger more balanced economy in the future. The Government is taking decisive action with:

- a clear and credible response to the fiscal deterioration, restoring the public finances to a sustainable path, maintaining market confidence and keeping interest rates low;
- monetary activism and credit easing to support the flow of credit in the economy, stimulate demand and maintain price stability;
- reform of the financial system, improving the regulatory framework to reduce risks and lower taxpayers' exposure; and
- a comprehensive package of structural reforms to rebalance and strengthen the economy for the future, including an ambitious package of infrastructure investment.

1.45 Credible fiscal consolidation plans create the space for monetary activism to support the economy and are the essential precondition for stability and a more balanced economy in the future.

1.46 As the OBR has highlighted, in this period of global instability all forecasts are subject to a high degree of uncertainty, particularly regarding developments in the euro area. Recognising this, the Government is committed to taking further action if necessary to meet its fiscal targets, protect the economy and maintain financial stability.

Sustainable public finances

1.47 The Government's consolidation plans, set out in the June Budget 2010, Spending Review 2010 and Budget 2011, have been endorsed by the IMF, OECD, European Commission, credit rating agencies and UK business organisations.[15] Following Spending Review 2010, the credit rating agency Standard and Poor's restored the UK's AAA rating to a stable outlook.

The fiscal mandate and supplementary debt target

1.48 The Government's fiscal strategy is underpinned by clear targets that ensure the public finances are set on a sustainable path. As announced in the June Budget 2010, the Government has set a forward-looking fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period. This fiscal mandate is based on:

- the current balance, to protect the most productive public investment expenditure;
- a cyclically-adjusted aggregate, to allow some fiscal flexibility at times of economic uncertainty; and
- a rolling five-year forecast period, ensuring that fiscal consolidation is delivered over a realistic and credible timescale and providing flexibility in the current exceptional economic environment.

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[14] *The real effects of debt*, Bank for International Settlements, working paper No. 352, September 2011 and *This Time is Different: Eight Centuries of Financial Folly*, Reinhart C. and Rogoff K., Princeton University Press, 2009.
[15] For example, *Article IV staff report*, IMF, July 2011 and *Economic Outlook*, OECD, November 2011.

1.49 As set out in the April 2011 *Charter for Budget Responsibility*, the OBR publish forecasts of the economy and public finances for a period of at least five financial years following the date of publication.[16]

1.50 In line with this approach, the forecast horizon for the June Budget 2010, Autumn Statement 2010 and Budget 2011 extended five financial years to 2015–16. At the Autumn Statement, which takes place in a new financial year, the end of the forecast horizon extends to 2016–17.

1.51 The fiscal mandate is supported by a supplementary target for debt that requires public sector net debt as a percentage of GDP to be falling at a fixed date of 2015–16, ensuring that the public finances are restored to a sustainable path.

1.52 The creation of the OBR has significantly enhanced the credibility of the UK's fiscal position by ensuring that the Government's performance against these targets is scrutinised and assessed impartially, independent of ministers. The establishment of the OBR has placed the UK at the forefront of institutional reform internationally.[17]

Further fiscal action

1.53 The Government is taking further measures to ensure sustainable public finances and meet its fiscal targets. The Government will:

- **set plans for public spending in 2015–16 and 2016–17 in line with the spending reductions over the Spending Review 2010 period.** Total Managed Expenditure will fall by 0.9 per cent a year in real terms, the same rate as in the Spending Review 2010 period, with a baseline excluding the one-off investments in infrastructure announced in the Autumn Statement. Public Sector Gross Investment, excluding these one-off investments, will continue to grow with general inflation in the economy in 2015–16 and 2016–17;

- **raise the State Pension age to 67 between April 2026 and April 2028, which is expected to save around £60 billion in today's prices between 2026–27 and 2035–36.** While increasing life expectancy is to be welcomed, the OBR's *Fiscal sustainability report* forecasts that spending on state pensions will rise from 5.5 per cent of GDP in 2015-16 to 7.9 per cent of GDP in 2060-61.[18] The Government has taken action to address the fiscal challenges this creates and legislated to bring forward the increase in the State Pension age to 66 by October 2020. Since the life expectancy projections underpinning the original State Pension age timetable were published, average life expectancy at State Pension age in 2028 has increased by at least one and a half years for men and women. Given the ongoing increases in life expectancy beyond 2026, the Government will raise the State Pension age to 67 between April 2026 and April 2028. Future increases in the State Pension age will also be based on demographic evidence and the Government will discuss further the process that could be put in place to allow the views of interested parties to be considered when these decisions are made;

- **set public sector pay awards at an average of one per cent for each of the two years after the current pay freeze comes to an end.** Departmental budgets will be adjusted in line with this policy, with the exception of the health and schools budgets, where the money saved will be recycled. This will protect expenditure on public services;

- **not go ahead with the planned £110 above inflation increase to the child element of the Child Tax Credit and not uprate the couple and lone parent elements of the Working Tax Credit in 2012–13.** The child element of the Child Tax Credit and disability elements of tax credits will be uprated in line with CPI in 2012-13; and

[16] Available on the HM Treasury website at www.hm-treasury.gov.uk.
[17] *Article IV staff report*, IMF, July 2011.
[18] *Fiscal sustainability report*, OBR, July 2011. Available on the OBR website at www.budgetresponsibility.independent.gov.uk.

- **adjust the allocation of Official Development Assistance in line with the OBR's revised growth forecast,** so that the UK spends 0.56 per cent of Gross National Income on Official Development Assistance in 2012 and 0.7 per cent in 2013 and thereafter.

1.54 These measures will reduce spending permanently in the medium and long term and so make the fiscal position more sustainable. In the short term, the Government is using the savings in current spending generated from the decisions taken on public sector pay, tax credits and Official Development Assistance to fund a package of measures that will support balanced economic growth, social mobility and help young people find work while ensuring that young children from disadvantaged backgrounds receive sufficient support.

1.55 The Autumn Statement announces £6.3 billion of additional infrastructure spending over the Spending Review 2010 period, of which £1.3 billion was announced earlier in the autumn; commitments to £5 billion of capital projects in the next spending review period as part of the National Infrastructure Plan; and around £1 billion of new private sector investment in regulated industries supported by government guarantee. These one-off investments in transport, broadband, science, regional growth and education will boost economic growth, unlock private investment and help businesses grow and compete effectively in the global economy. **The Government is also working with UK pension funds to unlock additional investment in UK infrastructure, targeting up to £20 billion of new investment. In total, the Autumn Statement supports around £30 billion of additional capital investment.**

1.56 The impacts of each of these measures on the public finances are set out in Table 2.1 in Chapter 2. The Government will ensure that future reforms are also governed by the need to ensure the long-term sustainability of the public finances.

Fiscal consolidation

1.57 As set out in Table 1.4, the Government plans a total consolidation of £147 billion per year by 2016–17, consisting of total reductions in spending of £116 billion and a net increase in taxes of £31 billion. Implementation of these plans is well underway with all of the tax consolidation measures legislated following Finance Act 2011. Spending Review 2010 implementation is on track. Many of the major structural reforms required to deliver savings while protecting priority public service outcomes are already underway, including reforms to higher education, housing and welfare.

1.58 Taking the consolidation as a whole, 72 per cent of the total consolidation will be delivered by lower spending in 2014–15, rising to 79 per cent in 2016–17. This is consistent with OECD and IMF research, which suggests that fiscal consolidation efforts that are skewed to spending cuts are more likely to be successful.[19]

1.59 Chart 1.7 shows that as a result of the plans set out in the Autumn Statement, public spending is projected by the OBR to fall from around 48 per cent of GDP in 2009–10 to 39 per cent of GDP by 2016–17, around the same level as 2003–04. Public sector current receipts are projected to rise from around 36½ per cent of GDP to around 38 per cent of GDP by 2016–17.

[19] See *Economic Outlook*, OECD, June 2007, *OECD Economic Survey: United Kingdom 2011*, OECD, March 2011 and *UK Article IV Consultation*, IMF, May 2009.

Table 1.4: Total consolidation plans over the forecast period

	£ billion					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Policy inherited by the Government	**26**	**40**	**56**	**70**		
Spending[1]	14	24	37	49		
Tax	12	16	19	21		
Spending share of consolidation (per cent)	*54*	*60*	*66*	*70*		
Total discretionary consolidation	**42**	**60**	**85**	**107**	**130**	**147**
Spending[1,2,3]	22	37	56	77	100	116
Tax[2]	20	23	29	30	30	31
Spending share of consolidation (per cent)	*53*	*62*	*66*	*72*	*77*	*79*

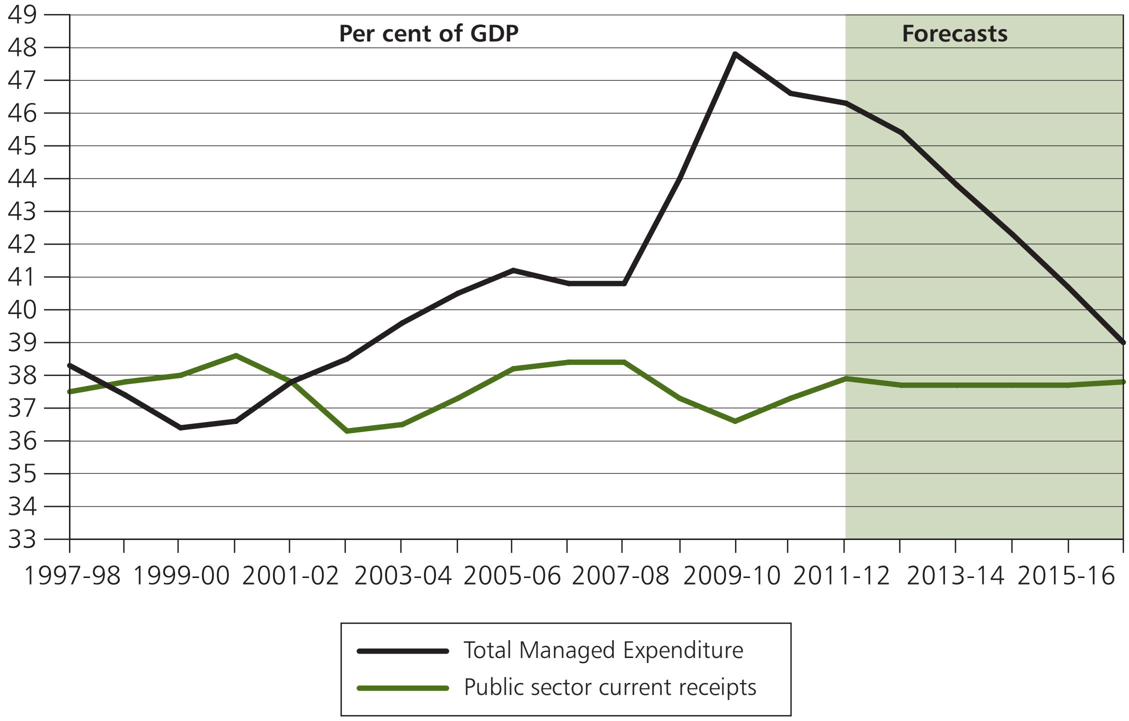
[1] Spending consolidation is attributable to three factors: (a) reductions in DEL are calculated by assessing nominal DEL totals against a counterfactual of growing DELs from 2010–11 in line with general inflation in the economy, as set out in Table 4.8 of the OBR's pre-Budget forecast (June 2010); (b) reductions in welfare AME due to the net effect of policy changes announced since June Budget 2010; (c) estimated debt interest savings, updated for market interest rates consistent with the OBR's November 2011 Economic and fiscal outlook. The fall in market interest rates, since Budget 2011, as used by the OBR, reduces the nominal totals for spending consolidation.

[2] Tax and welfare AME measures as costed previously. For outer years that have now come into the forecast period, the impacts of tax and welfare AME measures announced previously are grown in line with general inflation in the economy.

[3] The Government has not set DELs for 2015–16 and 2016–17. Figures shown above are based on plans for public spending beyond the Spending Review 2010 period as set out in Table 2.2.

Source: Office for Budget Responsibility and HM Treasury.

Chart 1.7: Receipts and expenditure



Source: Office for Budget Responsibility and Office for National Statistics.

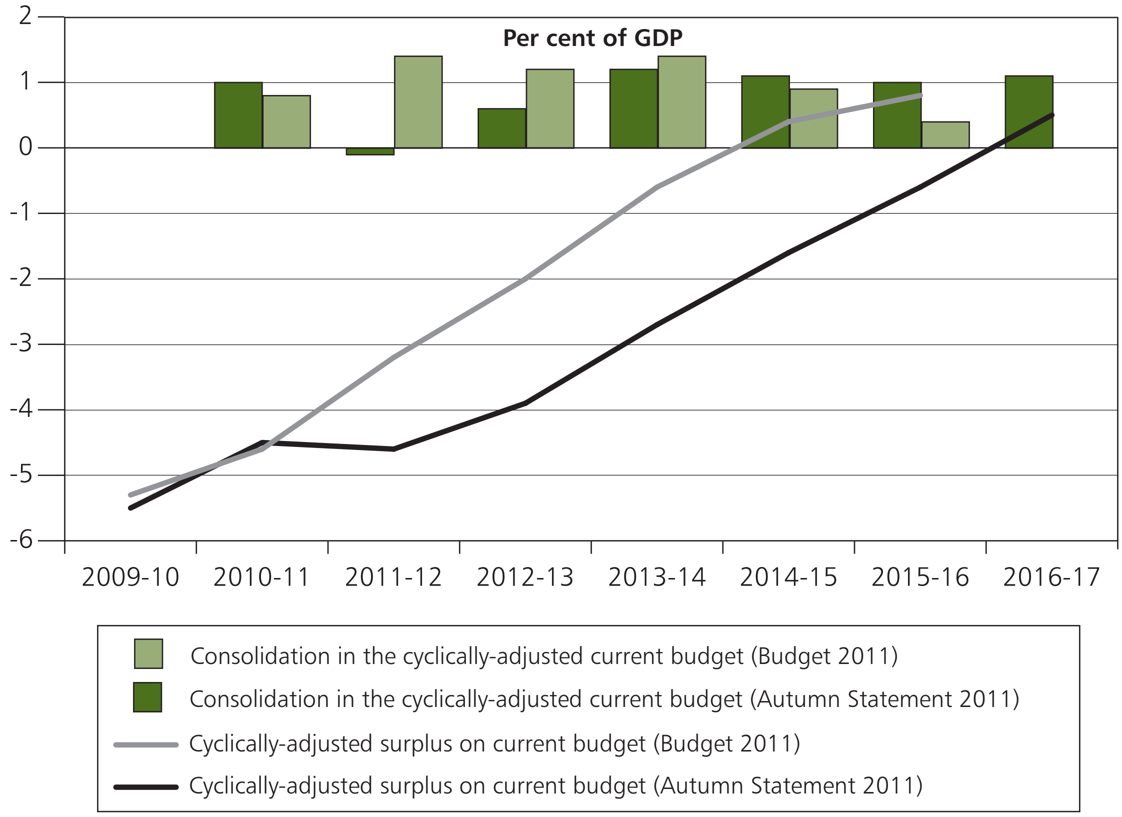
Performance against the mandate

1.60 Including all measures set out in the Autumn Statement, the OBR's November 2011 *Economic and fiscal outlook* concludes that the Government remains on course to meet the fiscal mandate and the supplementary debt target. The OBR's judgement is that the Government's policies are consistent with:

- roughly a 60 per cent chance of achieving the Government's fiscal mandate in 2016–17; and
- meeting the supplementary target for debt in 2015–16.

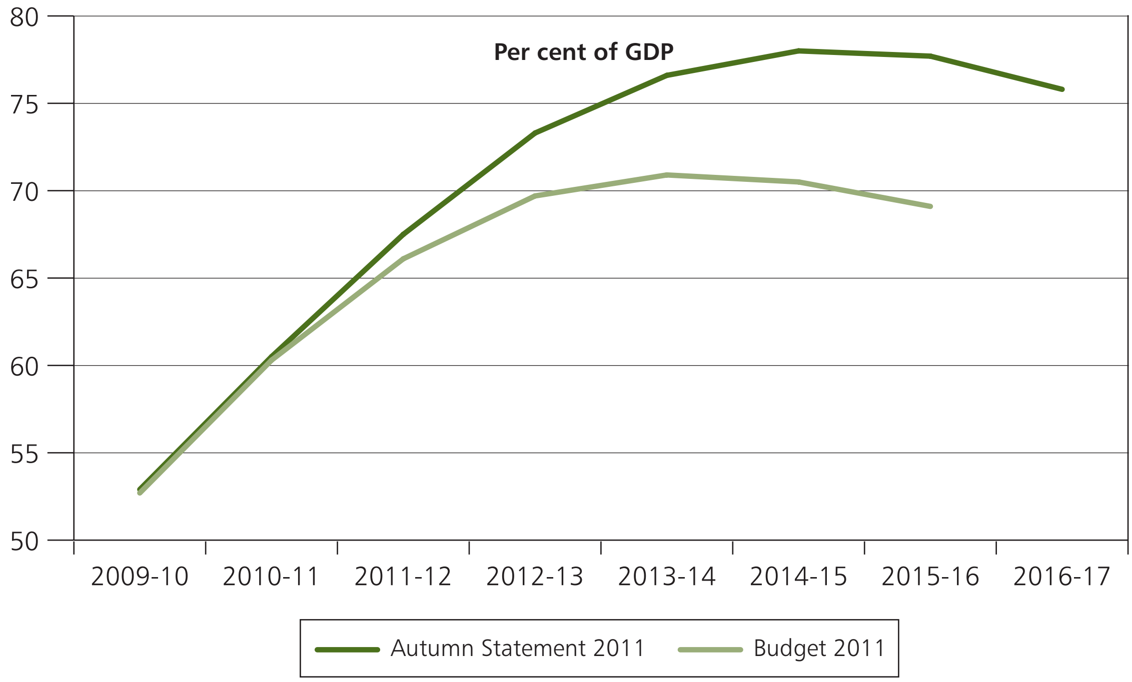
1.61 Charts 1.8 and 1.9 show performance against the Government's fiscal mandate and the supplementary debt target. Slower progress in reducing the cyclically adjusted current budget deficit in 2011–12 and 2012–13 reflects the OBR's downwards revision to trend growth, consistent with evidence suggesting that financial crises are typically associated with large output losses that persist for many years after that event.

Chart 1.8: Consolidation in the cyclically-adjusted current budget



Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

Chart 1.9: Public sector net debt



Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

Transparency

1.62 Alongside the Autumn Statement, the Government has published the first audited Whole of Government Accounts, based on International Financial Reporting Standards, for the year ending 31 March 2010. This is a major landmark in the delivery of the Government's commitment to improve the transparency of how public finances are managed and provides a more complete picture of the state's assets, accumulated liabilities and contingent liabilities.

1.63 These accounts provide policy makers with additional information to assess fiscal sustainability that over time will become increasingly useful to assess developments in long-term implications of policy changes.

Monetary activism

1.64 Monetary policy should be the primary tool for responding to changes in the economic outlook, to ensure that inflation remains on track to meet the 2 per cent inflation target in the medium term. Monetary policy has a critical role in supporting the economy as the Government delivers on its commitment to necessary fiscal consolidation. The credibility of the Government's fiscal plan allows the independent Monetary Policy Committee (MPC) to keep Bank Rate lower than it would otherwise have been and to deliver additional monetary stimulus through quantitative easing.

Quantitative easing and the Asset Purchase Facility

1.65 The MPC has decided to undertake further asset purchases financed by the issuance of central bank reserves through the Asset Purchase Facility (APF), known as quantitative easing. This was based on the MPC's judgement in October that, in large part due to tensions in the world economy that threaten the UK recovery, inflation was otherwise more likely to be below the 2 per cent inflation target in the medium term than above. The Chancellor has authorised an increase in the ceiling on these asset purchases by £75 billion to £275 billion.[20] Recent Bank of England analysis provides evidence of the effectiveness of asset purchases in supporting demand.[21] The MPC's most recent assessment in the November 2011 *Inflation Report* is that, conditioned on Bank Rate moving in line with market interest rates and £275 billion of asset purchases, inflation is more likely to be below the target than above it in the medium term, but that there are substantial uncertainties. The MPC continues to stress that it stands ready to respond accordingly to changes in the balance of risks to the inflation outlook.

1.66 The APF can also purchase eligible private sector assets financed by central bank reserves, Treasury bills and the DMO's cash management operations. It has been shown over the life of the APF that its objective to ensure the normal functioning of corporate capital markets can be delivered by undertaking asset purchases of substantially less than the ceiling of £50 billion set in 2009. **The ceiling on private sector asset purchases is therefore being reduced by £40 billion to £10 billion.** This provides scope for the Government to announce a package of credit easing interventions.

Credit easing

1.67 Shocks to confidence and credit conditions stemming from the euro area crisis are affecting the UK recovery. These problems are most acute for smaller and mid-sized companies that are most reliant on the banking system for finance. To complement the action taken by the Bank of England to support demand, **the Government is launching a package of interventions worth up to £21 billion to ease the flow of credit to businesses that do not have ready access to capital markets, with scope to increase the scale of this package in future if necessary. The package includes up to £20 billion for the National**

[20] The Chancellor's letter to the Governor of the Bank of England is available on the HM Treasury website at www.hm-treasury.gov.uk.
[21] *Quarterly Bulletin 2011 Q3, Volume 51 No. 3*, Bank of England, September 2011.

Loan Guarantee Scheme and an initial £1 billion for the Business Finance Partnership. These measures are described in more detail in the next section of this chapter.

1.68 Credit easing will provide support to the economy. In the short term, it will relieve constraints on the supply of bank lending and enhance the demand for credit by reducing the price of loans for eligible companies. In the medium term, it will help to tackle the long-standing problems in the supply of finance to smaller and mid-sized businesses in the UK. The Government will continue to assess further options to increase the supply of credit to smaller and mid-sized businesses. Further progress will be announced at Budget 2012.

1.69 The impact of these measures on the fiscal aggregates will be determined in due course by the ONS. In this forecast, the OBR anticipate that the main transactions within the Business Finance Partnership are most likely to be treated as financial transactions, which do not directly impact on borrowing but do increase public sector net debt. For the National Loan Guarantee Scheme, the guarantees are expected to be recorded as contingent liabilities, which do not directly affect borrowing or debt unless they are called. The most likely outcome is that these schemes make a small positive return for the Exchequer.

Financial sector regulation

1.70 The Government is implementing its plans to overhaul the tripartite system of financial regulation, by meeting its commitment to provide the Bank of England with:

- control of macro-prudential regulation, which relates to system wide risks. The Government will legislate to create a Financial Policy Committee (FPC) within the Bank of England, with a clear macro-prudential remit to identify the risks that build up across the system as a whole and the power to ensure that action is taken to address those risks before they can threaten wider stability. An interim FPC, established in February 2011, has met three times; and,
- oversight of micro-prudential regulation, which focuses on risks within individual financial institutions. The Government will establish the Prudential Regulation Authority (PRA) as a subsidiary of the Bank. The PRA will promote the safety and soundness of the financial institutions it regulates, minimising the wider economic impact should a firm fail.

1.71 The Government has published and consulted on draft primary legislation to implement these reforms. The draft Bill is currently undergoing pre-legislative scrutiny by a Joint Committee of Parliament. Subject to Parliamentary timetabling, the legislation will be introduced early in 2012.

The Independent Commission on Banking

1.72 The Independent Commission on Banking (ICB), chaired by Sir John Vickers, was asked in June 2010 to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition. Following an initial consultation last year, and an interim report on 11 April 2011, the ICB's final report was published on 12 September 2011.

1.73 The Government welcomes in principle the ICB's suggestions for:

- a ring-fence around better-capitalised high street banks to make them safer, and to protect their vital services to the economy;
- bail-in instead of bail-out — so that private investors, not taxpayers, bear the losses if things go wrong; and
- measures to increase competition in retail banking.

1.74 The Government is considering a variety of options for implementing the recommendations. The Government will respond before the end of the year with more detail.

International response

1.75 Solving the euro area crisis is a necessary condition for restoring confidence, but it is not sufficient on its own to deliver a sustainable global recovery. At the G20 summit in Cannes, world leaders agreed an action plan for growth and jobs, which includes many of the things that the UK is already doing: clear and credible fiscal consolidation; monetary activism; removing barriers to business; and job creation. The action plan also identified a group of countries where, unlike in the UK, public finances remain relatively strong (Australia, Brazil, Canada, China, Germany, Korea and Indonesia) who could take discretionary measures to support domestic demand as appropriate, while maintaining their medium-term fiscal objectives.

1.76 The action plan also agreed to take further steps to resolve the imbalances within and between their economies to support strong, sustainable and balanced growth, including to:

- implement clear, credible and specific measures to achieve fiscal consolidation;
- take further steps towards promoting domestic demand in countries with large current account surpluses; and
- move more rapidly toward market-determined exchange rate systems.

1.77 The G20 committed to implement its financial regulation agreements and agreed a new package of reforms for systemically important financial institutions, in particular introducing increased loss absorbency for globally systemic banks.

1.78 The UK secured an important objective when the G20 critically agreed to halt the slide towards protectionism. It reaffirmed its pledge not to take protectionist actions; committed to roll back any new protectionist measures that may have arisen; and reaffirmed its determination to refrain from competitive devaluation of currencies. The G20 agreed to pursue fresh, credible approaches to furthering negotiations in the Doha Development Round, beginning at the upcoming Ministerial meeting in Geneva. The global challenges to economic prosperity require global solutions. The Government will continue to engage with its international partners to deliver the best outcome for future global prosperity.

European growth agenda

1.79 The European Union (EU) has an important role to play in the UK recovery. Around half of the UK's trade, worth around £450 billion in 2010, is with the other EU countries, helping around 300,000 businesses and, directly and indirectly, accounting for 3.5 million jobs. Increased levels of competition have also benefited businesses and consumers alike — increased levels of innovation have led to higher productivity, lower costs and prices and a greater choice for consumers with a wider diversity of higher quality products now available. As a result, the Department for Business, Innovation and Skills (BIS) estimate that the EU's single market could have boosted household incomes by up to six per cent or £3,300 a family a year.

1.80 While successive liberalisations have delivered an effective EU market in goods, significant barriers to cross border trade in services still exist. Services account for over 70 per cent of GDP, but only 20 per cent of intra-EU trade. The European Commission believes that further progress on services could bring gains of 0.5 to 1 per cent of EU GDP, financial markets 1.1 per cent of GDP and energy 0.6 to 0.8 per cent of GDP.

1.81 The UK has therefore been at the forefront of calling for further action, encouraging the European Commission to focus on measures to boost the single market, support trade with third countries, reduce regulation and boost innovation to deliver growth and jobs.

Building a stronger economy for the future

1.82 In addition to fiscal consolidation and monetary activism, the Government will accelerate its supply side reforms to build a stronger and more balanced economy in the medium term. After a period in which the UK lost ground to the rest of the world, recent evidence suggests that the UK is becoming a more competitive place to do business.[1]

1.83 The first phase of the Growth Review, led by the Chancellor of the Exchequer and the Secretary of State for Business, Innovation and Skills, was published alongside Budget 2011 in *The Plan for Growth.*[2] Work has started on all 137 commitments and substantial progress has been made. Full details on progress have been published alongside the Autumn Statement.[3]

1.84 This section sets out further reforms the Government is undertaking to achieve each of the four overarching ambitions for the UK economy set out in *The Plan for Growth:*

- encouraging investment and exports as a route to a more balanced economy;
- creating a more educated workforce that is the most flexible in Europe;
- making the UK the best place in Europe to start, finance and grow a business; and
- creating the most competitive tax system in the G20.

1.85 This section also includes details of £6.3 billion, of which £1.3 billion was announced earlier in the autumn, of additional infrastructure spending over the Spending Review 2010 period funded through savings, and around £1 billion of new private sector investment in regulated industries supported by government guarantee.[4] The full list of over 140 new measures is set out in Annex A.[5] The Government is also announcing commitments to £5 billion of capital projects in the next Spending Review period, as part of a *National Infrastructure Plan*, and is working with UK pension funds to unlock an additional £20 billion of investment in infrastructure. In total the Autumn Statement supports around £30 billion of new capital investment.

Encouraging investment and exports as a route to a more balanced economy

Infrastructure strategy

1.86 High quality infrastructure is essential if the UK is to remain competitive. After many years of under investment, the UK is perceived poorly in international comparisons of infrastructure quality and in one recent survey was ranked only 28th in the world.[6]

1.87 To make the UK's infrastructure fit for the 21st century, **the Government has published its National Infrastructure Plan 2011 alongside the Autumn Statement.**[7] The plan brings together the first ever comprehensive cross-sectoral analysis of the UK's infrastructure networks and sets out a pipeline of over 500 infrastructure projects. It commits to clear ambitions to address the key challenges in each major infrastructure sector - energy, transport, telecommunications, water and waste.

1.88 In order to mobilise the finance required to deliver the *National Infrastructure Plan*, **the Autumn Statement announces a new strategy for coordinating public and private**

[1] Between 1998 and 2010 the UK fell from 4th to 12th in the World Economic Forum's (WEF) Global Competitiveness Index. Since the beginning of the Parliament, the UK has re-entered the top 10.
[2] *The Plan for Growth,* HM Treasury and the Department for Business, Innovation and Skills, March 2011.
[3] Available on the HM Treasury website at www.hm-treasury.gov.uk
[4] Capital value of Network Rail investment, see Table 2.3.
[5] The costs set out in this chapter and Annex A are the whole life costs of each scheme, and do not include the cost of Barnett consequentials for the devolved administrations. For these reasons, not all costs will reconcile with Table 2.3, which sets out costs over the Spending Review 2010 period and includes Barnett consequentials where appropriate.
[6] World Economic Forum Global Competitiveness Index, 2011.
[7] Available on the HM Treasury website at www.hm-treasury.gov.uk

investment in UK infrastructure. The Government will use all the tools at its disposal to facilitate the private investment that will finance the majority of the UK's infrastructure. The Government will:

- bring new investors into UK infrastructure. **The Government has signed a Memorandum of Understanding with two groups of UK pension funds** (including the National Association of Pension Funds, Pension Protection Fund, and a separate group representing pension plans and infrastructure fund managers) **to support additional investment in UK infrastructure. The Government is also working with the Association of British Insurers to set up an Insurers' Infrastructure Investment Forum. The Government will target up to £20 billion of investment from these initiatives;**

- explore new sources of revenue to support investment. **The Government commits to increasing capacity and improving performance on the A14,** which will support proposed housing developments in Northstowe, Waterbeach and Alconbury. **The Government will explore innovative ways of financing this work, including tolls, which will also be investigated for other new capacity proposals.** By spring 2012, the Government will have developed proposals with local partners for improvements to the A14 road and the other local transport networks;

- allow local authorities more flexibility to support major infrastructure. **The Autumn Statement announces the Government's support for the extension of the Northern Line to Battersea. The Government will consider creating a new Enterprise Zone at Battersea and allowing local borrowing against the Community Infrastructure Levy (CIL) to support this, subject to a commitment by April 2013 from a developer to contribute and develop the site.** As part of its commitment to enable Tax Increment Financing, the Government will also consider allowing city mayors to borrow against future CIL receipts where this can make a significant contribution to national infrastructure; and

- use guarantees when investors cannot accommodate certain risks. **The Government will, subject to affordability, consider using transparent forms of guarantee to support specific projects where this provides best value for money for taxpayers and users,** recognising that the private sector cannot always bear every risk in major new projects. In line with this, the Government recently confirmed its openness in principle to provide contingent financial support for exceptional risks in the construction of the Thames Tideway tunnel.

1.89 The Government is also increasing public investment in infrastructure, and has already announced the £500 million Growing Places local infrastructure fund and £150 million to expand mobile network coverage. As part of the new investment at the Autumn Statement, the Government can also announce major investments in road, rail, and broadband networks.

1.90 The Government will invest over £1 billion (of which around £900 million will be in the Spending Review 2010 period) to tackle areas of congestion and improve the national road network, including:

- **£270 million for two new managed motorway schemes to allow use of the hard shoulder at congested times on the M3 and M6;**

- **£150 million for improvements to the M1/M6 intersection, £110 million for the A14 Kettering Bypass, £160 million for widening the A453 and £110 million for the A45/46 Tollbar End improvement scheme;** and

- **£220 million for smaller projects which will deliver significant improvements on the road network, such as removing bottlenecks and improving safety and road layout.**

1.91 More than £1.4 billion will be invested in railway infrastructure and commuter links, including:

- **supporting Network Rail to deliver £290 million to electrify the Transpennine railway route from Manchester to Leeds, and £270 million for a rail link between Oxford and Bedford;**
- **supporting Network Rail to deliver £390 million of enhancement and renewal works to improve stations and rail infrastructure, improve resilience against extreme weather and tackle problems more quickly;**[8] and
- **the Government funding improvements to the quality of travel for rail users, including £45 million to extend smart ticketing across London and the South-East, £80 million to support the Southern Rail franchise's procurement of 130 new carriages, and £290 million to limit the increase to regulated rail and Transport for London fares in January 2012 to the Retail Prices Index (RPI) plus one per cent.**

1.92 The Government will commit £170 million of extra funding to allow more local transport projects to go ahead, including the Kingskerswell Bypass in Devon, the Lincoln Eastern Bypass and Manchester Cross City Bus, and will write down £150 million of debt on the Humber Bridge, which will halve the tolls for cars.

1.93 The Government will invest £100 million to create up to ten 'super-connected cities' across the UK, with 80-100 megabits per second broadband and city-wide high-speed mobile connectivity. There will be a particular focus on small and medium-sized enterprises (SMEs) and strategic employment zones to support economic growth. Edinburgh, Belfast, Cardiff and London will all receive support from this fund, and a UK-wide competition will decide up to six further cities that will also receive funding.

1.94 Where appropriate the devolved administrations will receive Barnett consequestials to invest in their key infrastructure priorities. In addition, £50 million will be made available to replace the Caledonian Sleeper fleet, to improve on-train facilities. The funding is subject to the Scottish Government agreeing to co-fund the replacement and provide the remainder of the funding. The Government has announced around an additional £100 million for the Scottish Government to enable it to draw down its fossil fuel levy surplus and increase investment on renewable energy in Scotland. The Government will also engage with the Welsh Government on improvements to the M4 in south east Wales.

1.95 *The National Infrastructure Plan* also commits the Government to support the delivery of key infrastructure projects. **The Prime Minister has asked the Chief Secretary to the Treasury to chair a new cabinet committee on infrastructure.** This committee will monitor the delivery of the 40 infrastructure projects and programmes most critical to growth. It will ensure the Government shows decisive leadership in tackling planning and regulatory delays and addressing key commercial and policy issues.

1.96 The Government's focus on delivery has:

- enabled eight major projects around the country to proceed since summer 2011, including the A1 at Elkesley and seven electricity generation projects that are collectively worth an estimated £4 billion but which were held up by delays in receiving planning approval;
- **led to a commitment, announced in the Autumn Statement, to build a new crossing across the Lower Thames,** with the Government launching analysis of three options to inform a consultation in 2013. The Government will also explore the options for tackling pressures at Junction 30 of the M25 and on the A13 corridor as part of that analysis; and
- supported the development of the London Gateway port, which is forecast to create 12,000 jobs, by helping the developer identify sufficient traffic management measures that, once formalised, will enable the next phase to proceed within a variation to the existing planning consent.[9]

[8] Costs are the total capital values of schemes that the Government will support Network Rail to deliver. The Government's contributions to payments on the Network Rail Regulated Asset Base over the 2010 Spending Review period are set out in Table 2.3.
[9] Developer's estimates at www.londongateway.com/about-us/key-statistics.

1.97 Figure 1.1 sets out infrastructure projects that will be taken forward across the UK. Further detail on these measures and on progress across all the priority projects and programmes is set out in the *National Infrastructure Plan*.

Figure 1.1: Government actions to support new and existing infrastructure investment

NATIONAL PROGRAMMES

- Improving mobile coverage in the UK up to 99% of the population
- Urban broadband fund to create up to 10 "super-connected cities"
- Network Rail investment to tackle problems on the network more quickly
- Network Rail investment to improve the railway network including bringing forward bridge renewals, enhancing access to stations and improving resilience to winter weather
- Centres for Offshore Renewable Engineering
- Road Pinch Point Fund to ease bottlenecks and improve safety
- Additional funding for local authority major transport projects
- Additional funding for local transport

NORTHERN IRELAND

- Transport, energy, water, flood and waste – devolved to the Northern Ireland Executive
- Belfast: Super-connected city funding

NORTH EAST

- Electrification of the Transpennine Express
- Tees Multimodal Bio-Freight Terminal

NORTH WEST

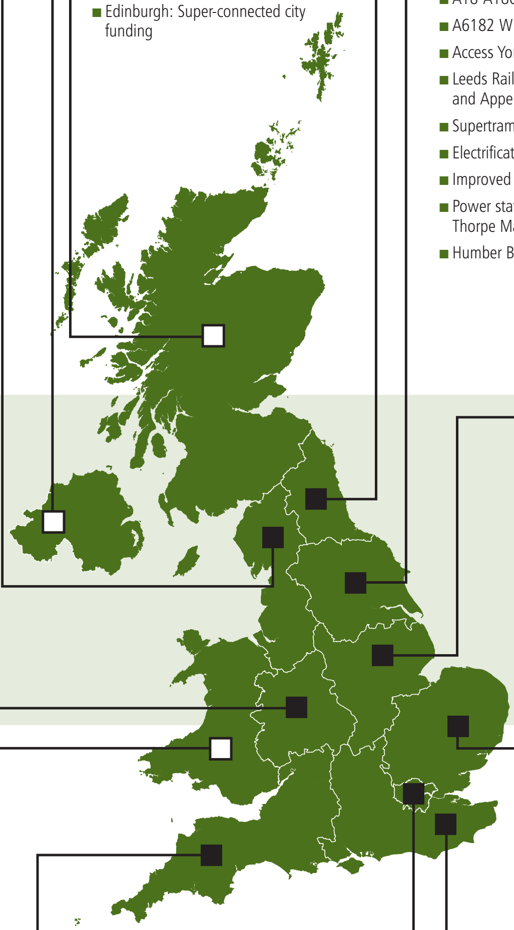
- Electrification of the Transpennine Express
- M56 at Manchester Airport link road to A6 south of Stockport
- Completion of Western gateway Enabling Scheme at Port Salford
- Expansion of Mersey Multimodal Gateway
- Crewe Green Link Southern Section
- Manchester Cross City Bus
- Rochdale Interchange
- Mersey Gateway Bridge
- Reinstating Todmorden Curve

SCOTLAND

- Rail, roads local transport, water, flood and waste – devolved to the Scottish Government
- Edinburgh: Super-connected city funding

YORKSHIRE AND THE HUMBER

- Accelerating M1 junction 39 to 42 scheme
- A164 Humber Bridge to Beverley
- A18-A180 Link (NE Lincolnshire)
- A6182 White Rose Way Improvement Scheme (Doncaster)
- Access York Park & Ride – Two new park and ride sites
- Leeds Rail Growth – Two new railway stations: Kirkstall Forge and Apperley Bridge
- Supertram additional vehicles (Sheffield)
- Electrification of the Transpennine Express
- Improved access to the Sheffield Gateway
- Power station development consents granted (Ferrybridge; Thorpe Marsh; Immingham; Selby; Westermost Rough)
- Humber Bridge toll reduction



WEST MIDLANDS

- M6 managed motorway scheme between Birmingham and Manchester
- A45 Westbound Bridge (Solihull) – Replacement bridge over the West Coast Main Line close to Birmingham Airport on the A45 strategic corridor into Birmingham
- Evesham Bridge Maintenance (Evesham) – Rebuilding of the main bridge into Evesham from the South
- A45/46 Tollbar End improvement scheme
- A45 Corridor (Damson Parkway to M42 junction 6) diversion

EAST MIDLANDS

- Lincoln Eastern Bypass
- A43 Corby Link Road
- Hucknall Town Centre Improvement Scheme
- London Road Bridge (Derby)
- Widening the A453 between Nottingham, the M1 and Nottingham East Midlands Airport
- M1/M6 Junction 19 major road improvements
- Development consent granted for a scheme to improve the A1 at Elkesley
- Widening the A14 Kettering Bypass between junctions 7 and 9

WALES

- Roads, local transport, water, flood and waste – devolved to the Welsh Government
- Power station development consents granted (Anglesey Aluminium Biomass)
- Cardiff: Super-connected city funding

EAST OF ENGLAND

- Power station development consents granted (Gateway Energy Centre Combined Cycle Gas Turbine)
- New Lower Thames Crossing
- A14 in Cambridgeshire
- M1 Junction 10a improvement

SOUTH WEST

- Bus Rapid Transit scheme from Ashton Vale to Temple Meads (Bristol)
- Kingskerswell By-pass (Devon/Torbay)
- South Bristol Link Phases 1&2
- Hinkley Point C – new nuclear planning application accepted by the Infrastructure Planning Commission

LONDON

- Northern Line extension to Battersea
- Acceleration of M25 junction 23 to 27 scheme
- Thames Tideway Tunnel
- Super-connected city funding

SOUTH EAST

- M3 in Surrey – managed motorway scheme
- Replacement of Northern Road Bridge (Portsmouth)
- New M275 Tipner Interchange (Portsmouth)
- 130 additional carriages for the Southern rail franchise in south London
- New rail link between Oxford and Bedford

Planning reform

1.98 The Government is also reforming the planning and consenting regime, which can significantly delay infrastructure projects and add to their delivery cost. This has been cited as a key reason for UK infrastructure being more expensive to build than in other European countries.[10] In response to the Penfold Review, the Government will:

- **ensure the key consenting and advisory agencies have a remit to promote sustainable development as soon as the National Planning Policy Framework is finalised.** This will ensure that these bodies consider the impact of their decisions on sustainable economic growth and swiftly approve consents when it is appropriate to do so; and
- **introduce a 13-week maximum timescale for the majority of non-planning consents,** to speed up the consenting process and give certainty to developers. This will take immediate effect for government agencies.

1.99 In addition, the Government will:

- **ensure that there is a more effective mechanism for applicants to obtain an award of costs, if there is an appeal against refusal of a planning permission where a statutory consultee has acted unreasonably,** through measures to be implemented in summer 2012. The Government will also improve the performance of the key statutory consultees in responding swiftly to applications. This will include key statutory bodies bringing forward an improvement plan by spring 2012;
- **build more flexibility into the new major infrastructure planning process, particularly in the pre-application phase,** by summer 2012, as part of a light touch review of the process responding to feedback from users of the regime; and
- **ensure that compliance with the Habitats and Wild Birds Directives does not lead to unnecessary costs and delays to development,** while continuing to support the Directives' objectives. The Government is reviewing the Directives as currently implemented in England by Budget 2012 and is committed to tackling blockages for developments where compliance is particularly complex or has large impacts. In addition, the Government has announced progress on specific projects where compliance has already proved problematic, including Falmouth Harbour.[11]

1.100 These measures will complement the Government's wider reforms of the planning system. The Government has already made substantial progress through the Localism Act 2011 and the publication of the draft National Planning Policy Framework, which sets out a presumption in favour of sustainable development. Building on these reforms, the Government will:

- **review planning appeals procedures,** seeking to make the process faster and more transparent, improve consistency and increase certainty of decision timescales. Proposals will be brought forward for implementation in summer 2012;
- **consult on a proposal to allow the reconsideration of those planning obligations agreed prior to April 2010 where development is stalled;** and
- **consult on proposals to allow existing agricultural buildings to be used for other business purposes such as offices, leisure and retail space,** to make it easier for rural businesses to find the premises they need to expand.

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[10] *Infrastructure Cost Review,* HM Treasury, December 2010.
[11] Details are set out in the *National Infrastructure Plan.*

Housing market

1.101 *Laying the Foundations: A Housing Strategy for England,* published on 21 November 2011, set out a number of actions the Government is taking to increase house building, stabilise the housing market and enable more people to own their own home.[12] The Government will:

- **introduce a new build indemnity scheme to increase the supply of affordable mortgage finance for new build homes.** Under the scheme, home buyers will be able to purchase new build houses and flats with a five per cent deposit. House builders and the Government will help provide security for the loan. The Government will take on a contingent liability which will build up in line with purchases under the scheme, to a maximum of £1 billion. This will help up to 100,000 families and young people to buy their own home;
- **reinvigorate the Right to Buy to support social tenants who aspire to own their own home,** by raising the discounts to make it attractive to tenants across England. For each home purchased, the Government will provide an additional affordable home, in addition to plans to deliver up to 170,000 affordable homes through the new Affordable Homes Programme;
- **launch a new £400 million Get Britain Building investment fund,** which will support firms in need of development finance. This will help to drive progress on stalled sites which have planning permission and are otherwise ready to start. The Government will issue a prospectus to interested developers by the end of the year; and
- **support new development, which could include modern garden cities, urban and village extensions.** The Government will invite proposals from developers and local authorities for new developments which have clear local support.

1.102 The Government is committed, through the Green Deal, to improving the energy efficiency of buildings to benefit energy bill payers and the environment. As additional one-off support for this, delivering the commitment at Budget 2011, **the Government is allocating £200 million to encourage early uptake of the Green Deal in its initial phase over 2012-13 and 2013-14.** Further details will be set out next year and will be subject to state aid considerations.

1.103 The Government is publishing analysis showing that the stamp duty land tax relief for first time buyers has been ineffective in increasing the number of first time buyers entering the market. This relief will therefore end on 24 March 2012 as planned. The Government is instead prioritising more effective measures which provide better value for money as set out above and in *Laying the Foundations: A Housing Strategy for England.*

UK exports

1.104 The Government has introduced a number of measures to promote trade and investment as set out in the Trade and Investment White Paper.[13] In addition, the Government will:

- **spend £10 million to make available to 500 mid-sized businesses each year the bespoke export support services of UK Trade & Investment (UKTI);**
- **spend £35 million to double, from 25,000 to 50,000, the number of SMEs that UKTI supports each year;[14]**

[12] *Laying the Foundations: A Housing Strategy for England,* Department for Communities and Local Government, November 2011.
[13] *Trade and Investment for Growth,* Department for Business, Innovation and Skills, February 2011.
[14] *Britain Open for Business,* UKTI's five year strategy, May 2011.

- work through the EU to complete free trade agreements with India, Singapore and Canada in 2012, and make substantial progress towards completing trade agreements with Mercosur, most ASEAN countries and Japan within the next three years; and
- **capitalise on the growth potential of education exports by launching HE Global, an online information and advice portal for higher education (HE) institutions wishing to expand abroad, and developing a vehicle to bring together government, HE and industry expertise to package and sell education offers overseas.**

Energy-intensive manufacturing

1.105 The Government is committed to ensuring that manufacturing is able to remain competitive during the shift to a low carbon economy and to minimising the 'carbon leakage' which might happen if investment relocated abroad. **The Government intends to implement measures to reduce the impact of policy on the costs of electricity for the most electricity-intensive industries, beginning in 2013 and worth around £250 million over the Spending Review period.** As part of this the Government will:

- **compensate key electricity-intensive businesses to help offset the indirect cost of the carbon price floor and the EU Emissions Trading System, subject to state aid guidelines;** and
- **increase the level of relief from the climate change levy on electricity for Climate Change Agreement participants to 90 per cent.**

1.106 The Government will also explore options for reducing the impact of electricity costs on electricity-intensive industries as a result of electricity market reform policies where this has a significant impact on their competitiveness.

Creating a more educated workforce that is the most flexible in Europe

Education and skills

1.107 In order to raise school standards and support areas facing the greatest pressures on school places, the Government will provide an additional £1.2 billion for capital investment in schools in England, including:

- **an extra £600 million to fund 100 additional Free Schools** by the end of this Parliament. This will include new specialist maths Free Schools for 16-18 year olds, supported by strong university maths departments and academics; and
- **an additional £600 million to support those local authorities with the greatest demographic pressures.** This funding is enough to deliver an additional 40,000 school places.

1.108 In order to make the education and skills system more responsive to employer needs, the Government will:

- **enable businesses to design, develop and purchase the vocational training programmes they need through a new £250 million pilot fund.** In early 2012, employers will be invited to bid for a share of the fund;
- **improve the apprenticeships programme and reduce red tape,** including by: requiring all apprenticeships providers to support training in English and maths up to good GCSE standard where not already achieved; ensuring that employers are able to advertise a vacancy within one month of deciding to take on an apprentice and have them ready to start work within three months; and removing all excess health and safety requirements for apprenticeships;

- **increase young people's access to high quality work experience by investing £4.5 million over the next two years to support work experience as part of post-16 programmes of study; work with the Federation of Small Businesses and other employer groups to review regulation impacting on the provision of work experience by the end of December 2011; and publish shortly a guide on work experience;** and
- **support the kite-marking of courses that employers value by science, technology, engineering and maths Sector Skills Councils supported by the Confederation of British Industry.**

Public sector pay

1.109 Public and private sector organisations compete for employees in different markets across the UK. However, while private sector pay is set in accordance with local labour markets, public sector pay is usually set on a national basis. As a result, in many areas, public sector pay does not reflect local labour market conditions. For example, the Institute for Fiscal Studies have found that public sector workers are paid similar wages to private sector workers in some parts of the country, but over 10 per cent more in other locations.[15]

1.110 Such differences between public and private sector pay can adversely affect private sector businesses which have to compete with higher public sector wages. It also leads to unfair variations in public sector service quality and limits the number of jobs that the public sector can support. Some public sector organisations, such as Her Majesty's Courts and Tribunals Service, have already successfully taken action to ensure that their pay is in line with local labour markets, but there is the potential for others to take a similar approach. The Autumn Statement therefore announces that:

- **the Government will ask independent Pay Review Bodies to consider how public sector pay can be made more responsive to local labour markets, to report by July 2012;** and
- **the Minister for the Cabinet Office will review how more local, market-facing pay could be introduced in civil service departments.** Secretaries of State may then choose to take forward recommendations for their departments.

Employment regulation

1.111 The Government is committed to making it as easy as possible for people to find work by reducing the burden of complying with employment law. The Government is increasing the qualifying period for unfair dismissal claims from one year to two years from April 2012 to help address employers' fears about the risks of taking on a new member of staff. The Government will also introduce fees for individuals who want to bring cases to employment tribunals and will consult on the level of fees. Potential claimants will be less likely to pursue this option unless the employer has a genuine case to answer.

1.112 The recently announced outcomes of the employment law Red Tape Challenge set out actions to remove barriers to hiring. As part of this the Government will:

- **look for ways to provide a quicker and cheaper alternative to a tribunal hearing in simple cases – a 'Rapid Resolution' scheme;**
- **complete a call for evidence on the effectiveness of the TUPE (Transfer of Undertakings – Protection of Employment) regulations and will consult on proposals for any changes in early 2012;**
- **complete a call for evidence on the impact of reducing the collective redundancy process for redundancies of 100 or more staff from the current 90 days to 60, 45 or 30 days;** and

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[15] *The IFS Green Budget,* The Institute for Fiscal Studies, February 2011.

- **begin a call for evidence on two proposals for radical reform of UK employment law. First, the Government will seek views on the introduction of compensated no-fault dismissal for micro-businesses with fewer than 10 employees. Second, the Government will consider how it could move to a simpler, quicker and clearer dismissal process,** potentially including working with the Advisory, Conciliation and Arbitration Service (ACAS) to make changes to their Code or by introducing supplementary guidance for small businesses.

1.113 To ensure effective delivery of its broader deregulatory agenda the Government will:

- **launch a review of regulators to ensure that enforcement arrangements are appropriate, proportionate, fit for purpose and risk-based,** in order to tackle heavy handed, prescriptive and inefficient enforcement, and build on good practice where it exists; and
- **accept the recommendations of Professor Löfstedt's review of health and safety regulation and look to go further as part of the Red Tape Challenge.**

Making the UK the best place in Europe to start, finance and grow a business

Credit easing

1.114 The Government is launching a package of interventions worth up to £21 billion to ease the flow of credit to businesses that do not have ready access to capital markets, with scope to increase the scale of this package in future if necessary.

1.115 The National Loan Guarantee Scheme will lower the cost of bank loans for smaller businesses with turnover of up to £50 million. The Government will allow participating banks to raise up to a total of £20 billion of cheaper funding over the next two years under a government guarantee, provided they pass through this lower cost of funding to smaller businesses. In many cases, this will lead to a reduction of up to one percentage point on the cost of the business loan. The scheme will focus on new loans and overdrafts, to help increase the supply of credit in the economy. In considering banks' access to the scheme, the Government will take into account banks' commitment to smaller businesses. In order to qualify for the guarantees, banks will have to show that they are passing through the benefit of the guarantee to cheaper loans (as in the European Investment Bank's well-established 'Loans for SMEs' scheme). Firms should be able to apply for these funds through participating banks in the normal way. The scheme will be operational as soon as possible, subject to state aid approval.

1.116 The Government will also help businesses raise funds from non-bank sources by **making available an initial £1 billion through a Business Finance Partnership,** to invest in mid-sized businesses and SMEs in the UK. A number of reports have shown the reliance of these businesses on banks as a source of debt finance.[16] The partnership will initially focus on co-investment with the private sector through loan funds, which will lend directly to mid-sized businesses in the UK. The Government will begin the process of allocating funds early in 2012. The Government will also consider options for investing through other non-bank lending channels, and welcomes proposals. This will help to diversify the sources of finance available to businesses.

1.117 In addition the Government will:

- **extend the Enterprise Finance Guarantee (EFG) from January 2012 to include businesses with up to £44 million annual turnover, and a number of new lenders will be accredited to offer EFG lending;**

[16] For example, *Financing a Private Sector Recovery,* HM Treasury and Department for Business, Innovation and Skills, July 2010; *Beyond The Banks,* NESTA, November 2011; and *Future Champions*, Confederation of British Industry, October 2011.

- **amend the regulations for UK covered bonds to provide greater transparency for investors and help banks use covered bonds to raise funding;**
- **establish an industry working group to explore how to further develop access to non-bank lending channels, including forms of bond issuance, for SMEs and mid-sized businesses. The group will be led by the Department for Business, Innovation and Skills and will report by Budget 2012;** and
- **continue to work with the British Bankers' Association's (BBA) Business Finance Taskforce.** The Government welcomes the progress the banks have made in delivering their commitments, as well as their intention to continue to take these initiatives forward in future. In particular, the Government welcomes the BBA's intention to work with Community Development Finance Institutions (CDFIs) to put in place a system to refer unsuccessful loan applicants to CDFIs.

1.118 The Government will continue to assess further options to increase the supply of credit to SMEs and mid-sized businesses. Further progress will be announced at Budget 2012.

Financing and growing a business

1.119 To encourage investment in new start-up companies **the Government will launch a new Seed Enterprise Investment Scheme (SEIS) from April 2012,** offering 50 per cent income tax relief on investments, **and will offer a capital gains tax exemption on gains realised in 2012-13 and then invested through SEIS in the same year.** In addition, the Government will simplify and refocus the Enterprise Investment Scheme and Venture Capital Trusts.

1.120 The Government will **extend the current small business rate relief holiday for a further six months from 1 October 2012. The Government will also give businesses the opportunity to defer 60 per cent of the increase in their 2012-13 business rate bills as a result of the RPI uprating, to be repaid equally across the following two years.** The devolved administrations will be provided with Barnett consequentials to facilitate similar action if they choose to.

Regional growth

1.121 The Government is committed to rebalancing investment and growth across the whole of the UK. To support this, the Government will:

- **increase the Regional Growth Fund for England by £1 billion, plus Barnett consequentials for the devolved administrations, and extend it into 2014-15 to provide ongoing support to grow the private sector in areas currently dependent on the public sector.** The Regional Growth Fund has already allocated £1.4 billion to 169 projects supporting an estimated 325,000 jobs;
- **subject to due diligence, expand the existing Enterprise Zone in the North East to include land around the Port of Blyth, encouraging business investment in the renewables industry. The Government will also consider an Enterprise Zone in Battersea linked to the redevelopment of the power station;**
- **make 100 per cent capital allowances available in the following Enterprise Zones: the Black Country; Humber; Liverpool; North Eastern; Sheffield; and Tees Valley;** and
- **approve proposals from the Lancashire and Humber Local Enterprise Partnerships to form Enterprise Zones on and around the BAE Systems' sites in these areas.**

Procurement

1.122 In order to help build capability in strong UK-based supply chains and support SMEs and mid-sized businesses, the Government will:

- introduce a package of measures to deliver better value for the UK from public procurement. Having already published procurement plans for construction, wider infrastructure, information and communication technologies and facilities management, **the Government will publish medium-term plans setting out its procurement needs for other sectors by April 2012.** This will give suppliers the confidence to invest for the future and compete on a level playing field; and
- simplify the procurement process to reduce burdens on industry. **The Government will make better use of pre-procurement dialogue with suppliers** to ensure procurement processes are well designed and quickly carried out. **The Government will complete all but the very biggest and most complex procurement processes within 120 working days by introducing the Lean sourcing process from January 2012.**

Innovation

1.123 The Government will publish its Innovation and Research Strategy shortly to set out how it will support innovation in the UK. The Government is today announcing that it will:

- **invest an additional £75 million in supporting technology-based SMEs to develop, demonstrate and commercialise new products and services;**
- **invest an additional £200 million in science, including an £80 million investment in the Institute for Animal Health and £25 million for large-scale technology demonstrators;** and
- **introduce an 'above the line' tax credit in 2013 to encourage research and development (R&D) activity by larger companies. The Government will consult on the detail at Budget 2012 and will ensure that SME R&D incentives are not reduced as a result of this change.** This builds on measures at Budget 2011 to increase the generosity and accessibility of R&D tax credits for SMEs.

1.124 In December 2011 the Prime Minister will set out the Government's strategy to ensure that the UK is the best location for undertaking translational research in life sciences. The strategy will outline how the Government will support the life sciences work of universities, the NHS, private investors and businesses, to attract and develop talent, and improve incentives.

1.125 Making more public sector information available will help catalyse new markets and innovative products and services as well as improving standards and transparency in public services. **The Government will open up access to core public datasets on transport, weather and health, including giving individuals access to their online GP records by the end of this Parliament. The Government will provide up to £10 million over five years to establish an Open Data Institute to help industry exploit the opportunities created through release of this data.**

Creating the most competitive tax system in the G20

1.126 The Government's aim is to create the most competitive tax system in the G20. In the Corporate Tax Road Map the Government set out a series of reforms in a single programme to give certainty to businesses.[17] At Budget 2011 the Government cut the main rate of corporation tax to 26 per cent, and by 2014 it will reach 23 per cent - the lowest rate in the G7 and one of the lowest rates in the G20.

1.127 Following consultation over summer 2011, the Government will publish on 6 December 2011 further details of the Patent Box and of its reform of the Controlled Foreign Company rules and R&D tax credits.

[17] *Corporate Tax Reform: delivering a more competitive system,* HM Treasury, November 2010.

Fairness

Overview

1.128 Fairness underpins the Government's plans to protect, rebalance and strengthen the economy. The measures in the Autumn Statement will ensure that households and businesses continue to benefit from low interest rates; that future generations are not burdened with unsustainable debt; and that the country remains protected from the worst of the global crisis.

1.129 The Government is taking further action to help households and businesses cope with higher inflation; to ensure deficit reduction is implemented fairly, with the financial sector paying a fair share; and to support young people in the labour market.

1.130 In line with the child poverty strategy, the Government is taking further action to focus more of its resources on services which enable children to have the best start in life and find a sustainable route out of poverty in the long run.[1]

Supporting households and businesses

Council tax

1.131 As announced on 3 October 2011, **the Government has set aside an extra £675 million for local authorities in England who freeze or reduce their council tax in 2012-13. The devolved administrations will receive additional funding in line with this increase based on the Barnett formula**. This will provide households with real help with living costs.

Fuel duty

1.132 Given the current high cost of fuel, to support motorists and businesses, **the Government announces that the 3.02 pence per litre (ppl) fuel duty increase that was due to take effect on 1 January 2012 will be deferred to 1 August 2012, and the inflation increase that was planned for 1 August 2012, currently expected to be worth 1.92ppl,[2] will be cancelled.** This will ensure that there will only be one RPI increase next year. The 5ppl discount for the Inner and Outer Hebrides, the Northern Isles, the islands in the Clyde and the Isles of Scilly will, in addition, come into force on 1 March 2012. The Government will publish details of the design of the fair fuel stabiliser at Budget 2012.

Rail fares

1.133 The Government recognises the pressures that businesses and passengers are under as a result of public transport fares. **The Government has decided to limit the increase to Transport for London and regulated rail fares to RPI plus one per cent for one year from January 2012.**

Water bills in the South West

1.134 Households in the South West face by far the highest water bills in the country. **The Government has decided to fund South West Water to enable it to cut bills by £50 per year for all household customers.**

[1] *A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives,* Department for Work and Pensions and Department for Education, April 2011.
[2] The estimate is based on the latest OBR RPI forecast for 2012-13 Q3.

Implementing the consolidation

Bank Levy

1.135 The Government will ensure banks continue to make a fair contribution reflecting the risks they pose to the financial system and the wider economy. As set out in Budget 2011, the Government intends that the Bank Levy should raise at least £2½ billion each year, more than the net revenue from the one-off Bank Payroll Tax. To offset the forecast shortfall in receipts for 2011 and future years, **the rate of the Bank Levy will increase to 0.088 per cent from 1 January 2012.**

Employer pension contributions

1.136 The Government is introducing changes to the tax rules to ensure the amount of tax relief given to employers making asset-backed pension contributions to registered pension schemes accurately reflects the amount of payments made, and does not give rise to unintended excess relief.

Air Passenger Duty

1.137 The Government will proceed with the extension of Air Passenger Duty (APD) to flights taken aboard business jets, effective from 1 April 2013. Details will be set out in the Government's response to the APD consultation on 6 December 2011.

Capital gains tax

1.138 The Government will freeze the annual exempt amount for capital gains tax at £10,600 for 2012-13.

Benefits and tax credits

1.139 The Government will ensure that the welfare system remains fair and affordable while protecting the most vulnerable in society. Recognising that the benefits system supports the poorest, **most working age and disability benefits will be uprated in line with the CPI in 2012-13, an increase of 5.2 per cent.**

1.140 The child element of Child Tax Credit will also be uprated in line with CPI, and will rise by £135 per year in 2012-13. Given this higher than expected increase, and the £180 above inflation increase in this element in 2011-12, **the £110 above inflation increase that was planned for 2012-13 will not go ahead.**

1.141 Recognising the additional needs of disabled people, **the disability elements of tax credits will be uprated by CPI.** However, to support fiscal consolidation, **the Government will not uprate the couple and lone parent elements of the Working Tax Credit in 2012-13.**

1.142 The Government confirms the basic State Pension will increase by the triple guarantee, as announced in the June 2010 Budget. A full basic State Pension will rise by £5.30 to £107.45 per week in April 2012. The full couple rate for those whose entitlement is based on their spouse's or civil partner's pension will rise by £8.50 to £171.85 per week.

1.143 To ensure that pensioners with the lowest incomes benefit from the triple guarantee, **the standard minimum income guarantee in Pension Credit will increase by 3.9 per cent in April 2012** to £142.70 per week for single pensioners and £217.90 a week for pensioner couples. To limit the spread of means testing up the income distribution for pensioners, **the Government will raise the threshold for Savings Credit in April 2012 to £111.10 for single pensioners and £177.20 for pensioner couples.**

Youth contract

1.144 To ensure that every young person not already in work, education or training has support to get into the workplace, **the Government is introducing the Youth Contract, worth a total of £940 million over the Spending Review period.** The Youth Contract will:

- **provide extra support from Jobcentre Plus for unemployed 18-24 year olds, with additional advisor time and a careers interview from the National Careers Service after three months on Jobseeker's Allowance (JSA), and with weekly, rather than fortnightly, signing for all 18-24 year olds from month five.** This will be more demanding than the current regime; and
- **provide an offer of a work experience or a Sector Based Work Academy place for every unemployed 18-24 year old who wants one after three months on JSA, before they enter the Work Programme.** The Government is providing an additional 250,000 places.

1.145 Those young people still unemployed after nine months on JSA will transfer to the Work Programme. In addition the Youth Contract will:

- **provide funding for an estimated 160,000 wage incentives of £2,275 to make it easier for private sector employers to take on young people;**
- **ensure the funding for at least 40,000 incentive payments for small firms to take on young apprentices;** and
- **fund a new £50 million a year programme to provide support to some of the most disadvantaged 16-17 year olds not in education, employment or training (NEET) across the UK. This will provide vital support to help them to get into education, an apprenticeship or a job with training.**

Social mobility and child poverty

1.146 The Government is committed to tackling the causes of poverty and to ensuring that children born in low income families realise their full potential. Taking account of the uprating measures set out earlier in this section, around 80 per cent of households with children will see their tax credits awards increase at least in line with projected average earnings growth next year.[3]

1.147 As set out in Budget 2011, the Government has developed improved ways to measure poverty and social mobility. The child poverty strategy sets out a new approach to address the underlying causes of poverty.[4] The Government will report progress on this in line with the Child Poverty Act 2010. The Government's actions will focus on helping families to find a route out of poverty and targeting investment, for example in early years education and health visitors, to give children the best start in life.

1.148 Consistent with this new approach, **the Government will invest a further £380 million a year by 2014-15 to extend its new offer of 15 hours free education and care a week for disadvantaged two year olds, to cover an extra 130,000 children.** This doubles the offer announced at the Spending Review, reaching around 40 per cent of all two year olds in England by 2014-15. This is in addition to investing over £7 billion in a "Fairness Premium" to support the prospects of children from low income families at every stage of their education – through free education and care at age two, funding for a Pupil

[3] HMRC analysis using tax credits administrative data.
[4] *A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives,* Department for Work and Pensions and Department for Education, April 2011.

Premium for school age pupils and a new national scholarship fund to support students in higher education.

1.149 Further information on the estimated impact of the Autumn Statement is available in *Impact on households: distributional analysis to accompany the Autumn Statement 2011*.[5]

[5] Available on the HM Treasury website at www.hm-treasury.gov.uk.