HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

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Autumn Statement 2016: a summary

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Summary: Autumn Statement 2016 at a glance

Autumn Statement 2016 was presented by the Chancellor of the Exchequer to Parliament on 23 November. At the same time the Office for Budget Responsibility (OBR) published updated forecasts in its economic and fiscal outlook.

Government announcements

- A **National Productivity Investment Fund (NPIF)** will be introduced, which will invest an average of around £5 billion a year between 2017/18 and 2021/22. The NPIF will be targeted at transport, digital communications, research and development and housing.
- The **Universal Credit taper** will be **reduced from 65% to 63%** from April 2017. This means once claimants earn above the work allowances in Universal Credit they will be able to keep more of what they earn.
- The **National Living Wage** will increase from £7.20 to **£7.50 in April 2017**. This follows the recommendations of the Low Pay Commission. The Government has also accepted the Low Pay Commission's recommendations for the other National Minimum Wage rates.
- **Fuel duty** will be **frozen** for the seventh successive year.
- The standard rate of **Insurance Premium Tax** will **increase** from 10% to 12% from 1 June 2017. From 2018/19 this is estimated to raise around £850 million a year, making it the largest tax raising measure announced.
- **National Insurance contributions (NICs) thresholds** for employers and employees will be **aligned** from April 2017. This means employees and employers will start paying National Insurance at the same amount of weekly earnings.
- **Tax and NICs advantages on some salary sacrifices** will be **removed**. This means that employees swapping salary for other benefits will pay tax on these benefits. Exceptions include: pensions (including advice), childcare, Cycle to Work and ultralow emission cars.
- **£1 billion of savings from an efficiency review** will be **reinvested in priority areas**. The review, announced in Budget 2016, is aiming to find savings for public spending of £3.5 billion in 2019/20.
- A **Northern Powerhouse strategy** has been published.
- **Pay to Stay** – under which local authority tenants with sufficient incomes would have been required to pay a market, or near market rent – **is dropped**. This was announced a couple of days prior to the Autumn Statement.
- **Letting agents' fees** to tenants will be banned.
- Various measures to **tackle tax avoidance and evasion** will be introduced.
- There will be minor amendments to **business rates**. **Transitional reliefs**, which are available to those whose bills will rise following the business rates revaluation, **will be more generous. Rural rate relief will rise to 100%**.
- The **Budget timetable to change**. The **Budget will take place in autumn from autumn 2017**. **From 2018 there will be a Spring Statement** in which the Chancellor will respond to the OBR's forecasts for the economy and public finances.

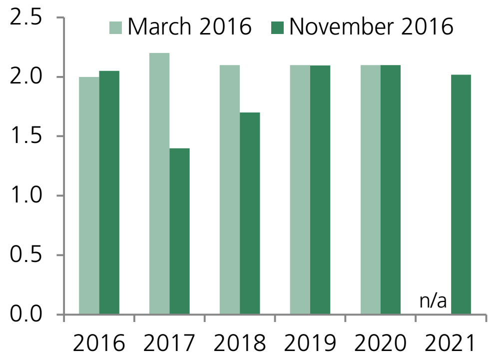
Office for Budget Responsibility (OBR) forecasts and the fiscal targets

- The **OBR revised down its forecasts for economic growth in 2017 and 2018**, citing a weaker outlook for investment and therefore productivity growth as the main cause. The OBR's growth forecast for 2016 was revised up slightly.
- The **OBR's forecasts for government borrowing** – often referred to as the deficit – **have increased**. Much of the change comes from the OBR updating their underlying forecast – allowing for changes in the economy and public finances – but some comes from policy decisions taken by the Government.
- The OBR's **forecasts for the debt-to-GDP ratio have increased in all years**. The ratio is forecast to begin falling in 2018/19.
- The Government has **proposed new fiscal targets** and published these in a revised Charter for Budget Responsibility. If the Charter is approved by Parliament the new targets will be officially assessed by the OBR alongside Budget 2017.
- The revised targets include:
  - a fiscal mandate to reduce cyclically-adjusted public sector net borrowing to below 2% of GDP by 2020/21.[1] The OBR describes the proposed fiscal mandate as 'much looser' than the previous target which focuses on a budget surplus in 2019/20.
  - a target for public sector net debt as a percentage of GDP to be falling in 2020/21.
  - a revised welfare cap**.** The target is now for relevant welfare spending to be within the cap in 2021/22.
- The targets can be reviewed if there is a significant negative shock to the UK economy. The Charter doesn't define what would be considered a significant negative shock.
- The Treasury's objective for fiscal policy – to which the revised targets will contribute – is for the public finances to reach balance as early as possible in the next Parliament.

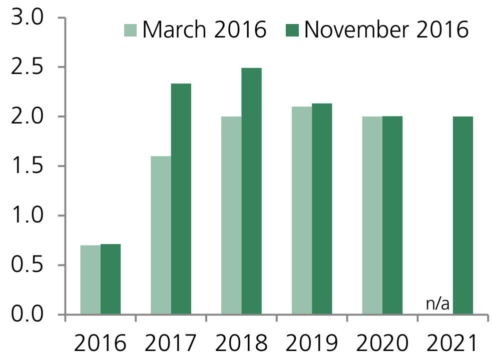
[1] The proposed fiscal mandate removes elements of borrowing related to the economic cycle, leaving the structural, or persistent, elements of government borrowing. This is what is meant by 'cyclically-adjusted'.

1. OBR forecasts for the economy

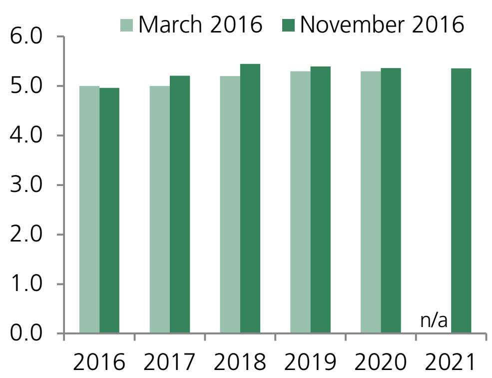
GDP growth (%)



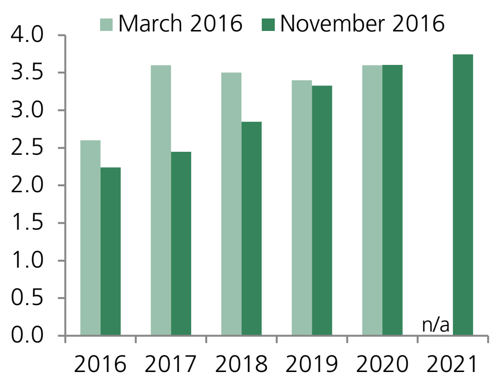
CPI inflation (%)



Unemployment rate (%)



Average earnings, annual % change



In its November 2016 forecasts compared with its March 2016 forecasts the OBR:

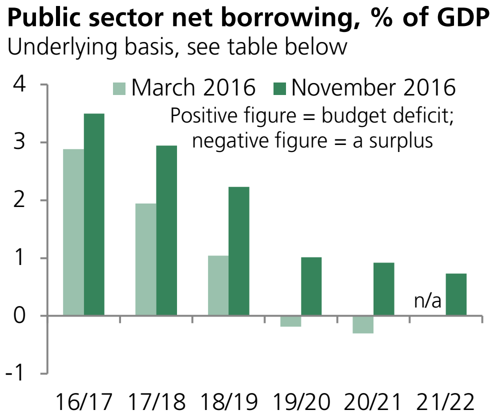
- expects GDP annual growth to be lower in 2017 and 2018, and unchanged in 2019 and 2020. 2017 forecasts have been cut from 2.2% to 1.4%.
- has raised CPI annual inflation in 2017 and 2018 due to the fall in the pound, since the EU referendum, raising import prices.
- has cut average annual earnings growth forecasts to 2019.

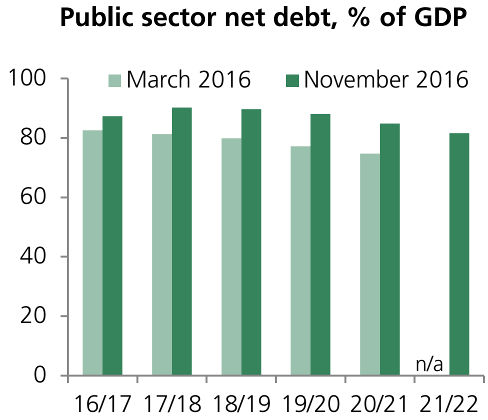
OBR forecasts: economy

	2015	2016	2017	2018	2019	2020	2021
GDP growth (%)							
March 2016	2.2	2.0	2.2	2.1	2.1	2.1	..
November 2016	2.2	2.1	1.4	1.7	2.1	2.1	2.0
CPI inflation (%)							
March 2016	0.0	0.7	1.6	2.0	2.1	2.0	..
November 2016	0.0	0.7	2.3	2.5	2.1	2.0	2.0
ILO unemployment rate, %							
March 2016	5.4	5.0	5.0	5.2	5.3	5.3	..
November 2016	5.4	5.0	5.2	5.5	5.4	5.4	5.4
Average earnings, % change on previous year							
March 2016	2.3	2.6	3.6	3.5	3.4	3.6	..
November 2016	1.8	2.2	2.4	2.8	3.3	3.6	3.7

*In March 2016, there were no forecasts for 2021

2. OBR forecasts for the public finances





In its November 2016 forecasts compared with its March 2016 forecasts the OBR:

- expects more borrowing in all years – some of the additional borrowing can be attributed to government policy decision, but the majority is a result of changes to the OBR's underlying forecast.
- expects higher debt in all years. The debt-to-GDP ratio is now expected to start falling in 2018/19, two years later than previously expected.

The OBR assesses that the Government is more likely than not to meet its proposed fiscal targets. They also report that the Government would have missed its previous targets.

OBR forecasts: public finances

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Net borrowing, £ billion**							
March 2016	72.2	56.0	39.2	21.9	-4.1	-6.9	…
November 2016	76.0	68.2	59.0	46.5	21.9	20.7	17.2
Net borrowing, % of GDP**							
March 2016	3.8	2.9	1.9	1.0	-0.2	-0.3	..
November 2016	4.0	3.5	2.9	2.2	1.0	0.9	0.7
Cyclically adjusted net borrowing, % of GDP							
March 2016	3.6	2.7	1.9	1.0	-0.5	-0.5	..
November 2016	3.8	3.3	2.6	1.8	0.8	0.8	0.7
Net debt, £ trillion							
March 2016	1.59	1.64	1.68	1.72	1.72	1.74	..
November 2016	1.61	1.72	1.84	1.90	1.95	1.95	1.95
Net debt, % of GDP							
March 2016	83.7	82.6	81.3	79.9	77.2	74.7	..
November 2016	84.2	87.3	90.2	89.7	88.0	84.8	81.6

*In March 2016, there were no forecasts for 2021/22

** Like-for-like basis adjusting for ONS classification changes

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