House of Commons Library

BRIEFING PAPER

Number 8144, 17 November 2017

Autumn Budget 2017: Background briefing

Edited by Matthew Keep

Inside:

1. Economic situation
2. Government borrowing, debt and spending
3. Objective and targets for the public finances
4. Brexit: forecasts and spending
5. Public sector pay
6. Universal Credit
7. Abandoning plans to apply LHA rates to the social rented sector
8. Moving to an Autumn Budget and scrutiny of spending

Contents

Summary **4**

1. Economic situation **7**
1.1 Recent growth performance 7
1.2 Inflation 10
1.3 Interest rates 11
1.4 Labour market 12
1.5 Trade and current account 14
1.6 Productivity 15
1.7 Growth forecasts 18

2. Government borrowing, debt and spending **20**
2.1 The deficit: public sector net borrowing 21
2.2 Developments since March 2017 23
2.3 The current budget deficit 27
2.4 Public sector net debt 28
2.5 Public spending 29

3. Objective and targets for the public finances **31**
3.1 The objective 32
3.2 Borrowing target 32
3.3 The debt target 33
3.4 The Welfare Cap 34

4. Brexit: forecasts and spending **35**
4.1 The OBR's forecasts 35
4.2 Departments' Brexit spending 39

5. Public sector pay **41**
5.1 Current policy 41
5.2 Recent debate 42

6. Universal Credit **44**
6.1 Roll-out this autumn/winter 44
6.2 Cutting the "six-week wait" 45

7. Abandoning plans to apply LHA rates to the social rented sector **46**

8. Moving to an Autumn Budget and scrutiny of spending **47**
8.1 The move to an Autumn Budget 47
8.2 What happens after the Finance Act? 51

Appendix 1: Sources of further information **53**

Appendix 2: Economic and public finance data 1979-2021 **54**

Cover page image copyright: Autumn colours at Westminster by Manish Prabhune. Licensed by CC BY 2.0 / image cropped

Contributing Authors:

Philip Brien, public spending
Daniel Harari, economic situation
Larry Honeysett, the estimates cycle
Richard Keen, universal credit
Andy Powell, labour market
Doug Pyper, public sector pay
Antony Seely, moving to an Autumn Budget

Summary

This briefing sets out the background to the Autumn Budget 2017 which will take place on Wednesday 22 November 2017. The Office for Budget Responsibility (OBR) will publish revised forecasts for the economy and public finances on the same day.

Economic situation

Growth (section 1.1)
Economic growth has been stable but modest so far in 2017 on the back of a slowdown in consumer spending. Latest quarterly GDP growth of 0.4% in the third quarter (Q3 2017) was similar to the 0.3% recorded in Q1 and Q2. However, GDP growth has been slowing. GDP growth stood at 1.5% in Q3 2017 compared with a year before. This contrasts with many other advanced economies, particularly the Eurozone, which has seen growth accelerate in 2017.

The OBR has said that at Autumn Budget 2017 it intends to lower its productivity forecasts, presumably resulting in it lowering its GDP growth forecasts.

Prices and wages (section 1.2 and section 1.4)
Consumers have been squeezed by rising inflation following past falls in the value of the pound, notably following the June 2016 EU referendum. Inflation is currently at 3.0%, while average wage growth adjusted for inflation was 0.6% lower than a year before. Wage growth remains weak despite unemployment being at its lowest rate since 1975 and near-record employment rates.

Interest rates (section 1.3)
With inflation well above its 2% target, the Bank of England raised interest rates from 0.25% to 0.5% in early November. This was the first rate increase since 2007. The decision to raise rates was also partly a result of the Bank lowering its expectations of the economy's potential growth rate, itself a consequence of lower productivity growth forecasts.

Public finances

Borrowing and debt (section 2)
In 2016/17 the government borrowed £46 billion to make up the difference between its spending and income raised from taxes and other sources. Borrowing, often referred to as the deficit, is now at a similar level to before the 2007-2008 financial crisis.

In March 2017, the OBR forecast that the government will borrow more in 2017/18 than in 2016/17. This is still expected to be the case, despite an improvement in the borrowing data for the first half of 2017/18. The OBR forecast that borrowing will decrease in subsequent years up to the end of their forecast in 2021/22.

At 86% of GDP, public sector net debt – largely the stock of borrowing arising from past deficits – remains relatively high by recent and international standards. The OBR forecast it to fall to around 80% of GDP by the end of this Parliament.

Developments since March 2017 (section 2.2)
A series of developments since March 2017 may impact on the OBR's borrowing forecasts:

- The OBR anticipates "significantly reducing" their assumption for potential productivity growth, which will lower economic growth forecasts and increase borrowing.

- The Office for National Statistics (ONS) is moving English housing associations back to the private sector. Their borrowing – about £3 billion in 2016/17 – will no longer impact on the deficit.
- There appears to have been an underlying improvement in the public finances. The Institute for Fiscal Studies (IFS) – an economic think tank – estimate that the improvement could lower borrowing by around £11 billion per year.
- Since March 2017 the Government has introduced new policies and dropped some previously announced policies, which will effect spending and revenues.
- The Bank of England's decision to raise interest rates in November will directly impact on the Government's spending on debt interest.

The Government's targets for the public finances (section 3)
The Government would like to eliminate the budget deficit by the middle of the next decade. This is its overall objective for the public finances. The Government has targets for government borrowing and debt aimed at achieving its overall objective. The OBR will assess performance against the borrowing and debt targets alongside Autumn Budget 2017. (section 3)

The Government also has a cap to control welfare spending – the welfare cap. At Autumn Budget 2017, the Government is expected to announce the level of the welfare cap, and in which year it should apply, during this Parliament. (section 3.4)

Policies that may come up in the Budget

Public sector pay (section 5)
Since 2013 the Government has funded public sector workforces for average pay awards of 1%. In Summer Budget 2015 the Government said that this would continue up to 2019/20, saving approximately £5 billion in that year.

In September 2017, the Government indicated that from 2018/19 public sector pay policy may be allowed to depart from the 1% average pay cap. Further details may be provided at Autumn Budget 2017.

Universal credit (section 6)
While Universal Credit has been a subject of debate since its inception, this has intensified since roll-out accelerated in early 2017. In recent months, a particular focus of attention has been the length of time new claimants must wait before receiving their first payment. The Government may choose to address this and other concerns at the Autumn Budget.

Abandoning plans to apply LHA rates to the social rented sector (section 7)
While the Government has abandoned its policy of applying Local Housing Allowance (LHA) rates to the social rented sector, we might expect further information on the cost of this change.

Brexit: the OBR's forecasts and departments' spending

Brexit and the OBR's economic forecast (section 4.1)
After the EU referendum the OBR downgraded its economic forecasts in November 2016. In the short to medium term, the downgrade was based on the OBR's judgement that Brexit related uncertainty will lead firms to delay investment and consumers will be squeezed by higher import prices, following the post-referendum fall in the pound. The OBR have made some broad-brush judgements – consistent with most external studies – about the period after Brexit. They assume that over the time horizon of their forecast any likely Brexit outcome will lead to: lower trade flows; lower business investment; and lower net inward migration than would otherwise have been seen. Taken together these result in lower economic growth.

In the longer term the OBR says that decisions made by UK governments in areas such as trade and regulation will determine whether future economic growth is enhanced or impeded.

Brexit and the OBR's public finance forecasts (section 4.1)
In November 2016, the OBR estimated that the referendum result and Brexit increased borrowing in all years of their forecast, rising to around £15 billion in each of the final three years of forecast. The OBR calculated this estimate by comparing its forecast to what its forecast would have looked like if there had been no referendum.

The OBR's public spending forecast includes an estimate of the UK's payments to the EU. While the UK remains a member of the EU these payments will continue as normal. The OBR assumes that after Brexit the spending – which it continues to forecast throughout the five-year forecast period – will be recycled into domestic spending. The recycled spending – roughly £13 billion per year – could be spent by the government as it wishes on domestic priorities or new spending commitments that could result from Brexit and the withdrawal negotiations.

Departments' spending on Brexit (section 4.2)
The Government has committed £250 million of additional spending in 2017/18 to help departments prepare for Brexit. The Government is expected to give an update on departments' Brexit spending in the Autumn Budget.

Changing to an Autumn Budget and Parliament's approval of spending

Moving to an Autumn Budget (section 8.1)
From autumn 2017 the Government is presenting a single autumn Budget, to allow for greater Parliamentary scrutiny of Budget measures ahead of their implementation. This is intended to put an end to tax announcements being made twice a year in the Budget and Autumn Statement. Autumn Budget 2017 is the first announced under this new approach.

The OBR will continue to publish two sets of forecasts a year – one alongside the Autumn Budget and the other in spring. The Government will present a formal response to the OBR's spring forecast.

After the Finance Act (section 8.2)
The Budget and the subsequent Finance Act deal with the raising of government revenues. But before this money can be spent, further approval from Parliament is required each year: both to the amounts and the nature of the spending. Section 8.2 discusses the annual cycle of approvals.

Further information

The Library will publish a summary of Autumn Budget on the evening of 22 November.

The Library briefing, *The Budget and the annual Finance Bill*, discusses the way that Parliament debates the Budget and scrutinises the Finance Bill.

The Library will publish its summary of UK Economic Indicators on 20 November.

The ONS' November 2017 public sector finances release will be published the day before the Autumn Budget. The release provides the latest data on government borrowing and debt.

Look out for Autumn Budget related blogs on the Library's blog, Second Reading.

1. Economic situation

Summary

Economic growth has been stable but modest so far in 2017 on the back of a slowdown in consumer spending. Latest quarterly GDP growth of 0.4% in the third quarter (Q3 2017) was similar to the 0.3% recorded in Q1 and Q2. However, GDP growth has been slowing. GDP growth stood at 1.5% in Q3 2017 compared with a year before. This contrasts with many other advanced economies, particularly the Eurozone, which has seen growth accelerate in 2017.

Consumers have been squeezed by rising inflation following past falls in the value of the pound, notably following the June 2016 EU referendum. Inflation is currently at 3.0%, while average wage growth adjusted for inflation was 0.6% lower than a year before. Wage growth remains weak despite unemployment being at its lowest rate since 1975 and near-record employment rates.

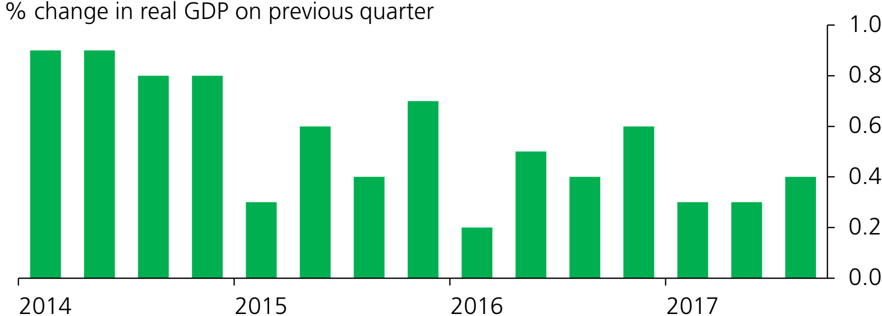
With inflation well above its 2% target, the Bank of England raised interest rates from 0.25% to 0.5% in early November. This was the first rate increase since 2007. The decision to raise rates was also partly a result of the Bank lowering its expectations of the economy's potential growth rate, itself a consequence of lower productivity growth forecasts. The OBR has also signalled it will also reduce its productivity forecasts, presumably resulting in it lowering its GDP growth forecasts.

1.1 Recent growth performance

The economy has expanded at a steady but subdued rate so far this year, with quarterly GDP growth of 0.3-0.4% recorded in the first three quarters of 2017. Growth over the previous year was 1.5% in Q3 2017, compared with Q3 2016.[1]

GDP growth steady but subdued in 2017

% change in real GDP on previous quarter



Source: ONS, series IHYQ

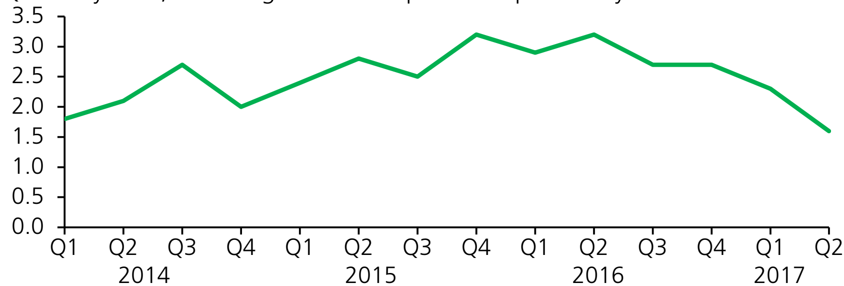
The most important factor behind this relatively modest growth rate has been a slowdown in consumer spending, constrained by a combination of rising inflation in 2017 and weak wage growth (see more on inflation and wage growth below). Having been responsible for almost all of GDP growth in 2016, annual increases in consumer spending have eased from 2.9% on average in 2016 to 1.6% in Q2 2017 (the most recent data available) – a four-year low.

---

[1] All national accounts data in this section from ONS, Gross domestic product, preliminary estimate: July to September 2017, 25 October 2017

Consumer spending growth has slowed

Quarterly data, % change on same quarter of previous year



Source: ONS, series KGZ7

In recent quarters, the other expenditure components of economic activity – investment, government spending on goods and services and net trade (exports minus imports) – have all contributed to overall growth.

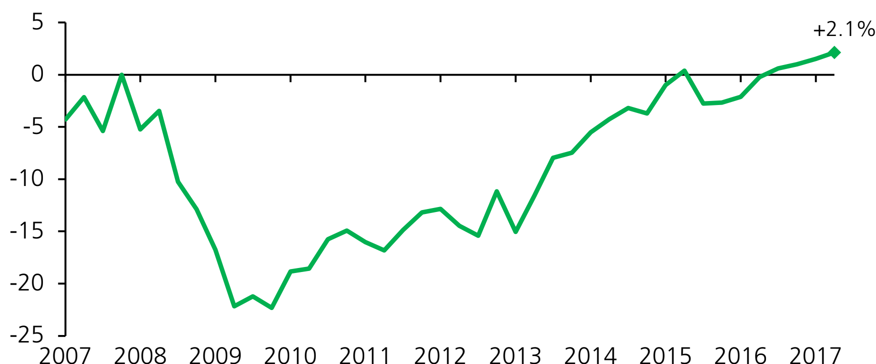
Government expenditure on goods and services was up slightly, while investment grew by 3.0% in the first half of 2017 compared with a year before.[2] The investment figures were revised up in the latest statistical release, but remain lacklustre. The Bank of England has recently stated that Brexit-related uncertainty is "weighing" on investment:

> [I]n a recent survey on investment intentions by the Bank's Agents, economic uncertainty, expected changes to future UK trading arrangements and other Brexit factors were the most commonly cited factors weighing on investment plans.[3]

The overall level of investment in the economy in Q2 2017 was only 2.1% higher compared with Q4 2007, the pre-recession peak level. Historically, investment has rebounded more strongly from recessions.

Investment level only 2% above its pre-recession peak

% change compared with pre-recession peak of Q4 2007, quarterly data



Source: Calculations based on ONS series NPQT (Gross Fixed Capital Formation)

Net trade has also contributed modestly to overall growth in the first half of 2017 compared with the first half of 2016, as the increase in the volume of exports (5.2%) has exceeded that of imports (3.8%). Exports have been boosted by a strengthening global economy, in particular

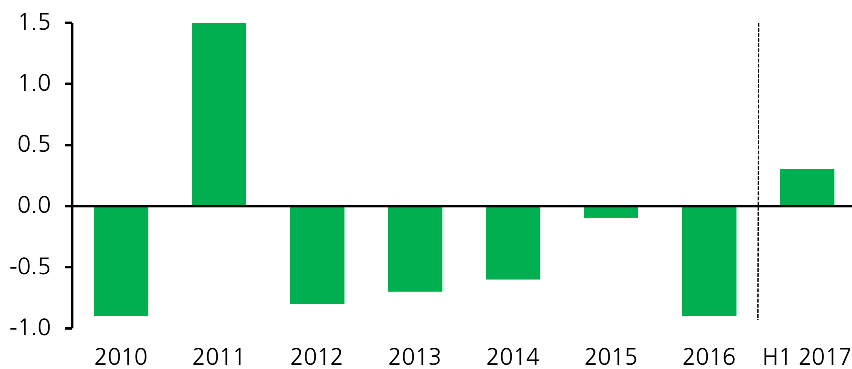
---

2 Government spending for the purposes of GDP is defined differently than that used in public finance data. For GDP only spending on goods and services is counted (contributing around 20% of GDP). All money spent by government is equivalent to about 40% of GDP, but this also includes spending such as social security payments which are not included in GDP.

3 Bank of England, Inflation Report, November 2017, page 11

from the Eurozone (see box 1.4), and previous declines in the value of the pound. If this trend continues net trade will in 2017 provide its first positive contribution to annual GDP growth since 2011. In recent years, increases in imports have outpaced those of exports, subtracting from GDP – in 2016 as a whole it reduced GDP growth by 0.9%-points.[4]

Net trade (exports minus imports) contribution to GDP growth
Percentage points



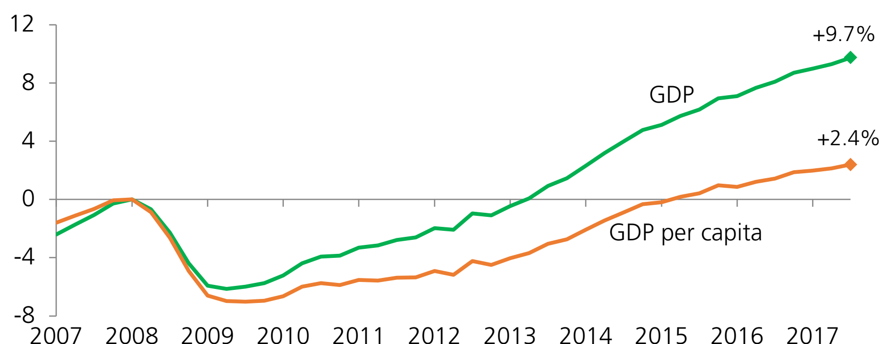
Source: ONS, Quarterly national accounts, and Library calculations; H1 = January-June

Looking at GDP from an industries perspective, growth in the dominant services sector has slowed as consumers tightened their belts: annual growth has decelerated from 2.7% in Q3 2016 to 1.5% in Q3 2017. Meanwhile, manufacturing output has been growing at average annual rate of 2.2% in the past four quarters, seemingly benefitting from an increase in export orders.[5]

Box 1.1: GDP per capita growth only 2.4% higher now than in 2008

Just before the 2008/09 recession, GDP and GDP per head (in real, inflation-adjusted, terms) peaked in Q1 2008. During the recovery GDP surpassed this level in mid-2013 and as of Q3 2017 was 9.7% above its pre-recession peak. If you adjust for population growth the gains are much more modest: in Q3 2017, GDP per head was 2.4% above its pre-recession level of nearly a decade earlier.

GDP per capita is only 2.4% above its pre-recession level
% change in real terms from Q1 2008 (pre-recession peak), quarterly data



Source: Calculations based on ONS series ABMI and IHYQ

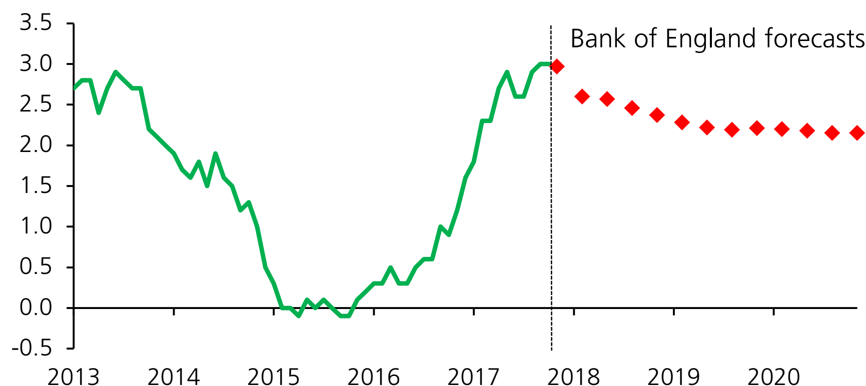
4 ONS, Quarterly national accounts and series ZZ6U (net trade contribution to GDP)
5 ONS, series L44Q (services) and L42D (manufacturing) from national accounts

1.2 Inflation

The fall in the value of the pound since late 2015 and, more noticeably, following the result of the EU referendum in June 2016, raised import prices. As producers and retailers faced higher costs, at least some of this has been passed on to prices faced by consumers. Annual consumer price inflation has been rising for over a year and stood at 3.0% in October, unchanged from September.[6]

Consumer price inflation expected to ease somewhat in 2018

Annual % change in CPI, monthly data and quarterly forecasts



Source: ONS, series D7G7 and Bank of England projections from November 2017 Inflation report: mode forecasts based on market interest rate expectations and other policy as announced

One of the drivers of higher inflation has been food. Strong competition between supermarkets led to falling food prices from mid-2014 to until early 2017. Given that around half of food and drink consumed in the UK is imported, the fall in the pound eventually led to some of the higher import costs being passed on to consumers.[7] In June 2016, food prices were 3.2% lower than they were a year earlier. Since then, food inflation has gathered pace, with food prices 4.2% higher than a year before in October 2017.[8]

The value of the pound against the currencies of the UK's main trading partners is roughly the same as it was a year ago.[9] Although Bank of England research suggests it can take four years for the full impact of a change in the value of the pound to be felt, this suggests the upward pressure on inflation has abated somewhat.[10] Indeed, indicators of price pressures faced by producers have eased in recent months.[11]

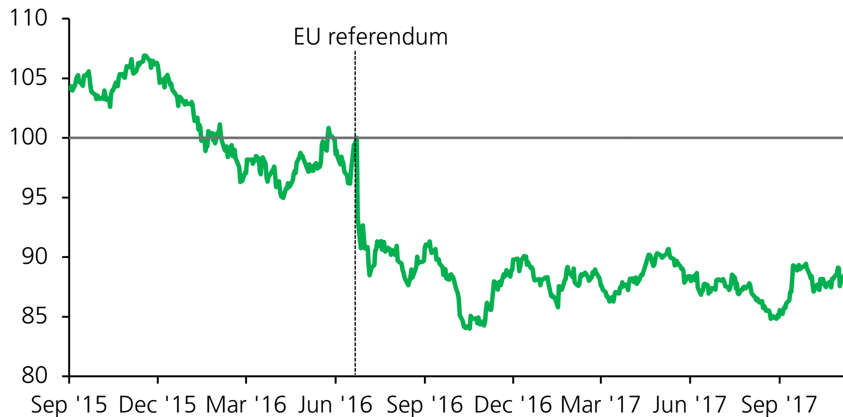
Most economists therefore expect inflation to slow in 2018. The average forecast of economists is for annual CPI inflation to fall from 3.0% in Q4 2017 to 2.4% in Q4 2018.[12] The Bank of England also

---

6 CPI measure; ONS, UK consumer price inflation: October 2017, 14 November 2017
7 Bank of England, Inflation Report: February 2017, page 26
8 ONS, annual change in food price component of CPI, series D7GK
9 Data is based on the Bank of England's measure of the effective exchange rate index for sterling, series XUDLBK67
10 Bank of England, Inflation Report: February 2017, page 28
11 ONS, Producer price inflation, UK: October 2017, 14 November 2017
12 HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, 15 November 2017 [these are not Treasury forecasts]

forecasts inflation to ease to 2.4% in Q4 2018, before falling more slowly to 2.2% in Q4 2019 and 2.1% in Q4 2020.[13]

£ exchange rate index against main trading partners
Index, where 23 June 2016 =100; daily values from 1 Sep'15 to 14 Nov'17

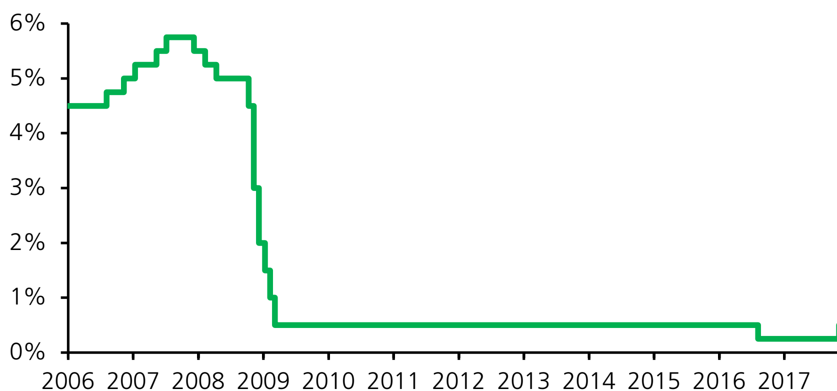


Source: Bank of England

1.3 Interest rates

The current bout of relatively high inflation was a factor in the decision in early November by the Bank of England's Monetary Policy Committee (MPC) to raise interest rates for the first time since 2007. The MPC voted by a majority of 7-2 to increase its benchmark base rate from 0.25% to 0.5%.[14] This returned rates to the level they were at in the seven years prior to the August 2016 decision to cut rates, which followed the EU referendum result.[15]

Interest rates increased for first time in a decade
Bank of England base rate (%)



The MPC is required to keep inflation around 2%, although short-term fluctuations are sometimes "looked through" if they are determined to be temporary. Until this summer, most observers believed the MPC would indeed look through the current period of relatively high inflation. This was based on the assumption that the exchange-rate effect would slowly fade from the annual inflation rate, which measures

[13] Bank of England, *Inflation Report: November 2017*, Based on market's interest rate expectations
[14] Bank of England, "Bank Rate increased to 0.50%", 2 November 2017
[15] The MPC's quantitative easing (QE) programme, where the Bank creates new money to buy financial assets, remains active and unchanged. QE now totals £445 billion of assets, mostly government bonds.

the change in prices over the past 12 months. However, a change in the tone of communications from MPC members in the summer and early autumn signalled that an increase in interest rates was to soon follow, as proved to be the case.

A crucial reason for the MPC's decision was the downgrading of its expectations of the rate of growth it believes the UK economy can comfortably achieve without generating inflation. In other words, longer-term growth prospects are viewed as weaker than was previously thought: the MPC estimates that this is now 1.5% per year compared with 2.7% before the financial crisis.[16] This means the MPC forecasts of GDP growth of 1.6-1.7% in the next three years is "just above potential".[17]

One key factor behind this view is the decade-long stagnation in UK productivity. Previously, it was assumed by most that productivity growth – the most important factor in the growth potential of an economy – would return to its pre-crisis average of 2% per year. The MPC is likely to be joined by the Office for Budget Responsibility in downgrading its productivity forecasts. For more on this see section 1.6.

A lower potential long-term rate of growth means that inflationary pressures build up at lower rates of growth. In turn, this provides more reason to raise interest rates at these lower rates of growth. The MPC also cited the Brexit vote as another factor, although not as important as productivity, in reducing the economy's long-run growth potential.[18]

Looking ahead, the MPC has suggested further modest rate rises are likely, with a figure of two more 0.25%-point increases by 2020 being cited. However, financial markets are less convinced with some suggesting that the recent rise would be a one-off.[19]

For more on the interest rate rise and its impact on households, please see the Library blog post "Why have interest rates been raised? And what's the impact?".

1.4 Labour market

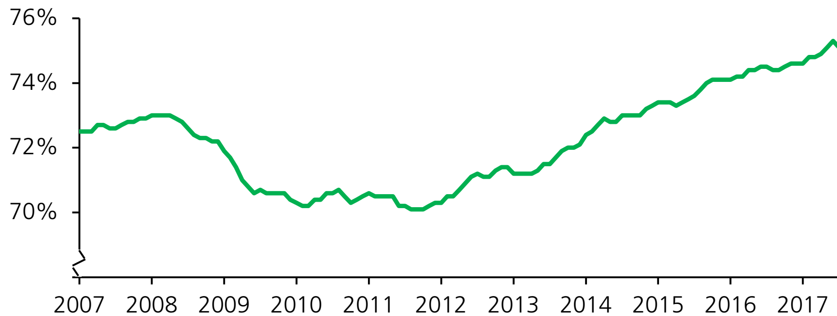
Employment and unemployment

32.1 million people in the UK were in work in the three months to September 2017, while 1.4 million were unemployed.[20] The employment rate was 75%, and this has recently been at its highest level since comparable records began in 1971. The unemployment rate was 4.3%, the lowest it has been since 1975.

There was strong growth in employment levels in the first half of 2017, after slower growth in the second half of 2016. The number of people in work increased by 247,000 in the first half of 2017, considerably

[16] Bank of England, Inflation Report November 2017: outlook for the economy in a nutshell
[17] Bank of England, MPC minutes, 2 November 2017
[18] Bank of England, "Bank Rate increased to 0.50%", 2 November 2017
[19] See for example, "Will markets listen to hawkish talk from the Bank of England?", Financial Times, 5 November 2017
[20] All data in this section taken from ONS, UK labour market: November 2017

higher than the growth of 91,000 in the second half of 2016. There was a small fall in employment levels in Q3 2017.



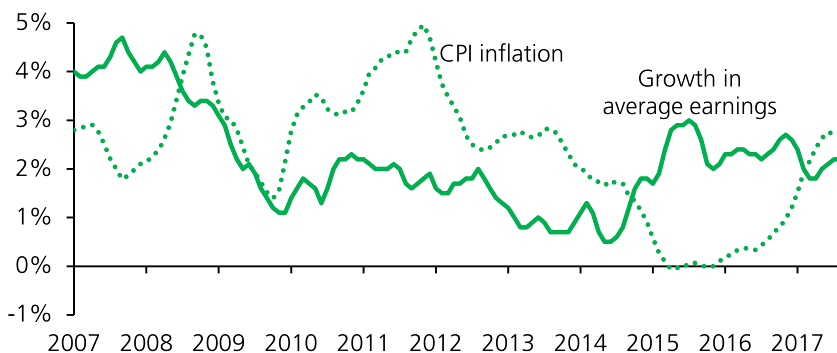
Similarly, unemployment levels had started to level out in 2016, but the speed of the fall in unemployment picked up again in 2017. Unemployment in the first half of 2017 fell by 110,000, higher than the fall of 98,000 in the whole of 2016. Q3 2017 saw a further fall in unemployment, by 59,000 from the previous quarter.

In the three months to October 2017 there were 780,000 vacancies in the economy, this is 24,000 more than a year previously.

Earnings

While both employment and unemployment continue to perform well, earnings continue to grow more slowly than before the 2008/09 recession. Although average weekly pay excluding bonuses grew by 2.2% in July-September 2017 compared to the previous year. This compares to an average annual growth rate of around 4.0% between 2001 and 2007.

Since March 2017 the rate of (CPI) inflation has been higher than the growth in earnings, which means that in this period, weekly real earnings have been falling. After adjusting for inflation, average weekly earnings in July-September 2017 were 0.6% less than a year previously.



Source: ONS UK Labour Market, Nov'17 and ONS Consumer Price Inflation

Real (adjusted for inflation) earnings will continue to fall if the rate of inflation remains above the growth in earnings, although there is an expectation that earnings will start to grow above inflation again as we

proceed into 2018. In its November 2017 inflation report, the Bank of England has indicated that it expects CPI inflation to fall from 3.0% in Q4 2017 to 2.4% in Q4 2018.[21] The report also states that pay growth is expected to rise to 3% in a year's time.

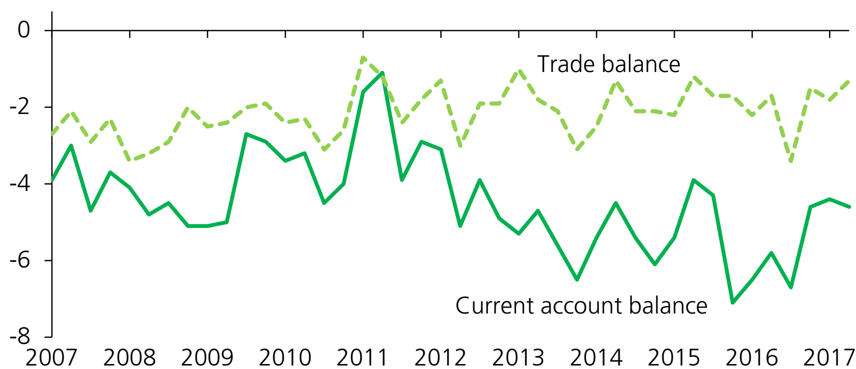
The Bank of England attributes the prolonged weakness in average earnings to low productivity growth and, more recently, disproportionate growth in low-paid jobs. Over the next year the Bank expects wage growth to respond to faster growth in productivity, more workers moving between jobs and the low rate of unemployment to increase pressure on employers to raise wages. Bank of England agents have also forecast that they expect pay growth to be "somewhat higher in 2018" than in 2017.[22]

Despite this, the long period of relatively weak earnings growth is likely to continue. The Bank of England's medium term projections for wage growth of 3¼% remains below the wage growth seen between 2001 and 2007, and inflation is forecast to remain above 2% until 2021.

1.5 Trade and current account

The UK's current account balance – the trade balance (exports minus imports) plus the balance of income and transfers of money moving into and out of the UK – has deteriorated in recent years. In 2016, the current account deficit was £115 billion, equivalent to 5.9% of GDP.[23] The current account deficit with the EU was £111 billion in 2016, while the UK ran a much smaller deficit of £4 billion with non-EU countries.[24]

Current account and trade balance
% of GDP, quarterly data



Source: ONS, Balance of Payments

The main reason for the rise in the overall deficit is not the trade deficit (the difference between exports and imports), which was 2.2% of GDP in 2016, in keeping with its average figure over the past 15 years or so. More important has been the primary income balance which measures flows of profits, dividends and interest between the UK and abroad. The primary income balance has deteriorated from a small surplus in 2011

[21] Bank of England, *Inflation Report: November 2017*, based on market's interest rate expectations
[22] Bank of England, Agent's Summary of Business Conditions, November 2017
[23] ONS, Balance of payments: April to June 2017, 29 September 2017
[24] For an overview of UK trade statistics, including trends and who the UK trades with, see the recent Library blog post *UK trade: a deficit in goods but a surplus in services*

to consistent deficits in the years since then. In 2016 it widened to 2.6% of GDP.

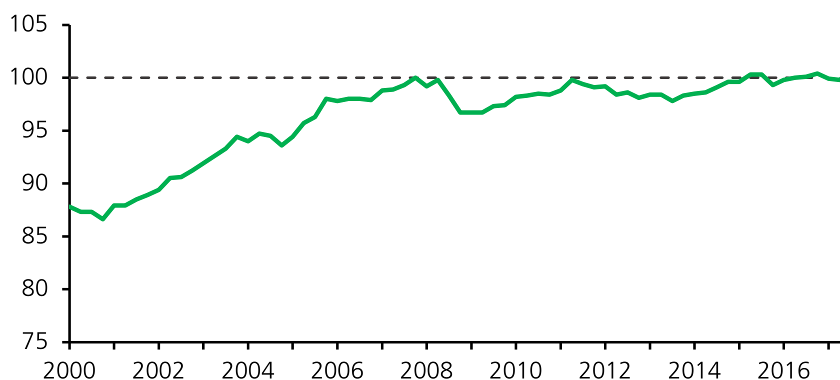
More recent monthly data showed a narrowing of the trade deficit in the first half of the year, but then a subsequent widening in Q3 2017.[25] The primary income deficit has also narrowed since the fall in the value of the pound following the June 2016 EU referendum. This should lead to income generated by UK-owned assets overseas rising in value when converted into pounds, as the income is earned in foreign currencies which have risen in value against sterling. The average independent forecast is for the current account deficit to be £81 billion in 2017 falling slightly to £73 billion in 2018.[26]

1.6 Productivity

Productivity – as measured by output per hour worked – was growing at around its historical average rate of around 2% per year in the decade prior to the 2008/09 recession. Since then it has stagnated. The level of labour productivity in Q3 2017 was only a little higher (0.7%) than it was almost a decade earlier in Q4 2007 (the pre-recession peak).[27] Economic growth over this period has been attained by the large increase in employment instead of via productivity.

Following quarterly declines in productivity in the first half of 2017, recent early estimates for Q3 showed a 0.9% increase – the fastest quarterly growth since Q2 2011. Whether this is the start of a long-awaited turnaround is too early to say. Given past disappointments, most economists aren't reading too much into one quarter's figures.

Productivity (GDP per hour) has stagnated since 2007
Index where Q4 2007 level = 100 (quarterly data)



Source: ONS; * Q3 2017 figure is based on 'flash' preliminary estimate

Box 1.2: Why productivity is important for the economy and living standards

Few if any economists would disagree that productivity growth – commonly defined as rising output per worker, or output per hour worked – is essential for long-term increases in living standards.

Productivity is crucial in determining the long-term growth rates of an economy. In other words, stronger productivity growth leads to stronger GDP growth. This, in turn, increases tax revenues and

[25] ONS, UK trade: September 2017, 10 November 2017
[26] HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, November 2017 [these are not Treasury forecasts]
[27] ONS, UK productivity flash estimate: July to September 2017, 15 November 2017

lowers government budget deficits. Of course, lower productivity growth results in the opposite: lower GDP growth and higher budget deficits.

The persistent weakness in productivity has puzzled economists and there are many alternative theories to explain it, including: weakness in investment that has reduced the quality of equipment employees are working with; the banking crisis leading to a lack of lending to more productive firms; employees within firms being moved to less productive roles; and slowing rates of innovation and discovery. None is sufficient on its own to explain entirely what has happened, making it difficult to predict when and if productivity growth will return to pre-crisis rates of growth.

Most forecasters have until recently expected productivity growth to improve back towards its historic trend or at least get close to it. Increasingly, however, economists are beginning to revise down their forecasts of the UK's trend rate of productivity growth. For instance, as explored in section 1.3, the Bank of England has lowered its estimates for potential productivity growth to 1% per year.[28]

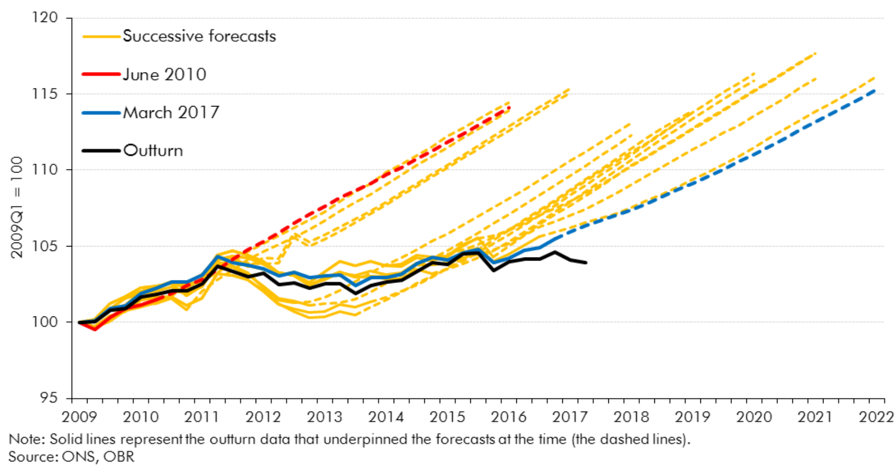
The Office for Budget Responsibility (OBR) stated in October that it too anticipates that it will "significantly" reduce their assumptions on potential productivity growth over the next five years when their latest set of forecasts are published alongside the Autumn Budget. The OBR noted that this was because, following a review of its persistently over-optimistic forecasts for productivity growth (see chart below), some of the reasons it had thought the post-crisis weakness was temporary now seem less plausible:

> …we have reviewed the explanations for weak post-crisis productivity growth that have been advanced – including labour hoarding, banking sector impairment, very low interest rates, weak investment – and the international context. Some arguments for the post-crisis weakness being temporary now appear less plausible, while others remain relevant.
>
> Our March 2017 forecast assumed that trend productivity growth would rise slowly to reach 1.8 per cent in 2021. Actual productivity growth averaged 2.1 per cent a year in the pre-crisis period, but has averaged just 0.2 per cent over the past five years. While we continue to believe that there will be some recovery from the very weak productivity performance of recent years, the continued disappointing outturns, together with the likelihood that heightened uncertainty will continue to weigh on investment, means that we anticipate significantly reducing our assumption for potential productivity growth over the next five years in our forthcoming November 2017 EFO [Economic and fiscal outlook].[29]

Although this was before the latest stronger quarterly productivity outturn, we can now expect the OBR to reduce its productivity growth forecasts for the next five years. This will have a downward impact on its GDP growth forecasts and, in turn, its forecasts for the public finances. For more on the implications see section 2.2.

[28] Bank of England, *Inflation Report: November 2017*, page 40
[29] OBR, Forecast evaluation report October 2017 – press notice, 10 October 2017

Successive OBR productivity forecasts (output per hour)



Note: Solid lines represent the outturn data that underpinned the forecasts at the time (the dashed lines).
Source: ONS, OBR

The UK's new trading arrangements with the EU and other countries following Brexit will have an impact on productivity and thus growth. Most economists believe the end result of Brexit will be a less open economy to trade and foreign investment, likely lowering long-term productivity – the main driver of long-term growth.[30]

In its November 2016 forecasts, the OBR lowered its assessment of productivity growth over the forthcoming five years due to Brexit. The OBR cited lower investment due to uncertainty surrounding the Brexit negotiations as the main factor for this downgrade:

> …we do expect uncertainty to reduce investment and productivity growth in the run-up to – and in the transition phase after – the UK's exit from the EU.[31]

For more on how the OBR incorporates the impact of Brexit into its economic and fiscal forecasts see section 4.

Box 1.3: The Government's industrial strategy

Theresa May's speech to the 2017 Confederation of British Industry conference stated that a white paper setting out the Government's industrial strategy will be published before the end of November 2017. The Government published a proposed strategy as a green paper in January 2017

The Government's proposed strategy has three aims: to build on UK's economic strengths; to close the gap between the UK's most productive companies/places/people and the rest; and to make the UK one of the most competitive places in the world for business. The Government proposes 10 'pillars' to achieve these aims, including skills development, encouraging trade and investing in science.

The Government's proposed strategy emphasises 'horizontal' policies which seek to correct economy-wide problems such as limited access to SME financing and aging transport infrastructure. This contrasts with the Labour Party's proposed industrial strategy which is 'mission-led' and uses specific strategic objectives (for example, increasing the use of renewable energy, and increasing the proportion of high skilled jobs) as vehicles for broader industrial and economic development.

In practice, it is likely that these proposed strategies would blend horizontal and mission-led approaches, and combine them with polices which select specific sectors of the economy for attention (the Government's proposal mentions the automotive, digital and creative industries; the Labour Party's strategy mentions these sectors and also the steel industry).

---

[30] For more on the potential impact of Brexit on long-term productivity and economic growth see section 6 of Library briefing paper *Productivity in the UK*

[31] OBR, *Economic and fiscal outlook*, November 2016, p43-4, paras 3.22-3.24

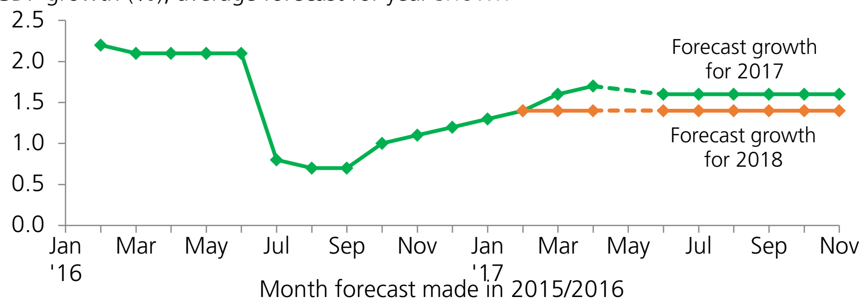
Further analysis and proposals for a modern industrial strategy can be found in the independent Industrial Strategy Commission's *Final Report*, and the LSE Growth Commission's *UK Growth: a new chapter.*

1.7 Growth forecasts

GDP growth forecasts in 2017 and 2018 have been very stable in recent months, with an average of 1.6% for 2017 and 1.4% for 2018.[32] The Bank of England also expects GDP growth of 1.6% for 2017, but is it a little more optimistic for 2018 (1.6%).[33]

GDP growth forecasts have been stable recently

GDP growth (%), average forecast for year shown

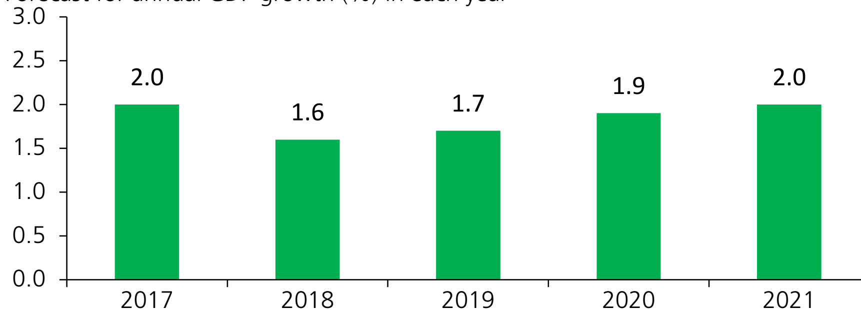


Source: HM Treasury survey of independent forecasts (there was no survey in May 2017)

In its last set of forecasts in March, the OBR forecast growth of 2.0% for 2017. Although, the quarterly changes in GDP have, by and large, followed the OBR's forecasts, revisions made to official data for 2016 mean that that the annual change in GDP is likely to be lower than forecast in March.[34]

OBR's March 2017 GDP growth forecasts

Forecast for annual GDP growth (%) in each year



Source: OBR, Economic and fiscal outlook, Mar'17

What will be of particular interest in the new OBR forecasts will be how the advertised downgrading of its productivity growth expectations will affect its GDP growth forecasts. The Institute for Fiscal Studies (IFS) has estimated that if the OBR lowers average annual productivity growth from 1.6% to 1.0% over the period 2016/17 to 2021/22, it will reduce annual GDP growth by 0.6% points on average compared with its March forecasts.[35] So, for instance, GDP growth – on the simplifying

---

32 HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, November 2017 [these are not Treasury forecasts]
33 Bank of England, Inflation Report, November 2017
34 OBR, Economic and fiscal outlook – March 2017, table 3.2 and table 3.8
35 IFS, Autumn 2017 Budget: options for easing the squeeze, 30 October 2017, p 25

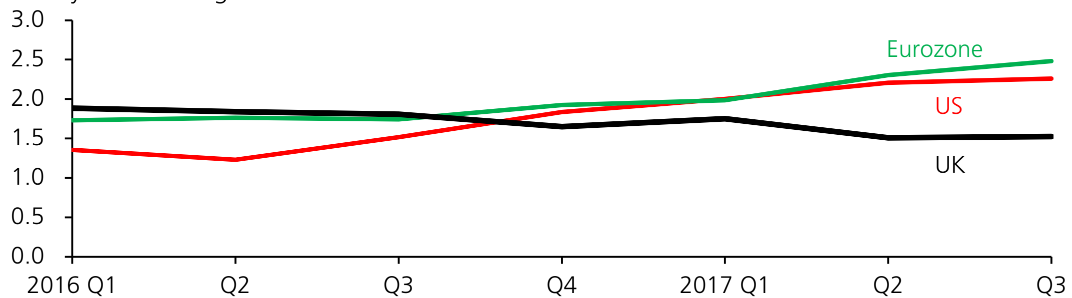
assumption that this is the only change to the forecast – would on average be lowered from 1.8% to 1.2%. Of course, there will be other changes to the forecast, but this provides a quick illustration of the importance of any changes to the productivity growth forecast. See Box 2.2 for a more detailed look at the IFS analysis.

Box 1.4: Global economy strengthening

The world economy has strengthened over the course of 2017, with growth accelerating in most regions. The IMF, in its October forecasts, while upgrading its world growth forecasts noted that "current global acceleration is also notable because it is broad-based—more so than at any time since the start of this decade".[36] Particularly notable in the recent upswing has been the improved performance of the Eurozone, which had struggled to establish a sustained recovery since the global financial crisis. GDP growth in the Eurozone has been on an upward trend, with GDP 2.5% higher in Q3 2017 compared with a year before – its highest growth rate for a decade. Growth in the US has also picked up this year. In contrast, UK GDP growth has been slowing (on a year-on-year basis).

UK GDP growth falling behind Eurozone and US

Year-on-year % change in GDP

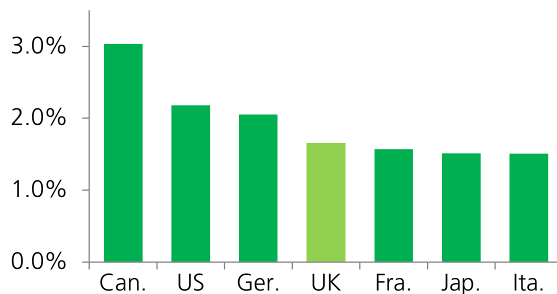


Source: OECDstat

In October, the IMF forecast UK GDP growth of 1.7% in 2017, slowing to 1.5% in 2018. This compares with growth forecasts of 2.2% and 2.3%, respectively, for the US and 2.1% and 1.9% for the Eurozone.[37]

2017 GDP growth (%) in G7 countries

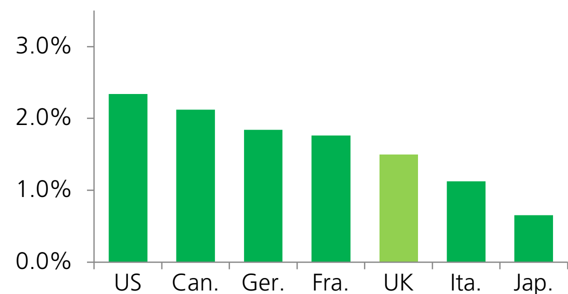
IMF forecasts from October 2017



Source: IMF, World Economic Outlook, Oct'17

2018 GDP growth (%) in G7 countries

IMF forecasts from October 2017



Source: IMF, World Economic Outlook update, Oct'17

[36] IMF, Global Economic Upswing Creates a Window of Opportunity, 10 October 2017

[37] IMF, World Economic Outlook database, October 2017

2. Government borrowing, debt and spending

Summary

Government borrowing: the budget deficit (section 2.1)

In 2016/17 the government borrowed £46 billion to make up the difference between its spending and income raised from taxes and other sources. Since its 2009/10 peak the UK's borrowing – often referred to as the deficit – has fallen by 70%. Borrowing is now at a similar level to before the 2007-2008 financial crisis.

In March 2017, the OBR forecast that the government will borrow more in 2017/18 than in 2016/17. The OBR forecast that borrowing will then decrease in subsequent years up to the end of their forecast in 2021/22. By the end of this Parliament the OBR believe the government will be borrowing £17 billion, which is equivalent to around 0.7% of GDP.

Government borrowing: 2017/18 so far (Box 2.1)

The government borrowed less in the first half of 2017/18 than during the first half of 2016/17. Despite this fall the OBR says 'it remains likely that the deficit will rise relative to 2016/17' with income tax self-assessment revenues, due in January 2018, set to be lower than in 2016/17. The Institute for Fiscal Studies (IFS) – an economic think tank – suggest that the OBR's borrowing forecast for 2017/18 may decrease by £7 billion to around £51 billion.

Government borrowing: revisions to borrowing forecasts are expected (section 2.2)

A series of developments since March 2017 may impact on the OBR's borrowing forecasts. Some developments could increase borrowing, while others could lower it:

- Following an assessment of its past forecasts, the OBR anticipates "significantly reducing" their assumption for potential productivity growth. Productivity is a key driver of economic growth, so such a change will lower economic growth forecasts, decreasing tax receipts and therefore increasing borrowing. The impact on borrowing depends on how significantly the OBR reduces its productivity growth assumption.
- The Office for National Statistics (ONS) are moving English housing associations back to the private sector from the public sector. This means their borrowing – about £3 billion in 2016/17 – will no longer impact on the deficit.
- Data for 2016/17 and for the first half of 2017/18 (discussed above) suggest that there may have been an underlying improvement in the public finances. The Institute for Fiscal Studies – an economic think tank – estimate that the improvement could lower borrowing by around £11 billion per year.
- Since March 2017 the Government has introduced new policies and dropped some previously announced policies, which will affect spending and revenues.
- The Bank of England's decision to raise interest rates in November will directly impact on the Government's spending on debt interest.

Government debt (section 2.4)

At 86% of GDP, public sector net debt – largely the stock of borrowing arising from past deficits – remains relatively high by recent and international standards.

In March 2017, the OBR forecast that the debt-to-GDP ratio would increase in 2017/18 before falling in 2018/19. The OBR forecast that by 2021/22 the ratio will have fallen to around 80% of GDP.

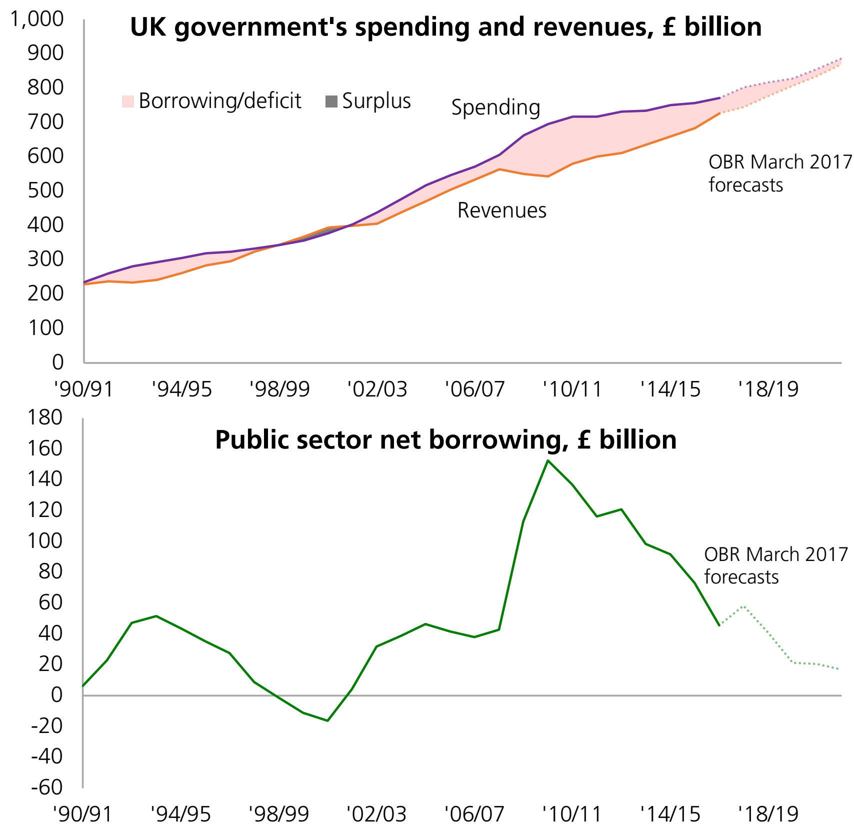
2.1 The deficit: public sector net borrowing

Public sector net borrowing, often referred to as the deficit, was £46 billion in 2016/17, equivalent to 2.3% of GDP.

When the government spends more than it receives in taxes and other revenues, it needs to borrow to cover the difference. This borrowing is known as 'public sector net borrowing', but is often referred to as the deficit. Borrowing has fallen considerably since the high levels it reached during the financial crisis. Borrowing has decreased from a peak of £153 billion in 2009/10 to £46 billion in 2016/17.[38]

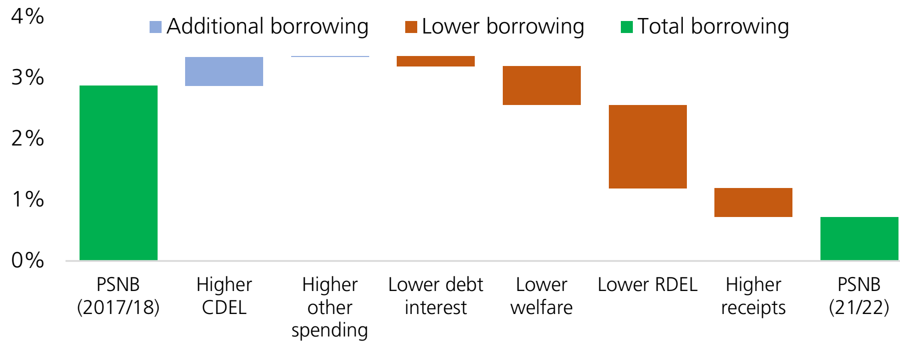
The £46 billion borrowed in 2016/17 is equivalent to 2.3% of GDP, which is similar to the level it was prior to the 2007-2008 financial crisis. However, the deficit is still higher than the historical average, and it is forecast to increase in 2017/18 to 2.9% of GDP. If borrowing increases in 2017/18, it will be the first financial year in which it has done so since 2012/13.

In March, the OBR forecast that borrowing will fall in each year after 2017/18, dropping to below £20 billion in 2021/22 or 0.7% of GDP.

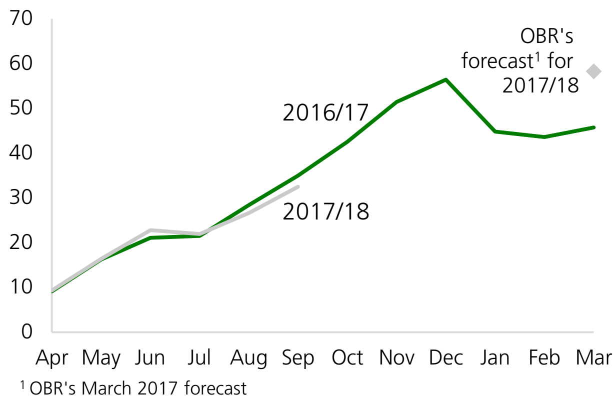


As the chart below shows, much of the forecast fall in borrowing between 2017/18 and 2021/22 can be attributed to reductions in department's day-to-day spending on public services (RDEL in the chart). Such spending is set to decrease by around 1.4% of GDP. Increased receipts and lower welfare spending each contribute around 0.5% of GDP towards the forecast fall in borrowing. Increases to capital spending (CDEL in the chart) are forecast to increase borrowing by 0.5% of GDP.

[38] All figures in this section are from ONS' public sector finances or the OBR's economic and fiscal outlook – March 2017.



Box 2.1: Borrowing so far in 2017/18



The ONS has published provisional borrowing data for the first six months of 2017/18.[39] So far, government borrowing has been 7% lower than during the first six months of 2016/17.

In March 2017, the OBR forecast that borrowing would increase in 2017/18. The fall in borrowing thus far in 2017/18 might suggest the opposite, but the OBR says 'it remains likely that the deficit will rise relative to 2016/17'. A key reason why the OBR continues to expect an increase in borrowing is that self-assessment income tax receipts in January and February are expected to be lower than they were last year, when they had been temporarily flattered.[40] The OBR expects self-assessment receipts to be £3.8 billion lower than in 2016/17.[41]

Overall, it looks likely that the OBR will lower its 2017/18 borrowing forecast, but the revised figure is still likely to be larger than the amount borrowed in 2016/17. The Institute for Fiscal Studies (IFS) – an economic think tank – estimates that borrowing in 2017/18 could be around £51 billion, or around £7 billion lower than the OBR forecast in March 2017.[42]

Uncertainties remain

With six months of data still to be released significant uncertainties remain. Much of the published data remains provisional and the OBR highlights specific uncertainties around local authorities' borrowing.[43]

Provisional estimates can be revised significantly as more reliable data becomes available. For example, the ONS' initial estimate of borrowing in 2016/17 was £52 billion,[44] but this figure has now been revised down by £6 billion to £46 billion.[45][46]

The ONS' November public sector finances release will be published the day before the Autumn Budget.

---

39 ONS. *Public sector finances: Sep 2017*, 20 October 2017

40 The Government announced that the rate of dividend tax would increase from April 2016. This led to some individuals bringing forward dividend income into 2015/16, so that it was taxed at the lower rate. These liabilities were mainly paid via self-assessment in January and February 2017. This inflates the revenues received in these months, but depresses them in later years.

41 OBR. *Commentary on the Public Sector Finances release: September 2017*, 20 October 2017

42 IFS. *Autumn 2017 Budget: options for easing the squeeze*, 30 October 2017

43 ibid

44 ONS. *Public sector finances: March 2017*, 25 April 2017

45 ONS. *Public sector finances: Sep 2017*, 20 October 2017

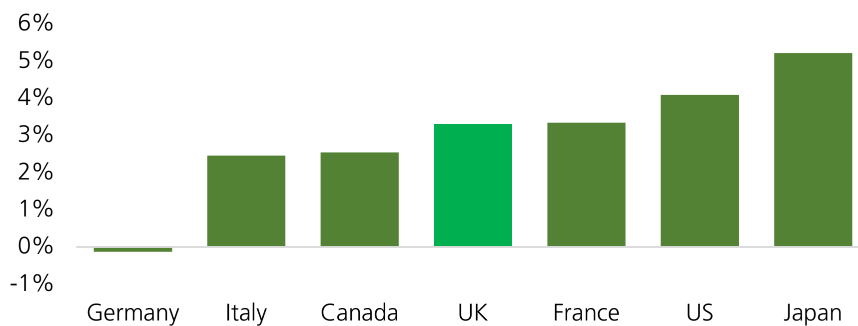
46 There is more on the revisions to 2016/17 data in the Box 3.1 of the OBR's *Forecast evaluation report - October 2017.*

International comparisons

In October 2017, the IMF – who use a slightly different measure of government borrowing – forecast that UK government borrowing will be 2.9% of GDP in 2017, a level similar to France and in the middle of the G7 economies. The IMF's forecast for the UK is higher than the European Union average of 1.5% and similar to the average for 39 advanced economies reported by the IMF.[47,48]

Forecasts for 2017 suggest that UK government borrowing will be similar to the average for all advanced economies, but higher that the EU average.

General government borrowing, G7 economies, 2017, % GDP



2.2 Developments since March 2017

Revisions to the borrowing forecasts would always be expected from one OBR forecast to the next. After all, the borrowing forecast is based on forecasts of two very large numbers – spending and revenues – both of which are highly uncertain. However, some developments since the March 2017 forecasts will directly impact on the OBR's borrowing forecast.

The OBR is set to lower its productivity assumption

As discussed in section 1.6 the OBR look set to lower their assumption for potential productivity growth. Since the 2008/2009 recession, UK productivity has stagnated. In previous forecasts the OBR assumed that productivity growth would return towards its long-run historical average, but this hasn't happened and there are now fewer reasons to expect it to.[49]

Productivity growth is the key driver of economic growth, so downgrading it will impact on the size of the economy and lower tax receipts (see Box 1.2). The impact on borrowing will depend on the extent to which the OBR lowers its productivity growth assumption. The bigger the fall in assumed productivity growth, the greater the impact on receipts and consequently borrowing.

The OBR are also set to adjust their assumptions to reflect stronger-than-expected growth in hours worked and employment. These would provide a boost to growth, but the OBR has said that "the downward revision to productivity growth is likely to have the largest quantitative impact".[50]

47 IMF. *World Economic Outlook Database*, October 2016
48 Advanced economies as defined by the IMF
49 OBR. Forecast evaluation report – October 2017, para 1.14-1.17
50 OBR. Forecast evaluation report – October 2017, para 1.22

Box 2.2: IFS estimates: the impact of lowering productivity growth

In a recent analysis of the public finances, the IFS considered two scenarios for the OBR's productivity assumption. The scenarios also incorporated potential changes to the OBR's assumptions about hours worked and employment.

In the scenario the IFS labelled 'weak' productivity growth, average productivity growth (2016/17 to 2021/22) was lowered to 1.0% per year, which is 0.6% points lower than the OBR's March 2017 forecast. In the scenario they labelled 'very poor' productivity growth, the IFS lowered average productivity growth to 0.4% per year, which is 1.2% points lower than the OBR's March 2017 forecast.

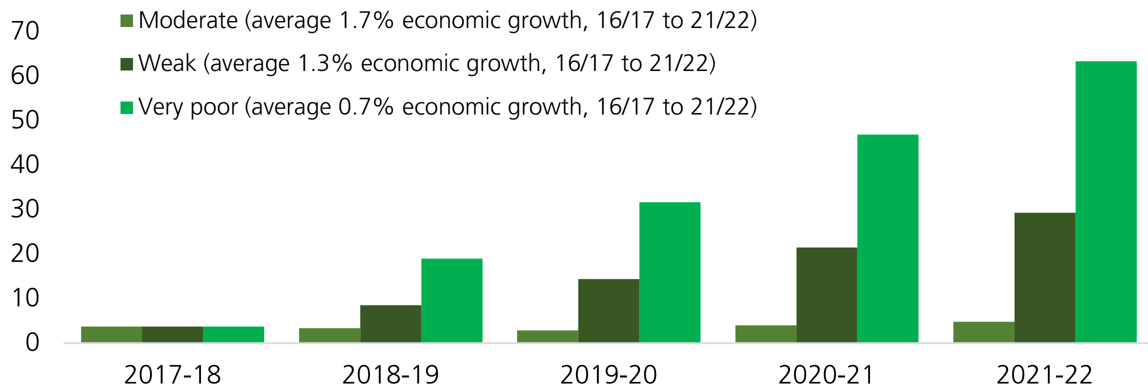
In both scenarios the IFS increased the hours worked and employment assumptions by 0.05% points compared to the OBR's March 2017 forecast.

The 'weak' scenario saw average annual economic growth fall to 1.3%, while the 'very poor' scenario saw economic growth fall to 0.7%. In March 2017, the OBR had forecast average economic growth of 1.8%.

The IFS estimated the impact of these scenarios on borrowing. They also considered a 'moderate' scenario, which downgraded economic growth in line with the Bank of England's forecast up to 2019 and the average of independent forecasts beyond that.

The IFS estimate that the 'moderate' scenario would increase borrowing by an estimated £5 billion in 2021/22, the 'weak' scenario would see an additional £29 billion in the same year, while the 'very poor' scenario would increase borrowing by over £63 billion in 2021/22.[51]

Additional borrowing under different growth scenarios, IFS estimates



Data points to an underlying improvement to the public finances

The ONS now believes that borrowing in 2016/17 was around £6 billion less than it first estimated and the OBR had forecast in March 2017. As Box 2.1 shows borrowing so far this year has also been lower than might have been expected. The IFS suggests that the data behind these improvements point to an underlying improvement in the public finances of around £11 billion per year.[52]

The Bank of England has increased interest rates

Ordinarily the Bank of England's decision to increase its interest rate – the Bank rate – in November 2017 would have indirectly and gradually impacted on government debt interest payments.[53] However, the Bank

[51] In November 2016 the OBR considered the impact of lower productivity on its forecasts. See: Economic and fiscal outlook – November 2016, pages 217 - 220

[52] IFS. Autumn 2017 Budget: options for easing the squeeze, November 2017, page 34 - 36

[53] Normally increases in the Bank rate would be associated with increases in the interest rates paid on newly issued government debt.

of England currently holds significant amounts of government debt as part of its quantitative easing programme – which aimed to stimulate the economy – and the cost to the public finances of holding this debt is the Bank rate.[54] The increase in the Bank rate therefore immediately impacts on the debt interest paid on the Bank of England's holdings of government debt. The increase in the Bank rate could add in the region of £1.5 billion to spending in 2018/19.[55] The cost is likely to be lower in later years of the forecast as expectations about future interest rates have changed to a smaller extent since the last forecast – it is these market expectations that feed into the OBR's forecast for debt interest.

English housing associations moving to the private sector

From 16 November 2017 the ONS will classify English housing associations as private sector organisations for the purpose of its economic statistics.[56] The housing associations had, since a decision taken by the ONS in 2015,[57] been considered part of the public sector. This meant that their borrowing and debt impacted on the deficit and government debt.

Until 16 November 2017, the ONS considered housing associations to be part of the public sector because of the public sector's control over the providers. The Government has brought through legislation that reduces the public sector's control over English housing associations, which allows the ONS to move them back to the private sector.

The change doesn't affect housing associations in the rest of the UK. They will remain in the public sector until similar legislation impacting on them comes into force.[58]

The OBR will reflect this change in their November 2017 forecast. It isn't clear how far the classification change will lower future government borrowing. Between 2008/09 and 2016/17, English housing associations have added between £0.8 billion and £3.7 billion per year to government borrowing. They also added over £60 billion to government debt at the end of 2016/17.[59]

Policy changes since Spring Budget 2017

Some Government policies announced since Spring Budget 2017 will increase spending or lower receipts. Three of the most significant are:

- a reversal to increases in National Insurance contributions (NICs) for the self-employed
- additional spending in Northern Ireland linked to the Government's confidence and supply arrangement with the Democratic Unionist Party (DUP)

---

54 For more on quantitative easing see the Library debate pack Quantitative Easing.
55 Library calculation based on OBR's ready reckoner for debt interest spending
56 ONS, Statement on classification of English housing associations, November 2017, 16 November 2017
57 ONS. "Private registered providers" of social housing (including most Housing Associations) in England, October 2015
58 Legislation has been introduced in both Wales and Scotland.
59 ONS, Public sector finances, Appendix E

- abandoning plans to cap housing benefit in the social housing sector to Local Housing Allowance rate (see section 7 for more)

Spring Budget 2017 announced an increase to **National Insurance contributions for the self-employed**. This announcement was reversed a week later.[60] The Chancellor said that the cost of reversing the measure "will be funded by measures to be announced in the Autumn Budget."[61] The increase in National Insurance contributions was set to raise £325 million in 2018/19, around £600 million in the following two years and £500 million in 2021/22.[62]

In June 2017, following the 2017 General Election, the Conservatives reached an agreement – a **confidence and supply arrangement** – with the DUP that involves the DUP supporting the Conservatives on key votes in Parliament.[63] As part of the agreement the Government committed to additional spending in Northern Ireland of around £450 million in both 2017/18 and 2018/19. As of yet no additional spending has been agreed for future years in this Parliament.

The Government were intending to **limit social rents to Local Housing Allowance rates** – which apply to most housing benefit claimants in the private rented sector – from 2018. In October 2017 the Prime Minister announced that this would no longer happen. The decision was taken following concerns of the social housing sector and other stakeholders. The change in policy is set to cost around £800 million from 2020/21.[64] See section 7 for more.

Some Government measures have been delayed, which will impact on spending and receipts temporarily. For instance the Government has **slowed the roll-out of its Making Tax Digital strategy**, which introduces a new system of digital tax accounts to be used by businesses, the self-employed and landlords. Slowing the speed of reform delays the point at which government receipts will benefit from the additional revenues raised by the policy.

The Government has also **delayed some changes to National Insurance contributions**, moving them from April 2018 to April 2019.[65] The delays save the Government around £150 million in 2018/19, but nothing in future years.

---

60 For more on the policy and its reversal see sections 3.4 – 3.7 of the Library briefing Spring Budget 2017: A summary.
61 HM Treasury, Letter from the Chancellor to the Chair of the Treasury Select Committee, 15 March 2017.
62 HM Treasury, Spring Budget 2017, Table 2.1
63 PM's Office, Conservative and DUP Agreement and UK Government financial support for Northern Ireland, 26 June 2017
64 Library calculation using Table 2.2 of Spring Budget 2017
65 Class 2 NICs for the self-employed were set to be abolished from April 2018, and at the same point the treatment of NICs in employee termination payments were to change. The Government were set to introduce these changes through a 2017 NICs Bill, but this Bill will now be introduced in 2018.

2.3 The current budget deficit

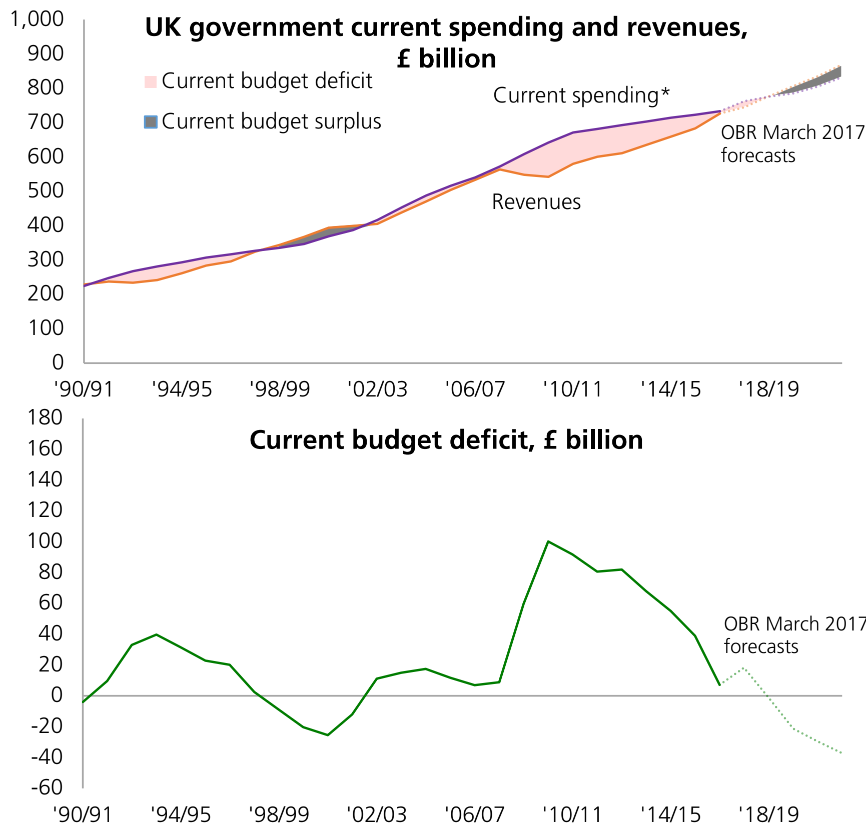
The current budget deficit is the difference between the government's current spending – day-to-day spending on running public services, grants and administration – and its income from taxes and other sources. Unlike public sector net borrowing, the current budget deficit doesn't include investment spending and therefore is said to measure the degree to which taxpayers meet the cost of paying for the services provided to them.

The current budget deficit was £7 billion in 2016/17, equivalent to 0.4% of GDP.

The current budget deficit was £7 billion in 2016/17, equivalent to 0.4% of GDP. The current budget has fallen significantly since its peak of £100 billion in 2009/10.

In March 2017 the OBR forecast that the current budget would reach a surplus in 2018/19. If a surplus is reached the government will be receiving more in taxes and other revenues than its current spending – the day-to-day spending on running public services, grants and administration.

Opposition parties have proposed targets for the public finances that focus on the current budget, rather than public sector net borrowing.[66] Focusing on the current budget would allow borrowing for investment purposes.



66 HC Deb. 20 July 2016:c904-905; *Liberal Democrats: 2015 Manifesto*; SNP, *What do the SNP propose as an alternative to austerity?*

2.4 Public sector net debt

Public sector net debt is the overall level of government indebtedness, built up over many years. Broadly speaking it is the stock of borrowing arising from past deficits.

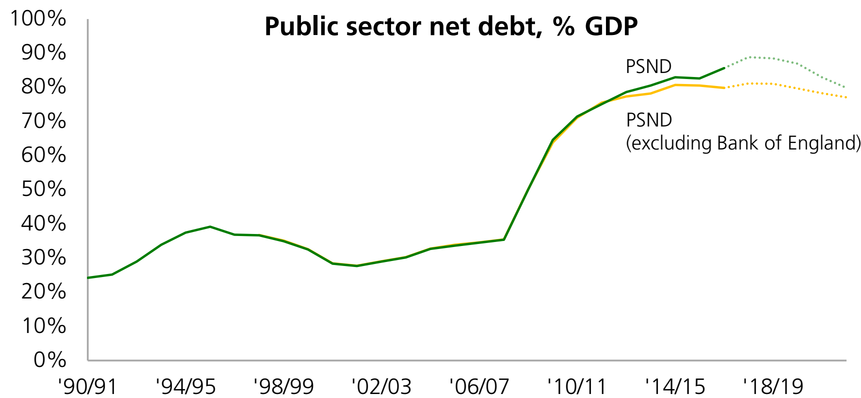
Public sector net debt – broadly speaking the stock of borrowing from past deficits – was 85.6% of GDP at the end of 2016/17.

Before the financial crisis, public sector net debt was around 34-35% of GDP. As a result of the crisis, debt increased sharply. Public sector net debt was 86% of GDP at the end of 2016/17, a debt to GDP ratio not seen since the mid-to-late 1960s.[67]

In March 2017, the OBR forecast that the debt to GDP ratio would increase in 2017/18 before falling in 2018/19. By 2021/22 the OBR forecast that the ratio will have fallen to around 80% of GDP.

Debt excluding the Bank of England

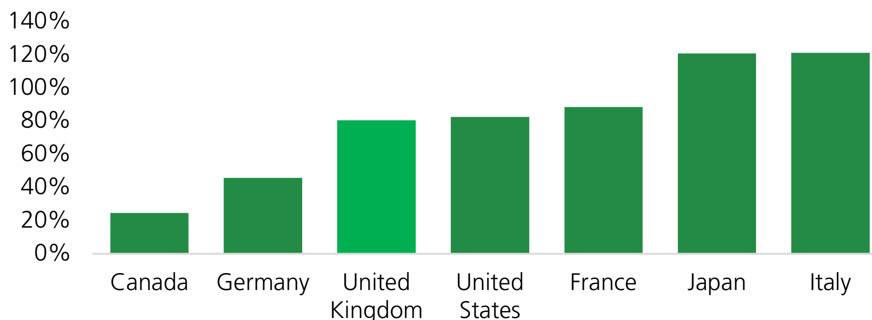
In August 2016, following the EU referendum result, the Bank of England (the Bank) took some action to support the economy. The Bank's package of measures have some impact on public sector net debt, as the Bank is part of the public sector. The impact is largely temporary, so the ONS and OBR have published a measure of public sector net debt that excludes the Bank of England. On this measure the path of public sector net debt is smoother.



International comparisons

The IMF – who use a slightly different measure of government debt – forecast that the UK's net debt in 2017 is set to be 80.5% of GDP, broadly similar to the US'.

The UK's government net debt is higher than the EU average and the average amongst 28 advanced economies



67 OBR. *Public finances databank*, October 2017

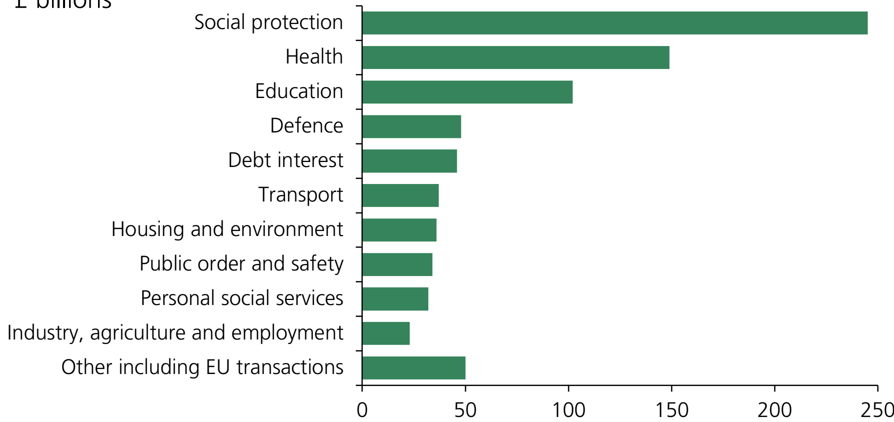
The UK's debt is lower than four of the G7 economies. However, looking more widely, the UK the debt-to-GDP ratio is relatively large by international standards. The IMF forecast that the UK's net debt in 2017 will be higher than the EU average of 70% and higher than the average amongst 28 advanced economies reported by the IMF, of 73% of GDP.[68]

2.5 Public spending

At the Spring Budget 2017, Chancellor Philip Hammond said that total spending in 2017/18 was expected to be "around £802 billion",[69] broken down as follows.

Public spending forecast for 2017-18, by function

£ billions

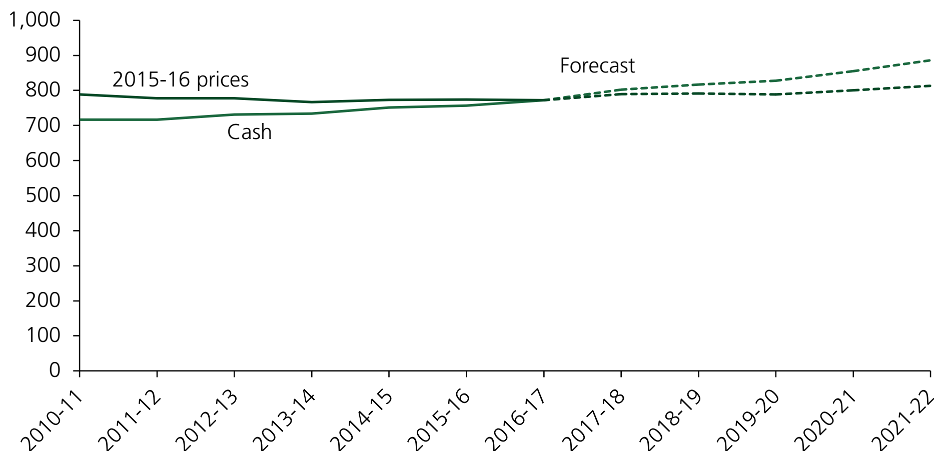


Source: HM Treasury, Spring Budget 2017

Total spending is projected to rise in cash terms over the next few years, reaching £886 billion in 2021/22. In real terms (adjusted for inflation) it is projected to remain mostly flat, with a 3% increase by 2021/22 compared to 2017/18. Not all areas of public spending follow the same trend.

Total managed expenditure, 2010-11 to 2021-22

£ billions



Source: OBR, Public finances databank, October 2017

---

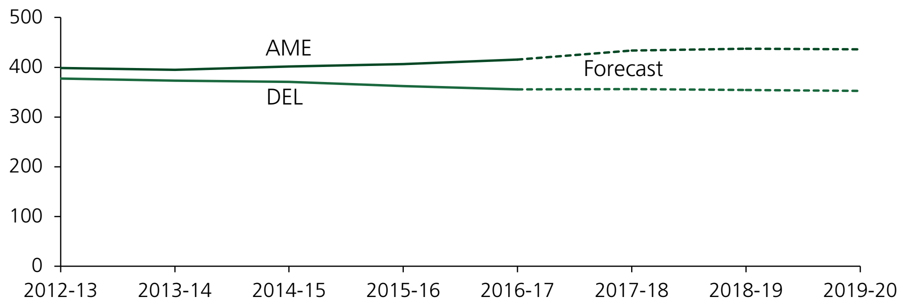
68 IMF. *World Economic Outlook Database*, October 2017

69 HM Treasury, Spring Budget 2017 (chart is also taken from this source)

Public spending is split into two elements, Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL covers the spending that can be reasonably planned in advance, with the less predictable spending coming under AME. This means that, to take the Department for Work and Pensions (DWP) as an example, the DWP's own staff costs and those of training programmes count as DEL, whereas social security payments are counted as AME.[70]

Public spending DEL vs AME, 2012-13 to 2019-20

£ billions, real terms

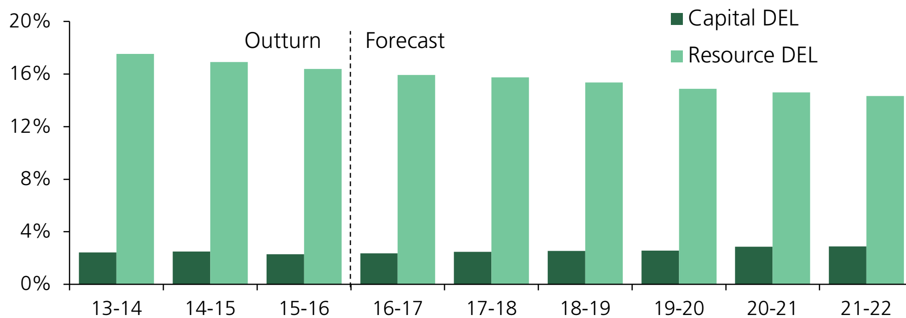


Source: HM Treasury, Public Expenditure Statistical Analyses 2017, Table 1.2, 19 July 2017

Spending is further split into two categories based on whether the money is spent on an asset that lasts a number of years (such as a building or vehicle) or is spent on things that are used up (like salaries).[71] The former is referred to as "capital" spending, and the latter as either "resource" or "current" spending.

Resource DEL is forecast to fall over the next few years, while capital DEL is forecast to increase. As discussed in section 2.1 reductions in resource DEL contribute significantly to the fall in forecast borrowing between 2017/18 and 2021/22. Resource DEL is set to decrease by 1.4% of GDP between 2017/18 and 2021/22, with the largest fall forecast for 2019/20. Capital DEL is set to increase by 0.5% of GDP over the period.[72]

Resource and capital DEL, 2013/14 to 2021/22



Source: OBR. Economic and fiscal outlook March 2017 - supplementary fiscal tables

There is more on public spending in the Library briefing Public spending: a brief introduction.

---

[70] HM Treasury, *Main Supply Estimates 2015 to 2016*, HC 215 2015-16

[71] Capital spending also includes spending on improvement of existing assets, grants to other bodies to be spent on assets, and issuing loans.

[72] Data in the RDEL and CDEL uses adjusted OBR data that allows for consistent comparisons. See Table 2.17 of OBR's March 2017 supplementary tables.

3. Objective and targets for the public finances

Summary

Alongside Autumn Budget 2017 the OBR will assess the Government's performance against their targets for borrowing and debt. The targets support the Government's overall objective for the public finances, which is reaching a budget surplus in the middle of the next decade. A surplus would have government spending less than the income it raises from taxes and other sources. (section 3.1)

The Government's borrowing target – its fiscal mandate – is for public sector net borrowing, adjusted for the ups and downs of the economic cycle, to be less than 2% of GDP in 2020/21. In its March 2017, forecast the OBR judged that the Government is on course to meet its fiscal mandate. (section 3.2)

The Government's debt target is for public sector net debt as a percentage of GDP – the debt-to-GDP ratio – to be falling in 2020/21. In its March 2017 forecast the OBR judged that the Government is on course to meet the debt target. (section 3.3)

The Government also has a target for welfare spending – the welfare cap. At Autumn Budget 2017 the Government should announce which year the cap applies to and the level at which it is set. At the same time the OBR is expected to formally assess the Government's performance against this new cap. (section 3.4)

Since 2010, Government targets for the public finances have changed on several occasions.[73] Shortly after becoming Chancellor Philip Hammond announced revised targets for the public finances – the fiscal targets – in Autumn Statement 2016. The fiscal targets focus on borrowing, debt and welfare spending, and are aimed at achieving the Government's objective for fiscal policy.[74]

The current fiscal targets are, in the opinion of the OBR, "less constraining" than their immediate predecessors".[75] The Institute for Fiscal Studies (IFS) – an economic think-tank – view them as 'more relaxed' and 'much looser'.[76]

The OBR's forecasts, published alongside Autumn Budget 2017, will include an assessment of the Government's performance against their fiscal targets.

---

[73] For a summary see Appendix 1 of the Library briefing The Office for Budget Responsibility and Charter for Budget Responsibility

[74] The objective and targets came into force when an update to the Charter for Budget Responsibility, which contains the objective and targets, was approved by the House of Commons on 24 January 2017

[75] OBR. *Economic and fiscal outlook – November 2016*, para 1.10

[76] IFS. *Autumn Statement 2016 briefing: Paul Johnson's opening remarks*, 24 November 2016

3.1 The objective

The Government's objective for fiscal policy is to return the 'public finances to balance at the earliest date in the next Parliament'. The objective aims to provide sustainable public finances, ensure confidence in the economy, and support the effectiveness of monetary policy.

When the objective was introduced in autumn 2016 its wording suggested the deficit would be eliminated by 2025 at the latest. Its interpretation now is questionable, given the early election in 2017, but the Conservative Manifesto suggests the Government are still aiming at the 'middle of the next decade'.[77]

In March 2017, the OBR said that 'the Government does not appear to be on track to meet its stated fiscal objective'. They explained that deficit reduction slows in the final years of the forecast – 2020/21 and 2021/22 – and that "the ageing population and cost pressures in health are likely to put upward pressure on the deficit in the next Parliament."[78]

3.2 Borrowing target

The Government has targets to support it in achieving its overall fiscal objective. Chief amongst these is the fiscal mandate, a target for controlling the level of borrowing.

Fiscal mandate: a target to reduce cyclically-adjusted public sector net borrowing to below 2% of GDP by 2020/21.

The fiscal mandate focuses on an adjusted version of borrowing. The fiscal mandate is:

- a target to reduce cyclically-adjusted public sector net borrowing to below 2% of GDP by 2020/21.

The adjustment means the target focuses on structural borrowing, or the element that remains once borrowing related to the ups and downs of the economy are removed. This is what is meant by 'cyclically-adjusted': removing the parts of borrowing related to the economic cycle. See Box 3.1 for more on this.

In March 2017, the OBR judged that the Government was on course to meet its fiscal mandate 'with a margin of 1.1 per cent of GDP or £25.8 billion'.[79] The OBR will assess whether the Government remains on track to meet the fiscal mandate in its Autumn Budget 2017 forecast.

Box 3.1: Structural borrowing, cyclical elements and the output gap

Structural borrowing

Structural borrowing is the level of borrowing we would expect to remain if the economy was running at a sustainable level of employment and activity. Structural elements are the underlying or persistent part of government borrowing, which are unrelated to the economic cycle. The OBR never know what the economy's normal level is, so they estimate it through the output gap (see below).

77 2017 Conservative Manifesto, page 14
78 OBR. Economic and fiscal outlook – March 2017, para 1.8
79 OBR. Economic and fiscal outlook – March 2017, para 5.7

Cyclical elements of borrowing

Cyclical elements of borrowing refer to the effect of the economic cycle on the level of government borrowing. In a recession, government borrowing tends to increase as tax receipts are reduced and spending on benefits increases. The reverse happens when the economy is growing strongly. These effects are sometimes known as the economy's 'automatic stabilisers'.

The output gap

The difference between the actual level of economic output and what could be achieved if the economy was operating at full potential is known as the 'output gap'. A negative output gap suggests that the economy is operating below its potential level and has idle resources. A positive output gap suggests that the economy is operating above potential or overheating.

A big problem for policymakers is that the level of potential output cannot be directly measured and consequently neither can the output gap. Therefore economists must estimate what the output gap is.

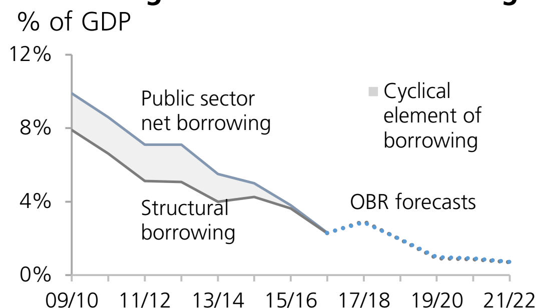
March 2017 estimates

The OBR estimates that the economy was operating roughly at its potential in 2016/17, with a small positive output gap of 0.1%. As the economy was thought to be running close to capacity the OBR judged that structural borrowing and public sector net borrowing were broadly similar. This means that there is no cyclical element of borrowing to be eliminated through economic growth.

In contrast, in 2009/10 the OBR estimated that the output gap was -3.5%; that is the economy was thought to be running 3.5% below capacity. As the economy was thought to be running below capacity the OBR judged structural borrowing to be lower than overall borrowing. This meant that the remaining part of overall borrowing was thought to be cyclical – related to the economic cycle – which would disappear as the economy returned to capacity.

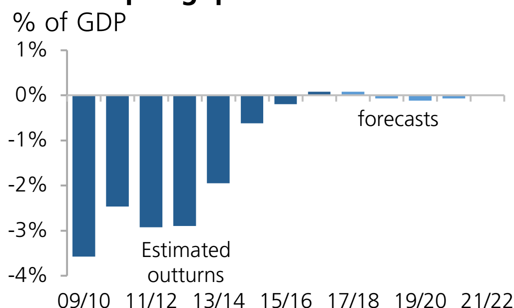
Borrowing and structural borrowing

% of GDP



OBR output gap estimates

% of GDP



3.3 The debt target

The fiscal mandate is supplemented with a debt target. The supplementary target is for public sector net debt as a percentage of GDP – the debt-to-GDP ratio – to be falling in 2020/21. In its previous forecast, the OBR judged that the Government was on course to meet its debt target. The OBR will make a judgement on whether this is still the case in its Autumn Budget 2017 forecast.

Supplementary debt target: a target for public sector net debt as a percentage of GDP to be falling in 2020/21.

The IFS has pointed out that the timing of the debt target makes it "particularly easy to meet given temporary factors that are likely to reduce PSND [public sector net debt] in that year."[80] The temporary factors mentioned refer to a Bank of England scheme, the loans for which are expected to begin being repaid to the Bank in 2020/21.[81] The loans are part of the public sector's debt, so when they are repaid they

80 IFS. *The IFS Green Budget: February 2017*, page 78

81 The scheme is the Term Funding Scheme, under which up to £100 billion of loans are to be made available to UK banks and building societies until the end of February 2018, with the loans to be repaid within four years of being taken out

decrease debt. The IFS estimate that this effect means that in order for the supplementary debt target not to be met the budget deficit would have to be around or over 4% of GDP in 2020/21.[82]

3.4 The Welfare Cap

The Government has a further target for controlling spending on around 55% of welfare spending – the welfare cap. The target is for relevant welfare spending to be within the cap level. The main areas of welfare spending excluded from the cap are pensions and Jobseekers Allowance payments.

The current cap – set at Autumn Statement 2016 – is:

- a target to ensure that expenditure on welfare in 2021/22 is contained within a predetermined cap and margin set by the Treasury at Autumn Statement 2016

The OBR will not provide a formal assessment of the cap, but will assess progress on its pathway, which was also set at Autumn Statement 2016.

The operation of the welfare cap – along with all the fiscal targets – is set out in the Charter for Budget Responsibility (the Charter).[83] The Charter says that the Government should announce which year the cap applies to and the level at which it is set at the first fiscal event of the Parliament, which for this Parliament will be Autumn Budget 2017.[84]

The Government is expected to announce which year the welfare cap applies to and the level at which it is set.

The Library briefing *The Office for Budget Responsibility and Charter for Budget Responsibility* discusses all of the targets and their predecessors.

[82] IFS. *The IFS Green Budget: February 2017*, page 78
[83] HM Treasury, Charter for Budget Responsibility: autumn 2016 update (final document as laid), January 2017
[84] IFS. *Autumn 2017 Budget: options for easing the squeeze*, November 2017, page 20

4. Brexit: forecasts and spending

Summary

The economic forecast (section 4.1)

Following the EU referendum result the OBR downgraded its economic forecasts. In the short to medium term, the downgrade was based on the OBR's judgement that Brexit-related uncertainty will lead firms to delay investment and consumers will be squeezed by higher import prices, following the post-referendum fall in the pound. In the forecast years after Brexit (April 2019) the OBR does not attempt to predict the result of Brexit negotiations. Instead they have made some broad-brush judgements – consistent with most external studies – that over the time horizon of the OBR's forecast any likely Brexit outcome will lead to: lower trade flows; lower business investment; and, lower net inward migration than would otherwise have been seen. Taken together, these result in lower economic growth.

In the longer term the OBR points out that decisions made by UK Governments in areas such as trade and regulation will determine whether future economic growth is enhanced or impeded.

The public finances (section 4.1)

The OBR estimated in November 2016 that the referendum result and Brexit added £3.5 billion to its forecast for government borrowing in 2016/17, £10 billion in 2017/18 and around £15 billion in each of the final three years of forecast. The OBR calculated this estimate by comparing its forecast to what its forecast would have looked like if there had been no referendum.

The OBR's public spending forecast includes an estimate of the UK's payments to the EU.[85] While the UK remains a member of the EU these payments will continue as normal. The OBR assumes that after Brexit the spending – which it continues to forecast throughout the five-year forecast period – will be recycled into domestic spending. The recycled spending – roughly £13 billion per year – could be spent by the government as it wishes on domestic priorities or new spending commitments that could result from Brexit and the withdrawal negotiations.

Departments' spending on Brexit (section 4.2)

The Government has committed £250 million of additional spending in 2017/18 to help departments prepare for Brexit. The Government is expected to give an update on departments' Brexit spending in the Autumn Budget.

4.1 The OBR's forecasts

How has the OBR dealt with Brexit in its economic forecast?

The OBR is required to produce its forecasts on the basis of current Government policy and the forecasts are adopted by the Government as their official forecasts.[86] At the moment there is no specific post-Brexit

---

85 This includes the UK's VAT and GNI contributions. It also includes the elements that lower the payments, namely the UK's rebate and the money the UK gets to keep to cover the costs involved with collecting customs duties on the behalf of the EU.

86 The Government retains the right to disagree with the OBR's forecasts and, if this is the case, will explain why to Parliament. The Government has not yet disagreed.

policy for the OBR to follow in areas being determined in Brexit negotiations such as the UK-EU future trading relationship, nor in other areas where powers are being returned to the UK.

As a result, in their forecasts since the referendum the OBR haven't attempted to predict the result of negotiations – for instance the OBR haven't speculated at what the future trading relationship between the UK and EU may be. Instead they have made some broad-brush judgements – consistent with most external studies – that over the five-year time horizon of their forecast any likely Brexit outcome will lead to lower trade flows; lower business investment; and lower net inward migration than would otherwise have been seen. Taken together, these result in lower GDP growth.

These judgements apply to the period once the UK has left the EU – which the OBR assume will happen in April 2019,[87] in line with the withdrawal procedure. In the period prior to Brexit the OBR assumed, in their November 2016 forecast, that economic growth will slow into 2018 as 'uncertainty leads firms to delay investment and as consumers are squeezed by higher import prices, thanks to the fall in the pound.'[88] They also expect uncertainty to reduce productivity growth in the run-up to Brexit.[89]

The OBR points out that in the longer term the performance of the UK economy will be affected by policy choices made by UK Governments in areas previously determined at the EU level. Choices taken on issues such as regulation and trade may enhance or impede future economic growth.

Each time the OBR produces a forecast it updates the economic data that drives its models. This means that changes in the economy since the referendum – such as the fall in the pound – are included in the OBR's forecasts.

What has the OBR said about Brexit and the public finances?

In November 2016 the OBR illustrated the difference that the decision to leave the EU had made to its public finance forecast. Broadly speaking, the OBR did this by estimating what the forecast might have looked like in the absence of the referendum result – what they describe as the 'no referendum counterfactual' – and compared it to the forecast that they actually published.

Changes related to the referendum result and Brexit added £3.5 billion to the OBR's forecast for government borrowing in 2016/17, £10 billion in 2017/18 and around £15 billion in each of the final three years of the forecast beginning in 2018/19.

Some changes – such as lower productivity – lowered the forecast for economic growth, and consequently the amount of taxes raised. Other changes increased public spending – for instance higher inflation

[87] Strictly speaking, according to the Article 50 procedure the UK will leave the EU on 29 March 2019, which will be exactly two years after Theresa May delivered the Article 50 letter of notification on 29 March 2017.

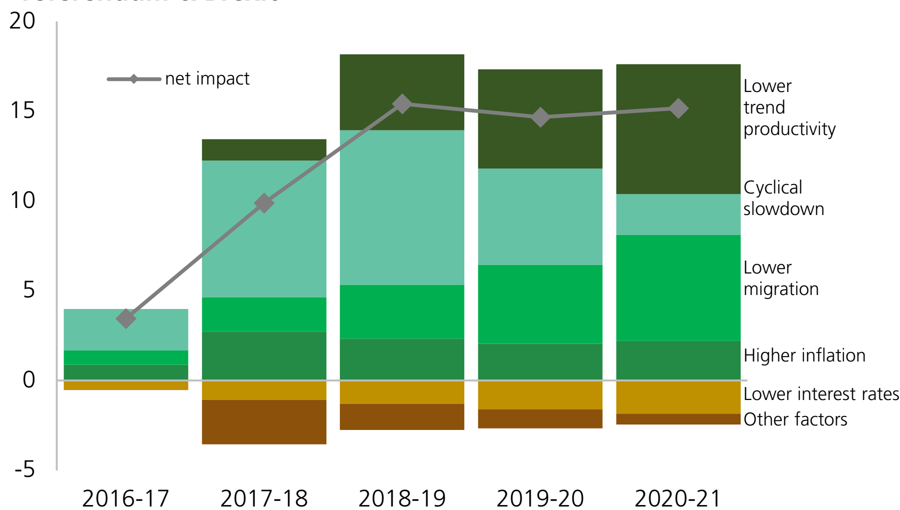
[88] OBR. Economic and fiscal outlook – November 2016, para 1.6

[89] OBR, Economic and fiscal outlook, November 2016, p43-4, paras 3.22-3.24

increased the forecast for government spending on debt interest. Lower migration reduced the taxes raised in the forecast through a smaller and slightly older population. To a much smaller extent, lower migration also lowered government spending on welfare.

The OBR forecast that some changes in the post-referendum economy would lower borrowing. For instance, the OBR expected lower interest rates in the post-referendum economy, which would keep government debt interest payments lower.

Changes in OBR's November 2016 borrowing forecast related to the referendum & Brexit



The OBR did not update this analysis in its March 2017 forecast. They explained that maintaining a meaningful 'no referendum counterfactual' would be increasingly challenging.[90]

What has the OBR said about the UK's payments to the EU?

The OBR's public spending forecast includes an estimate of the UK's payments to the EU.[91] While the UK remains a member of the EU these payments will continue as before.

The Brexit negotiations will determine what happens to the UK's payments to the EU after Brexit. A range of possible outcomes exist. For instance the UK may make payments to take part in some EU programmes or for preferential access to the EU's single market. Alternatively the UK may have no ongoing financial relationship with the EU and payments would cease. It is feasible that the UK's financial relationship with the EU may change more than once, particularly if there is a Brexit implementation or transition period.

Faced with uncertainty over the future the OBR have continued to forecast the UK's payments as if it remains in the EU, on the 'no referendum counterfactual' basis. They do this for all years of the five-year forecast period. However, the OBR have assumed that any

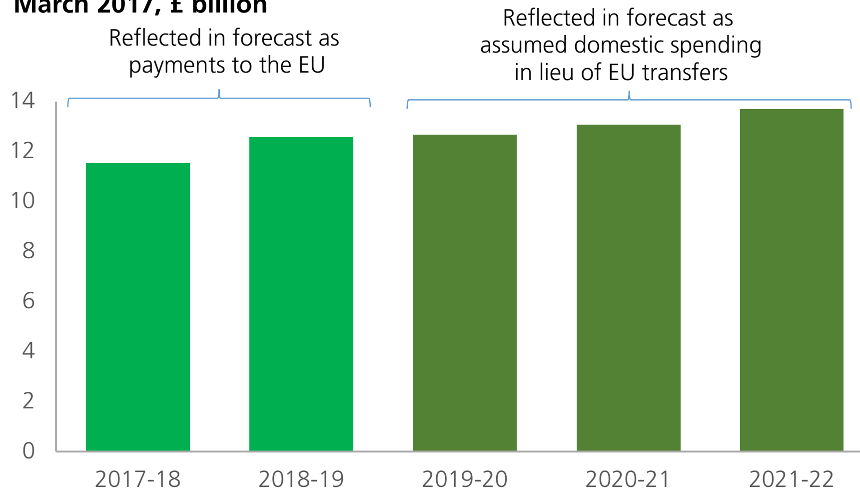
---

90 OBR. Economic and fiscal outlook – March 2017, para 1.32

91 This includes the UK's VAT and GNI contributions. It also includes the elements that lower the payments, namely the UK's rebate and the money the UK gets to keep to cover the costs involved with collecting customs duties on the behalf of the EU.

reductions in the UK's payments to the EU, following Brexit, would be fully recycled into extra domestic spending.

Forecast annual payments to the EU on 'no-referendum counterfactual', March 2017, £ billion



How might the extra domestic spending be recycled?

The Government would be able to use the recycled domestic spending as it sees fit, so it could potentially be used on domestic priorities. Alternatively it may be used to meet some new spending commitments that could result from Brexit and the withdrawal negotiations.

Compensate/replace EU funding

In 2016, beneficiaries in the UK received over £5.5 billion of EU funding, largely for farming and agriculture. The recycled spending could potentially be used to compensate beneficiaries for losses of funding or to develop replacement schemes.

Payments for participating in EU programmes

The UK may make payments to participate in EU programmes and these could be met by the recycled spending. The Secretary of State for Exiting the European Union has said that, if the UK's withdrawal is amicable, it is:

> …quite likely that we will be taking part in things such as Horizon 2020, some of the other space issues – like the GPS system – some of the nuclear things. There are a variety of things where I could see us continuing to be part.[92]

Contribution towards the 'divorce bill'

The EU expects the UK to make a contribution towards the EU's outstanding financial commitments – spending that was agreed while the UK was a member – when it leaves. The issue is part of the ongoing Brexit negotiations, and has been labelled as the 'divorce bill' or 'exit bill' by the media.[93] The recycled spending could contribute towards the 'divorce bill'.

---

92 Select Committee on Exiting the European Union Oral evidence: The progress of the UK's negotiations on EU withdrawal, HC 372, Q51

93 See Library briefing Brexit: the exit bill for more.

Currently negotiations over the potential payment have reached a deadlock. The UK has said it will make sufficient payments so that no EU member state shall be made worse off during the current budget plan (2014-2020) as a result of UK leaving. The UK has also stated that "it will honour its commitments made during the period of our membership".[94] However, the UK has not said exactly which commitments it will honour and the EU requires "a firm and concrete commitment" to resolve the issue.[95]

The Library briefing Brexit: the exit bill has further information.

However the spending is recycled, it is already in the OBR's forecasts for spending and borrowing, so it will not add to these.

4.2 Departments' Brexit spending

The Government has committed to make specific sums of money available to help departments prepare for Brexit. The 2016 Autumn Statement included a commitment of "up to £51 million in 2016-17" for the Department for Exiting the EU, and "£26 million a year by 2019-20" in order to "strengthen trade policy capability in the Department for International Trade (DIT) and Foreign and Commonwealth Office".

In the Main Estimates for 2017-18, the Ministry of Justice, HMRC, and the Department for Environment, Food and Rural Affairs all include preparation for leaving the EU in their lists of items that will require spending by the department, but in each case no separate amount of money is listed for this purpose.

More recently, at Prime Minister's Questions on 11 October 2017, the Prime Minister said that the Treasury has committed over £250 million in 2017/18 to prepare for Brexit:

> We are preparing for every eventuality. We are committing money to prepare for Brexit, including a no-deal scenario. It might be helpful if I update the House. The Treasury has committed over £250 million of new money to Departments such as the Department for Environment, Food and Rural Affairs, the Home Office, Her Majesty's Revenue and Customs and the Department for Transport in this financial year for Brexit preparations. In some cases, Departments will need to spend money before the relevant legislation has gone through the House. The Treasury will write to Departments and to the Public Accounts Committee explaining this process shortly. Where money needs to be spent, it will be spent.[96]

The Chief Secretary to the Treasury, Elizabeth Truss, later confirmed that the Treasury has committed over £250 million in 2017/18 from the

---

94 PM's Florence speech: a new era of cooperation and partnership between the UK and the EU, 22 September 2017
95 European Council, European Council (Art. 50) meeting (20 October 2017) - Conclusions, 20 October 2017
96 HC Deb 11 October 2017 c327-8

Reserve to prepare for Brexit.[97] She also stated that an update on Brexit spending will be provided at the Autumn Budget:[98]

> It is important that departments can start spending to prepare for Brexit when they need to do so. Managing Public Money requires that expenditure on new services must rest on specific legislation. However, delaying spend until legislation has reached Royal Assent could jeopardise readiness for Brexit.
>
> To address this, for the small proportion of spending affected, ministers can issue a technical direction, allowing critical spending to be incurred ahead of Royal Assent, whilst ensuring transparency to Parliament.
>
> In these cases, the use of a Direction will be a matter of timing. Departments will still need to ensure spending is in all other respects regular, proper, feasible and good value for money, in the usual way. I have asked my officials to write to all departments explaining this process. They will also write to the Public Accounts Committee - this letter will be published to ensure full transparency.
>
> As confirmed yesterday, by the Prime Minister to the House and by the Chancellor to the Treasury Committee, the Treasury has committed over £250 million of additional spending in 2017-18 to prepare for Brexit from the Reserve. Departmental allocations will be set out at Supplementary Estimates in the usual way. An update on Brexit spending will also be provided at the Autumn Budget.

It is possible that extra funding may have been allocated, but not under specific initiatives or programmes. In a post on the Civil Service blog on 11 July 2017, Sir Jeremy Heywood said that "the Treasury has so far agreed over £400 million in extra resources to support this increased resourcing and is currently reviewing the need for further additional funding", while also contrasting this with the continuing trend for the Civil Service to reduce in size.

A memo by Deloitte, leaked in November 2016, suggested that Brexit may require an increase in headcount of up to 30,000 across the Civil Service.[99] Although the Government criticised this memo and pointed out that it had not been written with access to Government departments, an article in the Financial Times in November 2017 suggested that "it is hard to see the final figure for extra Whitehall staff coming in under 10,000-15,000."[100]

---

97 The Reserve is used to meet unexpected needs. When sums are allocated from the Reserve, individual departments' budgets are increased and the Reserve is reduced by the same amount.

98 HCWS162 [on Spending Authority], 12 October 2017

99 Brexit Briefing: Does EU exit mean another 30,000 civil servants?, *Financial Times*, 16 November 2016

100 The Brexit headcount begins to balloon, *Financial Times*, 1 November 2017

5. Public sector pay

Summary

Since 2013 the Government has funded public sector workforces for average pay awards of 1%. In Summer Budget 2015 the Government said that this would continue up to 2019/20, saving approximately £5 billion in that year.

For many workers in the public sector, pay awards are informed by the recommendations of independent Pay Review Bodies, which report annually in accordance with remits set by the Government, and in accordance with public sector pay policy.

Debate over public sector pay has intensified since the 2017 General Election. In September, the Government indicated that from 2018/19 public sector pay policy may be allowed to depart from the 1% average pay cap. The Government may provide further details at Autumn Budget: the 2018/19 pay remits for specific Pay Review Bodies are being discussed and agreed as part of the Budget process.

5.1 Current policy

The current public sector pay policy, set out at *Summer Budget 2015*, provides for an average pay award of 1%:

> the government will … fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards. This will save approximately £5 billion by 2019-20. The government expects pay awards to be applied in a targeted manner within workforces to support the delivery of public services.[101]

The policy was restated in the *Spending Review and Autumn Statement 2015*:

> As announced at Summer Budget, to help protect jobs and the quality of public services the Spending Review funds public sector workforces for an average pay award of 1% for 4 years from 2016-17. This will protect approximately 200,000 public sector jobs.[102]

The 1% pay cap is a continuation of earlier public sector pay policy, first announced at Autumn Statement 2011:

> the Government will … 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[103]

Prior to the 1% cap, there was, under the Coalition Government, a two-year public sector pay freeze, from 2011. The pay freeze, announced during *Budget 2010*, applied to all public sector workers excluding

---

[101] HM Treasury, *Summer Budget 2015*, HC 264, July 2015, p28
[102] HM Treasury, *Spending Review and Autumn Statement 2015*, Cm 9162, November 2015, p72
[103] HM Treasury, *Autumn Statement 2011*, Cm 8231, November 2011, p6

those earning £21,000 or less, who received pay increases of at least £250.[104]

Public sector pay policy applies as an average across workforces rather than on an individual basis. As such, departments may distribute pay in a manner they see fit according to their own priorities, so long as the average increase in the pay bill is limited to 1%. For many workers in the public sector, pay awards are informed by the recommendations of independent Pay Review Bodies, which report annually in accordance with remits set by the Government, and in accordance with public sector pay policy.

Pay for individual public sector workers is determined by a number of factors, including contractual pay progression. While the Government's policy is to phase out automatic pay progression, many workers remain contractually entitled to it, which may see their pay exceed the 1% limit.[105] The Treasury does not collect data on pay for public sector workers on an individual basis,[106] and as such it is difficult to estimate the current coverage of contractual progression pay entitlement.

The pay policy applies to the Civil Service "including departments, non-ministerial departments and agencies, and for public sector workers in non-departmental public bodies".[107] The Treasury's guidance note on public sector pay and terms provides further detail on the scope of the policy, stating that it applies to "government departments and their arm's length bodies" and indicating that local authorities, including fire and rescue authorities, fall outside its scope although are expected to "operate to the same standards as the rest of the public sector in relation to decisions on senior pay and reward".[108]

5.2 Recent debate

While public sector pay constraints have always been the subject of debate, this has intensified since the 2017 General Election. Labour moved an amendment to the 2017 Queen's Speech calling on the Government to end the pay cap:

> but respectfully regret that the Gracious Speech fails to end cuts to the police and the fire service; commend the response of the emergency services to the recent terrorist attacks and to the Grenfell Tower fire; call on the Government to recruit more police officers and fire-fighters; and further **call on the Government to end the public sector pay cap** and give the emergency and public services a fair pay rise.[109]

The amendment was defeated by 309 votes to 323.[110]

On 5 July 2017, an urgent question tabled by the Shadow Chancellor of the Exchequer, John McDonnell, asked the Government to set out its

104 HM Treasury, *Budget 2010*, HC 61, June 2010, p45
105 Civil service pay guidance 2016 to 2017, section 1.3
106 Public Sector: Pay: Written question - 2338
107 Civil service pay guidance 2016 to 2017, section 1
108 Guidance note: public sector pay and terms, 5 February 2016, section 2.11
109 HC Deb 28 June 2017 c600
110 HC Deb 28 June 2017 cc699-702

public sector pay policy. The Chief Secretary to the Treasury, Elizabeth Truss, set out the policy as follows:

> Government pay policy is designed to be fair to public sector workers, who work so hard to deliver these strong public services, but we must also ensure that we are able to provide those public services on a sustainable basis for the future. In many services, workers have received pay additional to the 1% national increase. Teachers had an average pay rise of 3.3% in 2015-16. More than half of nurses and other NHS staff had an average increase of over 3% in 2016. Military service personnel also saw an average additional increase of 2.4%. Salaries in the public sector remain comparable to those in the private sector. In addition, many benefit from higher pension entitlements. They also benefit from the rise in the personal allowance, worth £1,000 to a basic-rate taxpayer.
>
> We are currently completing the pay review process for 2017-18. We have accepted the pay review body recommendations made for doctors, the NHS and the armed forces. We will be looking very carefully at the recommendations on the remainder and making determinations in the usual way. As the Chancellor said on Monday, our policy on public sector pay has always been designed to strike the right balance of being fair to our public sector workers and fair to those who pay for them. That approach has not changed, and the Government will continually assess that balance.[111]

Ms Truss confirmed later[112] that these pay awards in excess of the 1% policy were the result of progression pay, which, as noted above, is for many public sector workers a legal entitlement and not subject to the cap.

In a written statement on 12 September 2017 the Chief Secretary to the Treasury, Elizabeth Truss, indicated that from 2018/19 public sector pay policy may allow for departure from the 1% average pay cap:

> The last Spending Review budgeted for one per cent average basic pay awards, in addition to progression pay for specific workforces, and there will still be a need for pay discipline over the coming years, to ensure the affordability of the public services and the sustainability of public sector employment.
>
> However, the Government recognises that in some parts of the public sector, particularly in areas of skill shortage, more flexibility may be required to deliver world class public services including in return for improvements to public sector productivity.
>
> The detail of 2018/19 pay remits for specific Pay Review Bodies will be discussed and agreed as part of the Budget process and set out in due course.[113]

For further information see the Library briefing: *Public sector pay*.[114]

---

[111] HC Deb 5 July 2017 c1171
[112] Ibid., c1173
[113] Public services: Written statement - HCWS127
[114] Commons Briefing papers CBP-8037

6. Universal Credit

Universal Credit aims to **replace six working-age benefits** in an attempt to reduce complexity and improve work incentives.

While Universal Credit has been a subject of debate since its inception, this has intensified since roll-out accelerated in early 2017. In recent months, a particular focus of attention has been the length of time new claimants must wait before receiving their first payment. The Government may choose to address this and other concerns at the Autumn Budget.

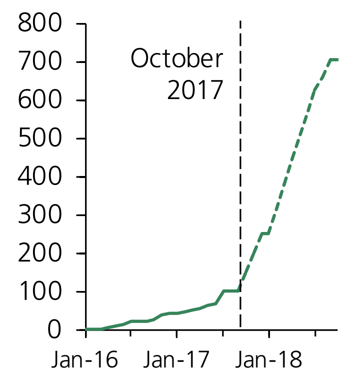
6.1 Roll-out this autumn/winter

The Government started rolling out Universal Credit in 2013 and aimed to finish in 2018 but, because of delays, will now not finish until **2022**.

There are two different systems: the **Live Service** and the **Full Service**. Which system is in place in an area determines who can claim Universal Credit and how they claim it. Under the Live Service only people in relatively simple circumstances can claim – usually single, unemployed people without children or rent. Under the Full Service – the **service all areas will eventually use** – everyone eligible will be able to claim Universal Credit, no matter what their circumstances.

This means that **once the Full Service is launched in an area both the number and range of people claiming Universal Credit is likely to grow quickly.**

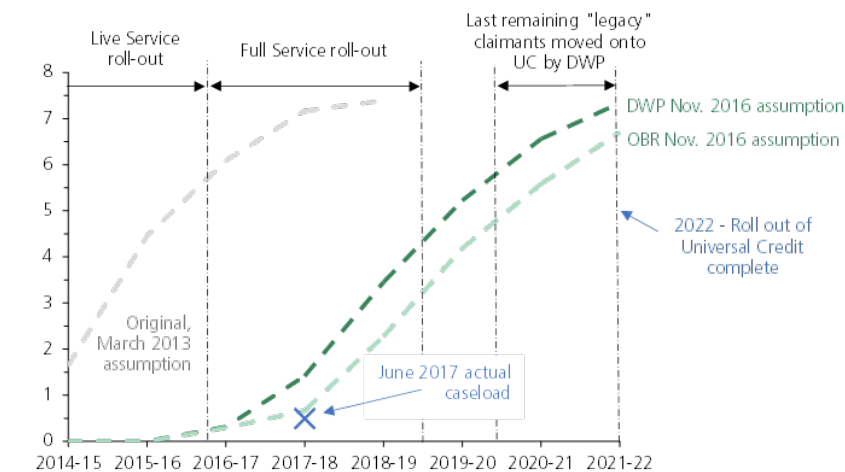
Number of jobcentres operating the Full Service (GB)



The Government is continuing to roll out the Universal Credit Full Service this autumn/winter. At the end of September 2017 there were **101 jobcentres** running the Full Service. Between October 2017 and January 2018, **134 more jobcentres will launch the Full Service**.

That will **add 150,000 more people** to the Universal Credit caseload – a **25% increase**, and an overall rise from **8% to 10%** of the final 7 million people expected to be eligible.

Roll out of Universal Credit
Millions of households



Source OBR Economic and Fiscal Outlook (November 2016); HC Library annotations

Further information and constituency estimates

The Library briefing *Universal Credit roll-out: autumn/winter 2017* provides further background, commentary and analysis on Universal Credit roll-out. It also provides latest available statistics and constituency level estimates.

Our blog *Universal Credit: how is my constituency affected?* shows whether your constituency is affected by Full Service roll-out this autumn and allows you to track UC's progress in your area.

6.2 Cutting the "six-week wait"

Work and Pensions Committee

The HoC Work and Pensions Committee has described the "baked-in" six-week wait as a major obstacle to the success of UC and called for the standard waiting time to be cut to one month.

One controversial feature of Universal Credit is the "six-week wait" faced by many new claimants. Both the BBC and Sky News have reported changes might be made in the upcoming Budget.

The **"six-week wait"** is the length of time a **brand-new** Universal Credit claimant must wait between making their "claimant declaration" and receiving their first payment. It is made up of three time periods:

- **Seven "waiting days"** at the beginning of a new claimant's claim; plus
- **One calendar month assessment period**, during which time DWP assesses a claimant's income; plus
- Up to **seven days** during which DWP processes the award.

Money is paid into the claimant's account at the end of this period. The seven "waiting days" **do not apply to existing claimants** of "legacy" benefits – the benefits and tax credits Universal Credit is replacing – who move onto Universal Credit as a result of a change in their own circumstances, **nor certain other vulnerable groups**. For these claimants the minimum wait is five weeks.

The "six-week wait" **is not** the overall length of time it takes for a new claimant to claim Universal Credit. For some claimants, the wait between their first steps to applying for Universal Credit and their first payment may be considerably longer. This is because claimants must complete a number of steps before their claim is accepted.

We do not know how long new Universal Credit claimants take to set up their claim before making their claiming declaration. The Chair of the Work and Pensions Committee asked via a Parliamentary Question:

> **Asked by: Rt. Hon. Frank Field MP, 1 November 2017**
>
> To ask the Secretary of State for Work and Pensions, what estimate his Department has made of the (a) shortest, (b) average and (c) longest time taken for new universal credit claimants to (i) register, (ii) open their online account, (iii) submit relevant information to his Department and (iv) make their declaration in the last 12 months.
>
> **Answered by: Damian Hinds MP, 6 November 2017**
>
> The information requested is not available.

Further information

Our blog *Universal Credit: how long are new claimants waiting?* provides further information.

7. Abandoning plans to apply LHA rates to the social rented sector

At Autumn Statement 2015 the then Government announced it aimed to apply Local Housing Allowance (LHA) rates to the social rented sector.

LHA rates limit the amount of Housing Benefit that claimants living in the private rented sector can receive. LHA rates are based on the 30th percentile of market rents within a Broad Market Rental Area by bedroom size. National caps also apply. Hence, the Government described the new policy as "limiting social sector rates at the equivalent to private sector rates".

Two further measures, announced at Budget 2016 and Autumn Statement 2016, amended the policy and changed the date at which the Government planned to implement it.

Combined, these three measures might have saved the Exchequer around £790 million in 2020-21 and £850 million in 2021-22.

Costings associated with applying LHA rates to the social sector
£ million, nominal terms

	2018-19	2019-20	2020-21	2021-22
Apply LHA rates to the social rented sector	440	570	660	740
LHA: implement for new tenancies from April 2017	-130	-75	-35	-20
LHA: adjusted roll-out and supported housing fund	-310	-260	165	130
Net cost of measures	**0**	**235**	**790**	**850**

Source Spring Budget 2017 table 2.2

However, Prime Minister Theresa May announced these policies would no longer go ahead at Prime Minister's Questions on 25 October 2017.

This was confirmed in a further consultation paper published on 31 October 2017:

> In the Autumn Statement 2015, we announced our intention to apply the Local Housing Allowance rates to social rents, including supported housing, with effect from 2018. The implementation date was subsequently deferred to April 2019.
>
> **Since then, we have listened carefully to the concerns raised by the social housing sector and other key stakeholders about the issues that this measure would present. As the Prime Minister has recently announced, in response to those concerns the Government will not apply the Local Housing Allowance rates to tenants in supported housing, nor to the wider social rented sector.**

We might expect policy costings published at Autumn Budget 2017 to include the costs of abandoning these measures.

Further information

Our research papers *Local Housing Allowance and the social rented sector* and *Paying for supported housing* provide further detail.

8. Moving to an Autumn Budget and scrutiny of spending

Summary

Moving to an Autumn Budget (section 8.1)

At Autumn Statement 2016 the Chancellor Philip Hammond announced that from autumn 2017 the Government would present a single autumn Budget, to allow for greater Parliamentary scrutiny of Budget measures ahead of their implementation. This is intended to put an end to tax announcements being made twice a year in the Budget or Autumn Statement. Autumn Budget 2017 is the first Budget under this new system.

The Office for Budget Responsibility (OBR) has a statutory duty to present updated forecasts twice a year. They have, thus far, presented their forecasts alongside the Budget and Autumn Statement. In the future the OBR will publish one set of forecasts alongside the Autumn Budget and their other set of forecasts in spring. The Government will present a formal response to the OBR's spring forecast.

After the Finance Act: approving spending (section 8.2)

The Budget and the subsequent Finance Act deal with the raising of Government revenues. But before the Government is able to actually spend this money, further approval from Parliament is required each year: on both the amounts and the nature of the spending. Before the financial year begins Parliament approves some advanced spending. Once the financial year begins, Parliament approves departments' budgets for the year and, later in the financial year, any proposed modifications to these budgets.

8.1 The move to an Autumn Budget

Each year the Chancellor of the Exchequer presents the Budget, which contains all the tax measures for the year ahead. Traditionally the Budget has been in March, prior to the start of the tax year on 6 April. The statutory provisions to give effect to these tax measures are set out in a single Bill: the annual Finance Bill.

In 2011 the Coalition Government reformed the Parliamentary timetable, moving the Queen's Speech and the beginning of the annual session to the spring. In turn provision was made to allow for the Finance Bill to be carried over from one session to the next to ensure that this reform did not substantially reduce the amount of time available for the Bill's scrutiny.[115]

It has been the practice in recent years for Chancellors to make tax announcements twice a year, using the Pre-Budget Report or Autumn Statement as a second fiscal event. In his Autumn Statement on 23 November 2016 the Chancellor Philip Hammond announced that from autumn 2017 the Government would present a single autumn Budget, to allow for greater Parliamentary scrutiny of Budget measures ahead of their implementation. He reasoned that "No other major economy

[115] For details see, *The Budget and the annual Finance Bill*, Commons Briefing paper CBP813, 6 October 2017.

makes hundreds of tax changes twice a year, and neither should we..”[116]

The Chancellor went on to explain that as the Office for Budget Responsibility (OBR) is required to present updated fiscal and economic forecasts twice a year, then each spring, when the second of these was published, the Government would present a formal response in a spring statement, but this would not be a major fiscal event. However, the Chancellor said that if unexpected economic changes require it, he will “reserve the right to announce actions at the spring statement, but I will not make significant changes twice a year just for the sake of it.”[117]

The *Autumn Statement* report and a Treasury press notice published alongside the report gave further details:[118,119]

- The Spring Statement will review wider economic and fiscal challenges and launch consultations.
- The Government remains committed to the tax policy framework and will consult on tax changes in the spring and draft legislation in the summer, before they are introduced as Finance Bills. To build on this and allow for an earlier stage of involvement on key strategic challenges, consultations may be launched on how to address these longer-term issues at the Spring Statement.
- The Finance Bill will follow the Budget, as it does now. From winter 2017, Finance Bills will be introduced following the Budget. The aim will be to reach Royal Assent in the spring, before the start of the following tax year.
- From 2018 ‘Legislation day’ will move to the summer. Since 2011, most tax policy consultation summaries and draft Finance Bill legislation have been published on ‘Legislation day’. From 2018, under the new timetable, this will move to the summer. The date will continue to be announced by written ministerial statement.

In a recent interview Edward Troup, executive chairman of HMRC, was asked about the implications of the Autumn Budget, and said, “a single fiscal event will bring greater focus once a year. It will hopefully reduce the workflow and burden on us, and, just as importantly, on businesses and their advisers in dealing with changes during the rest of the year.”[120]

The Chancellor’s announcement was generally welcomed by tax professionals. The Chartered Institute of Taxation described it as a

---

[116] HM Treasury, Autumn Statement 2016: Philip Hammond’s speech, 23 November 2016
[117] HC Deb 23 November 2016 c910
[118] *Autumn Statement*, Cm 9362, November 2016 para 4.1-3. The OBR’s statutory duties are established by the *Budget Responsibility and National Audit Act 2011*. See also, *The Office for Budget Responsibility and Charter for Budget Responsibility*, Commons Library briefing SN5657, 21 July 2017.
[119] HM Treasury press notice, *The new Budget timetable: 7 things you need to know*, 23 November 2016
[120] “In conversation with Edward Troup”, *Tax Journal*, 20 October 2017

"welcome move" as "having two major fiscal events a year encourages government to keep fiddling about with the system."[121] The Association of Taxation Technicians agreed that this reform was "an opportunity for better tax legislation" but suggested that it would be "essential for the whole timetable for new legislation to be considered."[122] Writing in *Taxation*, Andrew Hubbard, the magazine's editor, saw the decision as being "positive, even for somebody like me who enjoys the adrenaline rush of analysing the press releases after a set-piece event … slowing down the pace and having a more measured approach to making tax policy and law … must be the right thing."[123]

As part of its presentation on the Autumn Statement, the Institute for Fiscal Studies director, Paul Johnson, said:

> No more Autumn Statements. Hurrah. If there has been any promise made by any chancellor I have been able to welcome more warmly I can't remember it. Of course that's partly just a personal preference. I'm getting too old to pull two all-nighters a year in response to fiscal events. But more seriously we have had far too much, far too bad, policy in Budgets, Autumn Statements and pre budget reports over the years. The temptations for Chancellors to use their two days to make too many headline grabbing announcements is great indeed.
>
> As I said in a letter to Mr Hammond back in September, along with colleagues from the IfG and CIOT, moving to one fiscal event a year should reduce "the frequency of new significant changes of direction, release resource for better consultation, produce higher quality legislation and more effective implementation, and make life simpler for taxpayers". Let's hope.[124]

In January the Institute for Government published a joint report with the IFS and the CIOT on tax policy, making a series of recommendations. The authors suggested that the commitment to a single fiscal event was "an important move that opens the way to a more professional approach to tax policy making":

> By taking Treasury and HMRC officials and ministers off the treadmill of twice-yearly tax policy making with only around 12 working weeks between the Autumn Statement and the Budget, it should give scope for the further steps we suggest below on consultation and external engagement – and open the way for enhanced parliamentary scrutiny. Simply doing less should enable change to be done better. But previous chancellors have made similar commitments – only to be tempted back by a mix of opportunity and external expectation. So if this change is to endure, it needs to be buttressed by changes to entrench it.[125]

The report made a series of recommendations for reforming tax policy making; principally, that the Government should "publish clear guiding principles and priorities for tax policy", "improve consultation, in

---

[121] CIOT press notice, *Chancellor takes up Institutes' proposal for fewer Budgets*, 23 November 2016

[122] ATT press notice, *Tax experts call for consultation on new Budget timetable to ensure it delivers intended benefits*, 23 November 2016

[123] "Harbinger of stability?", *Taxation*, 1 December 2016

[124] "Paul Johnson's Opening remarks", *IFS Autumn Statement analysis*, 24 November 2016

[125] IfG, IFS, CIOT, *Better Budgets: making tax policy better*, January 2017 p42

particular ensuring that consultations happen before key decisions have been made", and, "use external, public reviews of aspects of the tax system as a means of opening up public debate." The authors also made some suggestions to improve Parliamentary scrutiny, such as enabling the Public Bill Committee that scrutinises the Finance Bill to start its deliberations with oral evidence sessions, as has happened for several years for other Public Bill Committees.[126]

Following the publication of the Institute for Government's report, the then Chair of the Treasury Committee, Andrew Tyrie, wrote to the Financial Secretary, supporting a number of their proposed changes to scrutiny process, including the introduction of oral evidence sessions, to be held before the Public Bill Committee began its clause-by-clause consideration of the Bill.[127] In turn, after the 2017 Budget and the publication of the *Finance Bill 2017*, Treasury Minister Jane Ellison replied to Mr Tyrie's letter; part of her reply is reproduced below:

> I agree that effective Parliamentary scrutiny of the Finance Bill is of particular importance and I am always open to considering how this can be better achieved. However, I am not persuaded at present by the merits of delaying the programming to allow for oral evidence sessions for the following reasons.
>
> Firstly, as you are aware, in line with the new approach to tax policy making, the Government already undertakes extensive consultation with stakeholders, before legislating in the Finance Bill. Policies are now typically developed through an established cycle, whereby an initial announcement at a Budget is followed by policy consultation, the publishing of draft legislation, and finally legislated for in the next Finance Bill. All organisations that submitted written evidence for Finance Bill 2016 contributed to tax consultations for legislation being taken forward in that Bill or Finance Bill 2017.
>
> The consultation on salary sacrifice, for example, received 259 responses from a wide range of tax professional, advisory and accountancy organisations. Through the publishing of draft legislation, we also help to ensure that drafting reflects stakeholders' responses on technical aspects before it is formally introduced in Parliament.
>
> Secondly, one of the distinctive features of the Finance Bill is that the committee stage is split into two parts. In advance of the line-by-line scrutiny carried out at Public Bill Committee, the most contentious issues are considered over the course of a two day debate on the floor of the House. This means that any oral evidence sessions at Public Bill Committee would only be able to consider those parts of the Bill not selected at Committee of the Whole House.
>
> I am therefore not persuaded that oral evidence sessions would be beneficial. As you know, any changes in this area would, in any

---

[126] *Better Budgets: making tax policy better*, January 2017 (see pp48-9). For details of the introduction of this Parliamentary procedure see, *Modernisation: Public Bill Committees*, Commons Briefing paper CBP4541, 12 December 2007.

[127] *Letter from Treasury Committee Chair to Jane Ellison MP relating to improving tax policy making*, 23 January 2017

event, be a matter for the Business Managers and the usual channels.[128]

Following the Prime Minister's announcement, on 18 April, of the Government's intention to call a General Election on 8 June, the House completed all of the remaining stages of the Bill in the Commons on 25 April and the *Finance Act 2017* received Royal Assent on 27 April. With cross-party support the Government removed a series of clauses from the Bill, with the intention of legislating for these at the start of the new Parliament. In turn this second *Finance Bill* was introduced on 6 September, and recently completed its scrutiny in the Commons.[129]

On 12 September the Chancellor announced that he would present the Government's first Autumn Budget on 22 November, and introduce a Finance Bill after this.[130] The Government published draft clauses for this Bill on 13 September, in line with previous practice in recent years for publishing much of the Bill in draft for consultation.[131]

8.2 What happens after the Finance Act?

The Finance Act enables the Government to raise the revenues it seeks for the forthcoming financial year. But before the Government is able to actually spend this money, further approval from Parliament is required each year: on both the amounts and the nature of the spending.[132]

- In February, before the new financial year starts, the Government presents to Parliament a "Vote on Account"– a proposed advance of spending for the first five months of the forthcoming new financial year;
- In April, shortly after the start of the new financial year, the Government presents to Parliament "Main Estimates"– proposed budgets for the new financial year; and
- In the following February, as the financial year draws to a close, the Government presents to Parliament any proposed modifications to the budgets previously approved, through what are known as "Supplementary Estimates".

"Estimates day" debates are held[133] before Parliament's authority is sought to each of these proposals. Following these debates, Parliament is able to propose downward amendments to, or outright rejection of, spending included in the Estimates debated.[134] In practice, it is

[128] *Response from Jane Ellison MP to Treasury Committee Chair relating to improving tax policy making*, 30 March 2017

[129] For more details see, *Finance Bill 2017-19*, Commons Debate Pack CDP2016-0114, 27 October 2017.

[130] HM Treasury press notice, 12 September 2017

[131] *Draft legislation for Finance (No.2) Bill*, HCWS113, 6 September 2017

[132] With some notable exceptions, such as debt interest, election costs and payments to the EU, where annual authority is not required as special legislation allows for this

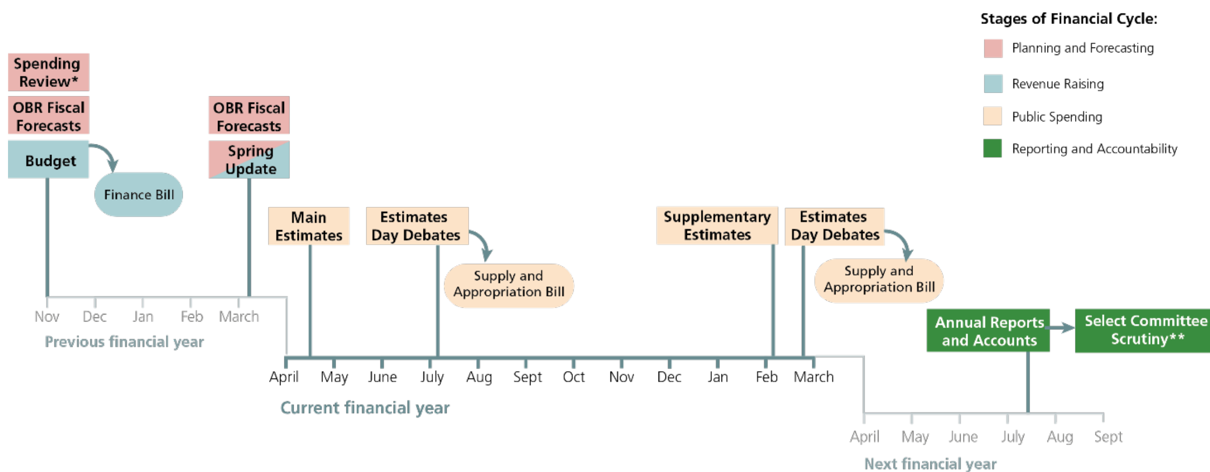
[133] Selected by the House of Commons Liaison committee. After a recent General Election, such as July 2017, there is often no Liaison committee established, so no debates are held.

[134] Upward amendments are not permitted under standing Orders, due to what is known as the Crown Prerogative- the Crown's (ie the Government's) unique right to propose spending

extremely rare for Government's Estimates or Votes on Account not to be approved by the House of Commons. As with Finance Bills and taxation, the House of Lords has no role in the consideration of these spending plans.

In each case, Parliament's approval to the amounts (spending limits) and the "ambit" (a description of the nature of the proposed spending) is achieved first through Supply Resolutions, then formalised through a twice yearly Supply and Appropriations Act. These Acts receive Royal Assent in March, for Votes on Account, and Supplementary Estimates; and in July, for the Main Estimates.

After the year ends, usually by July, the Government is require to produce audited accounts of the money spent against each of the limits and ambits agreed by Parliament. If spending has exceeded the limits set or fallen outside those ambits, the Government must produce a document known as a "Statement of Excesses" and then seek retrospective authority from Parliament. In such circumstances, the National Audit Office will report and the Public Accounts Committee may decide to call those accountable to explain what happened and to explain what is being done to prevent recurrence.



Notes:
* Spending Review happens once every 3-4 years
** Select Committee Scrutiny of Departmental Annual Reports and Accounts may continue well into the financial year

Appendix 1: Sources of further information

Library's Brexit briefings

The Library has produced a range of briefings. The briefings, and other relevant parliamentary material, are pulled together in parliament's Brexit hub.

Section 6 of Productivity in the UK looks at the channels through which Brexit can affect future productivity – and growth – prospects.

Look out for Autumn Budget related blogs on the Library's blog, Second Reading.

HM Treasury

Spring Budget 2017

Autumn Statement 2016

Budget 2016

Autumn Statement and Spending Review 2015

Office for Budget Responsibility

Economic and fiscal outlook, March 2017

Economic and fiscal outlook, November 2016

Monthly commentary on the public finances

Public finances databank

Institute for Fiscal Studies

Autumn 2017 Budget: options for easing the squeeze

Post-Spring Budget 2017 Briefing

Green Budget 2017

Post-Autumn Statement 2016 Briefing

Post-Budget Briefing 2016

Green Budget 2016

Commentary on the January 2017 public finances

House of Commons Library

Economic indicators (an edition will be published on 20 November 2017)

House of Lords Library

2016 Budget: Overview and Reactions

House of Commons Treasury Select Committee

Inquiry into Budget 2017

Inquiry into Autumn Statement 2016

Inquiry into Budget 2016

Appendix 2: Economic and public finance data 1979-2021

Economic data, 1979-2021

	Real GDP growth %	Inflation RPI %	Inflation CPI %	ILO Unemployment Q4, %
1979	3.7%	13.4%	..	5.5%
1980	-2.0%	18.0%	..	8.0%
1981	-0.8%	11.9%	..	10.2%
1982	2.0%	8.6%	..	11.1%
1983	4.2%	4.6%	..	11.7%
1984	2.3%	5.0%	..	11.6%
1985	4.2%	6.1%	..	11.3%
1986	3.1%	3.4%	..	11.3%
1987	5.3%	4.2%	..	9.7%
1988	5.7%	4.9%	..	8.0%
1989	2.6%	7.8%	5.2%	7.0%
1990	0.7%	9.5%	7.0%	7.5%
1991	-1.1%	5.9%	7.5%	9.5%
1992	0.4%	3.7%	4.3%	10.4%
1993	2.5%	1.6%	2.5%	10.3%
1994	3.9%	2.4%	2.0%	9.0%
1995	2.5%	3.5%	2.6%	8.3%
1996	2.5%	2.4%	2.5%	7.8%
1997	4.0%	3.1%	1.8%	6.5%
1998	3.1%	3.4%	1.6%	6.1%
1999	3.2%	1.5%	1.3%	5.8%
2000	3.7%	3.0%	0.8%	5.2%
2001	2.5%	1.8%	1.2%	5.2%
2002	2.5%	1.7%	1.3%	5.1%
2003	3.3%	2.9%	1.4%	4.9%
2004	2.4%	3.0%	1.3%	4.7%
2005	3.1%	2.8%	2.1%	5.1%
2006	2.5%	3.2%	2.3%	5.5%
2007	2.4%	4.3%	2.3%	5.2%
2008	-0.5%	4.0%	3.6%	6.4%
2009	-4.2%	-0.5%	2.2%	7.8%
2010	1.7%	4.6%	3.3%	7.9%
2011	1.5%	5.2%	4.5%	8.4%
2012	1.5%	3.2%	2.8%	7.8%
2013	2.1%	3.0%	2.6%	7.2%
2014	3.1%	2.4%	1.5%	5.7%
2015	2.3%	1.0%	0.0%	5.1%
2016	1.8%	1.8%	0.7%	4.8%
2017	2.0%	3.7%	2.4%	5.1%
2018	1.6%	3.6%	2.3%	5.1%
2019	1.7%	3.1%	2.0%	5.2%
2020	1.9%	3.1%	2.0%	5.2%
2021	2.0%	3.2%	2.0%	5.1%

Sources: ONS (series, IHYP, CZBH, D7G7, MGSX)
OBR, Economic and fiscal outlook, March 2017, Table 3.8, and Economy Supplementary Tables 1.6 & 1.7

Public finance data 1979/80 to 2021/22

	Public sector net borrowing		Structural deficit		Public sector net debt	
	£ billion	% GDP	£ billion	% GDP	£ billion	% GDP
1979/80	8.5	3.7%	9.1	4.0%	98.2	45.0%
1980/81	11.5	4.3%	7.7	2.9%	113.8	45.6%
1981/82	6.0	2.0%	-0.3	-0.1%	125.2	45.3%
1982/83	8.5	2.6%	2.1	0.6%	132.5	43.9%
1983/84	11.8	3.3%	7.2	2.0%	143.6	43.6%
1984/85	12.5	3.3%	10.7	2.8%	157.0	44.3%
1985/86	9.0	2.1%	9.0	2.1%	162.5	41.7%
1986/87	8.4	1.9%	9.1	2.0%	167.8	40.1%
1987/88	4.7	0.9%	10.6	2.1%	167.4	35.6%
1988/89	-6.0	-1.1%	5.8	1.0%	153.7	29.3%
1989/90	-0.6	-0.1%	7.9	1.3%	151.9	26.2%
1990/91	6.2	0.9%	4.7	0.7%	151.1	24.2%
1991/92	23.0	3.3%	13.2	1.9%	165.8	25.2%
1992/93	47.1	6.5%	35.2	4.8%	201.9	29.0%
1993/94	51.6	6.7%	41.9	5.4%	249.8	33.9%
1994/95	43.8	5.4%	37.4	4.6%	290.0	37.5%
1995/96	35.3	4.2%	24.6	2.9%	322.1	39.2%
1996/97	27.7	3.1%	24.0	2.7%	347.0	37.3%
1997/98	5.9	0.6%	17.0	1.8%	358.6	37.1%
1998/99	-4.4	-0.4%	9.4	0.9%	357.8	35.3%
1999/00	-14.4	-1.4%	0.4	0.0%	349.3	32.7%
2000/01	-19.9	-1.8%	-4.4	-0.4%	316.7	28.5%
2001/02	0.0	0.0%	8.0	0.7%	323.1	27.9%
2002/03	26.1	2.2%	27.1	2.3%	356.2	29.1%
2003/04	29.2	2.3%	35.6	2.8%	391.0	30.3%
2004/05	39.1	3.0%	51.8	3.9%	446.5	32.9%
2005/06	37.4	2.7%	48.5	3.5%	487.2	33.9%
2006/07	35.1	2.4%	44.3	3.0%	523.6	34.6%
2007/08	40.4	2.6%	57.5	3.7%	557.2	35.5%
2008/09	110.7	7.2%	102.7	6.6%	767.1	50.4%
2009/10	151.6	9.9%	123.0	8.0%	1,010.6	64.8%
2010/11	136.3	8.6%	104.4	6.6%	1,156.0	71.6%
2011/12	115.9	7.1%	84.7	5.2%	1,251.4	75.4%
2012/13	122.1	7.2%	89.6	5.3%	1,362.7	79.1%
2013/14	102.6	5.8%	76.7	4.4%	1,465.6	81.2%
2014/15	94.8	5.2%	83.4	4.5%	1,554.0	83.6%
2015/16	71.7	3.8%	70.9	3.8%	1,605.9	83.7%
2016/17	68.2	3.5%	64.9	3.3%	1,724.8	87.3%
2017/18	59.0	2.9%	51.4	2.6%	1,839.9	90.2%
2018/19	46.5	2.2%	37.9	1.8%	1,904.0	89.7%
2019/20	21.9	1.0%	16.6	0.8%	1,945.2	88.0%
2020/21	20.7	0.9%	18.5	0.8%	1,950.2	84.8%
2021/22	17.2	0.7%	16.7	0.7%	1,951.7	81.6%

Source: OBR, ONS

Note: figures exclude public sector banks

BRIEFING PAPER

Number 8144, 17 November 2017

About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publically available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email hcinfo@parliament.uk.

Disclaimer

This information is provided to Members of Parliament in support of their parliamentary duties. It is a general briefing only and should not be relied on as a substitute for specific advice. The House of Commons or the author(s) shall not be liable for any errors or omissions, or for any loss or damage of any kind arising from its use, and may remove, vary or amend any information at any time without prior notice.

The House of Commons accepts no responsibility for any references or links to, or the content of, information maintained by third parties. This information is provided subject to the conditions of the Open Parliament Licence.