The 2010 Autumn Statement

Standard Note: SN/EP/5776
Last updated: 30 November 2010
Author: Dominic Webb
Section Economic Policy and Statistics Section

This note provides background on the Autumn Statement presented to the House by the Chancellor on Monday 29 November. The Office for Budget Responsibility (OBR) published revised forecasts for the economy and public finances, also on 29 November. These revised the growth forecast for 2010 up from 1.2% to 1.8%. The growth forecasts for 2011 and 2012 were revised downwards.

The statement also contained announcements about reform of corporate tax and policies to promote growth. No major changes to public spending or taxation were announced – these had already been set out in the June Budget and October Spending Review.

Contents

1 Introduction

The Chancellor presented the Autumn Statement to the House of Commons on Monday 29 November[1] in which he responded to the updated economic and fiscal forecasts published by the Office for Budget Responsibility (OBR) on the same day.[2] The Chancellor said:

> After the deepest recession since the war, the greatest budget deficit in our peacetime history and the biggest banking crisis of our lifetime, recovery was always going to be more challenging than after previous recessions, but the message from the Office for Budget Responsibility is that Britain's economic recovery is on track. The economy is growing, more jobs are being created and the deficit is falling. Its central forecast is for sustainable growth of over 2% in each of the next five years, and employment rising in each and every year. Indeed, employment and gross domestic product are higher in every quarter and every year than in the June forecast.[3]

He went on to say:

> This is an uncertain world, but the British recovery is on track. Employment is growing, 1 million more jobs are being created and the deficit is set to fall: the plan is working, so we will stick to the course. That is the only way to help confidence to flourish and growth to return, and I urge those who seriously suggest, when they see what is happening to our neighbours across Europe, that we should abandon the decisive plan we are following, and instead borrow and spend more, to think again. What they propose would be disastrous for the British economy, would put us back in the international firing line we have worked so hard to escape from and would mean higher deficits and jobs lost, and we should reject that path.[4]

The Autumn Statement took the place of the Pre-Budget Reports (PBR) which had occurred in November or December under the previous Government. Under Section 156 of the *Finance Act 1998*, the Treasury is required to publish a Pre-Budget Report. The *Budget Responsibility and National Audit Bill*, which is currently in the House of Lords, seeks to remove this requirement. The Government has said that in line with its objectives for more certainty and stability in the fiscal cycle, there will be no requirement for a PBR in future years. It has also said that "it intends to move away from the significant fiscal policy changes announced at PBRs in recent years." For this year, the OBR's forecast and the Government's response meet the requirements of the *Finance Act 1998* while they remain in force.[5]

Before the introduction of the Pre-Budget Report in 1997, the Government had presented an annual Autumn Statement. For a number of years in the 1990s, this was combined with the Budget.

---

1 HC Deb 29 November 2010 cc529-534

2 Office for Budget Responsibility, *Economic and fiscal outlook,* Cm 7979, November 2010. Robert Chote's presentation and slides on the forecast are also available on the OBR website.

3 HC Deb 29 November 2010 c529

4 HC Deb 29 November 2010 c532

5 Letter from the Chancellor to Andrew Tyrie MP, Chairman of the Treasury Committee, 12 October 2010

2 Forecasts for the economy and the public finances

2.1 The OBR

The newly-created OBR published revised forecasts for the economy and public finances on 29 November. The interim OBR had published two sets of forecasts this year: one before the June Budget and one to accompany the June Budget. These forecasts were produced by the interim OBR which was chaired by Sir Alan Budd. The other two members were Graham Parker and Geoffrey Dicks

Since these forecasts were published, the permanent OBR has been created. Of the three members of the interim OBR, only Graham Parker remains. The OBR is now chaired by Robert Chote and Stephen Nickell is the third member. The November OBR forecasts were, therefore, produced by a different group of people to the previous forecasts.[6]

In addition to its updated forecasts, the OBR published a revised assessment of whether the Government has a better than 50:50 chance of meeting its fiscal mandate. The mandate requires the Government to achieve cyclically-adjusted current balance by the end of the rolling five year forecast period. At the Budget this was 2015/16. The mandate is supplemented by a target for public sector net debt to be falling as a percentage of GDP in 2015/16.

2.2 The economy

The OBR revised upwards its forecast for growth in 2010 to 1.8% from 1.2% in the June Budget. This brings the OBR more into line with the current average independent forecast of 1.7%.

The OBR revised its growth projections for 2011 and 2012 downwards. For 2011, it is now forecasting 2.1% compared with 2.3% in its June forecast. For 2012, it is forecasting 2.6% compared with 2.8% in June.

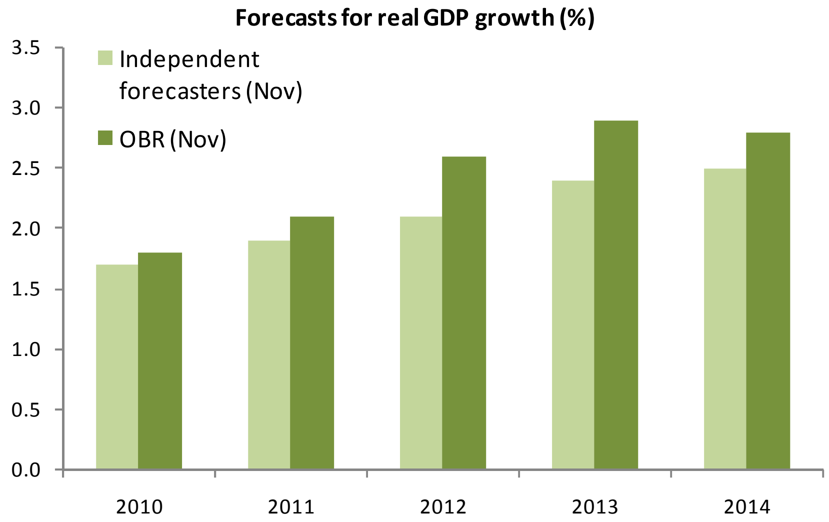
Forecasts for real GDP growth (%)

	2010	2011	2012	2013	2014	2015
OBR (Nov)	1.8	2.1	2.6	2.9	2.8	2.7
OBR (June)	1.2	2.3	2.8	2.9	2.7	2.7
Independent forecasters (Nov)	1.7	1.9	2.1	2.4	2.5	..
OECD (Nov)	1.8	1.7	2.0	..	..	..
IMF (Oct)	1.7	2.0	..	..	..	2.6

Sources: OBR, HM Treasury, OECD, IMF

The chart below compares the latest OBR forecasts for economic growth with the average independent forecast. The OBR is more optimistic than the independent forecasters in every year between 2010 and 2014. The difference is especially marked from 2012 onwards.

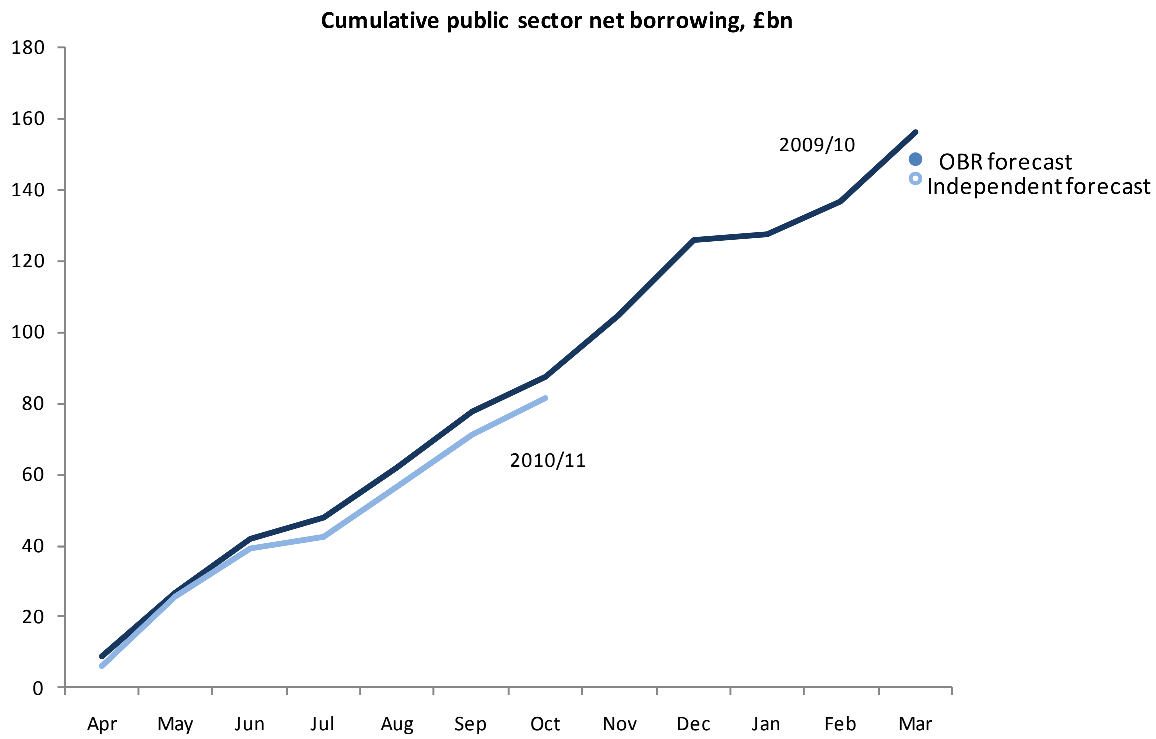
6 There is further information in the Library Note on the OBR (SN/EP/5657).



2.3 The public finances

The OBR's forecast for public sector net borrowing is relatively unchanged from the June forecast. Compared with its June forecast, borrowing is expected to be £600 million lower in 2010/11. It is just under £2 billion higher in 2011/12 and 2012/13.

The chart below shows cumulative monthly borrowing for the first seven months of this financial year compared with the same period last year. Between April and October, the Government borrowed £81.6 billion: 5.9% lower than the £87.5 billion borrowed over the same period of 2009/10.



The Institute for Fiscal Studies commented on these trends as follows:

> A large slice of annual corporation tax revenues is received in October and today's figures show these were significantly up on the same month last year. Offsetting this good news for the Chancellor is weaker growth in receipts of income tax, National Insurance Contributions and VAT than forecast for the year as a whole by the Office for Budget Responsibility in June.
>
> These are the last set of public finance figures before Robert Chote and his colleagues on the new Budget Responsibility Committee publish the OBR Autumn Forecast on Monday 29th November. The trend for borrowing so far this year is very close to that implied by the OBR's June forecast for the year as a whole: a simple extrapolation of borrowing so far this year implies it will fall from £156bn last year to £145 billion in 2010–11, whereas the June forecast was that it would fall to £149 billion.
>
> […]
>
> In practice there are many reasons why borrowing over the next five months is unlikely to follow the path implied by the last seven: for example accrued receipts of the bank payroll tax are frontloaded whereas the in-year public service cuts announced in May will be back loaded. The former will tend to make the extrapolation of borrowing an underestimate, whereas the latter will tend to make it an overestimate, of what we might expect.[7]

In addition, the VAT increase is due to come into effect in January 2011 again making simple extrapolation of the first seven months of this year misleading.

The OBR's forecast for borrowing this year is higher than the current independent average and broadly in line for 2011/12. For later years, the OBR forecasts lower borrowing than independent forecasters.

Public sector net borrowing, £bn (a)

	2009/10 (b)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
OBR (Nov)	156	149	117	91	60	35	18
OBR (June)	156	149	116	89	60	37	20
Independent forecasters (Nov) (c)	156	143	118	96	73	..	..

Sources: OBR, HM Treasury, ONS

Notes
(a) All figures rounded to the nearest billion
(b) 2009/10 figure is latest outturn from ONS
(c) Independent forecasts from 2012/13 onwards from a smaller group of forecasters than those for 2010/11 - 2011/12

The OBR's June and November forecasts for borrowing and debt are compared in the table below.

7 IFS Press Release, *IFS analysis of today's public finance figures*, 18 November 2010

Comparison of June and November OBR forecasts for the public finances (a)

	2009/10 (b)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Public sector net borrowing							
£bn, Nov	156	149	117	91	60	35	18
£bn, June	156	149	116	89	60	37	20
difference	-	*-0.6*	*2.0*	*2.0*	*0.0*	*-2.0*	*-2.0*
% GDP, Nov	11.1	10.0	7.6	5.6	3.5	1.9	1.0
% GDP, June	11.1	10.1	7.5	5.5	3.5	2.1	1.1
difference	-	*-0.1*	*0.1*	*0.1*	-	*-0.1*	*-0.1*
Public sector net debt							
£bn, Nov	772	923	1,052	1,157	1,232	1,284	1,320
£bn, June	772	932	1,059	1,162	1,235	1,284	1,316
difference	*0*	*-9*	*-7*	*-5*	*-3*	*0*	*4*
% GDP, Nov	53.6	60.8	66.3	69.1	69.7	68.8	67.2
% GDP, June	53.6	61.9	67.2	69.8	70.3	69.4	67.4
difference	-	*-1.1*	*-0.9*	*-0.7*	*-0.7*	*-0.6*	*-0.1*

Source: OBR, Budget forecast, June 2010, Table C6, p89; Economic and fiscal outlook, November 2010, Table 4.26, p131 ONS

Notes: (a) all figures exclude temporary effect of financial sector interventions

(b) outturn

(c) figures may not sum due to rounding

2.4 Labour market

Employment and unemployment

The revised forecast for employment is slightly higher compared with the June forecast but is unchanged for 2015. Unemployment is forecast to be lower in 2010 but marginally higher between 2012 and 2015.

OBR forecasts for employment and unemployment

	2010	2011	2012	2013	2014	2015
Employment (million), Nov	29.0	29.1	29.3	29.6	29.8	30.1
Employment (million), Jun	28.8	28.9	29.2	29.5	29.8	30.1
difference	*0.2*	*0.2*	*0.1*	*0.1*	*0.0*	*0.0*
Unemployment rate (%), Nov	7.9	8.0	7.7	7.2	6.7	6.1
Unemployment rate (%), June	8.1	8.0	7.6	7.0	6.5	6.1
difference	*-0.2*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*

Source: OBR, Budget forecast June 2010, Table C2, p84; Economic and fiscal outlook November 2010, Table 3.1 p26

Note: figures may not sum due to rounding. Unemployment figures are ILO unemployment

Public sector employment

In June, the OBR forecast a fall in public sector employment of 490,000 by 2014/15. In its November forecast, this figure was revised down to 330,000 – a difference of 160,000. Of this, 30,000 is due to methodological change and 130,000 to the higher level of public spending compared with that anticipated in the Budget.

OBR forecasts for general government employment
million, final quarter of financial year

	2010/11	2011/12	2012/13	2013/14	2014/15	change
November	5.49	5.45	5.42	5.34	5.17	-0.33
June	5.53	5.47	5.39	5.23	5.04	-0.49
difference	*-0.04*	*-0.02*	*0.03*	*0.11*	*0.13*	

Source: OBR, Economic and fiscal outlook, November 2010, p65
Note: figures may not sum due to rounding

The Chancellor commented on this part of the forecast:

> I can also tell the House that following the spending review the OBR has recalculated its estimate of the reduction in the headcount in the public sector. In June, the OBR forecast a reduction in headcount of 490,000 over the next four years; in its latest forecast, that estimate has come down to 330,000-a reduction of 160,000. The bulk of that revision results from the action that we have taken to cut welfare bills rather than public services. Our difficult choices on child benefit, housing benefit and other benefits, each of which the Labour party opposed, mean that fewer posts will be lost across the public sector. Those headcount reductions that still need to take place will happen over four years, not overnight, and the OBR forecast is that private sector job creation will far outweigh the reduction in public sector employment.[8]

3 The fiscal mandate

The OBR's terms of reference require it to assess whether the government has a better than 50:50 chance of meeting its fiscal mandate. The fiscal mandate requires cyclically-adjusted current balance by a rolling five year forecast period (2015/16 for the purposes of this forecast). The mandate has been supplemented by a target for public sector net debt to be falling by the fixed date of 2015/16. The OBR concluded:

> Our best judgement is that the Government has a better than 50 per cent chance of meeting its mandate for a cyclically-adjusted current budget balance in 2015–16 and of achieving its supplementary target of seeing public sector net debt fall between 2014–15 and 2015–16. We also believe that it has slightly more margin for error in meeting the mandate than the interim OBR thought likely in June. That said, there is clearly significant uncertainty around our central forecast, with risks both to the upside and to the downside.[9]

4 Other announcements

Besides commenting on the OBR's forecasts, the Chancellor told the House about reforms to the corporate tax system and measures to promote economic growth:

---

8 HC Deb 29 November 2010 c531
9 OBR, Economic and fiscal outlook, Cm 7979, November 2010, para 5.49

Let me set out some of the other things that my right hon. Friend the Secretary of State for Business, Innovation and Skills and I are announcing today to support growth and a rebalancing of our economy. In the Budget, I set out a plan to reduce the main rate of corporation tax to 24%-its lowest ever rate-demonstrating our commitment to tax competitiveness. I can now tell the House that today we are publishing the most significant programme of corporate tax reforms for a generation, for consultation with the business community. We propose to make the UK an even more attractive location for international business and investment by reforming the outdated and complex rules for controlled foreign companies. We have seen a steady stream of companies leaving the UK in recent years, and this Government, unlike the last one, are not content to sit by and watch our competitiveness leach away and our corporate tax base be undermined.

Another tax issue of crucial importance to our corporate sector is the tax treatment of income from intellectual property. For a long time, we have argued that we should increase the incentives to innovate and develop new products in this country, so to encourage high-tech businesses to invest in the UK and to create high-value jobs here, we can confirm that we will introduce from April 2013 a lower 10% corporate tax rate on profits from newly commercialised patents. We have been consulting the business community, and I can tell the House that as a result of this measure, GlaxoSmithKline will today announce a new £500 million investment programme in the UK, including new manufacturing in Hertfordshire; a £50 million venture capital fund to invest in health care research; a new facility at the university of Nottingham to develop green chemistry technology; and the building of GlaxoSmithKline's next biopharmaceutical plant in this country, with sites in the north of England and Scotland under consideration. In total, it estimates that 1,000 new jobs will be created in the UK over the lifetime of these projects.

Today, we are also launching a cross-government growth review. This will be a determined, forensic examination of how every part of Government can do more to remove barriers to growth and support growth opportunities. Too often, the natural inclination of Government is in the opposite direction, creating new regulations, putting up new barriers, and making life more difficult for entrepreneurs and innovators. We are starting to turn the super-tanker around. Together with the Department for Business, Innovation and Skills, the Treasury will lead an intensive programme of work, involving all parts of Government, using evidence provided by the business community and reporting by next year's Budget. We will identify reform priorities that can benefit the whole economy. Specific priority will be given to improvements to the planning system and employment law, more support for exporters and inward investment, and reforms to the competition regime. At the same time, we will begin a new sector-by-sector focus on removing barriers to growth and opening up new opportunities. Some of the resulting changes will be substantive on their own; others will help particular industries in specific ways. Some changes may be controversial if they confront vested interest, but brick by brick we will remove the barriers that are holding Britain back.[10]

5 Reaction

The Shadow Chancellor, Alan Johnson, criticised the Government’s approach as “unprecedented gamble” and said the return to growth during 2010 was due to the previous Labour Government’s policies. He said:

The Chancellor has chosen to take an unprecedented gamble with people's livelihoods and the country's future, and he has done so on the basis of a fundamental deceit: that

[10] HC Deb 29 November 2010 cc532-33

when he assumed office, the public finances were worse than expected. The OBR exposed that deceit last year, and it has confirmed it today, so will the Chancellor now tell all those Back Benchers behind him-all those Tories who claim to their constituents that things are worse than they expected, and of course those who tell them that they have never had it so good-that they will have to find a new excuse? Nothing in his statement today can hide the fact that it was the balanced approach of my right hon. Friend the Member for Edinburgh South West (Mr Darling)-[...] that saw growth return at the beginning of the year, saw the recovery gain momentum and led to nearly 1 million fewer people claiming out-of-work benefits than predicted. That was the previous Chancellor, not this one.

As expected, the OBR has produced a higher growth forecast for this year than at the time of the emergency Budget, but this is the result of an approach that this Government have rejected. The reckless gamble that coalition Members support is still to come; the Chancellor is in the casino, but he has not yet spun the wheel. The OBR's judgment of the future matters more than its revised forecast for a year that is almost over.[11]

[11] HC Deb 29 November 2010 cc534-35