The 2011 Autumn Statement

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The Chancellor presented the 2011 Autumn Statement on 29 November. On the same day, the independent Office for Budget Responsibility (OBR) published its revised forecasts for the economy and the public finances.

This note summarises the main points of the statement and the reaction to it. A separate note, published before the statement, gives the background.

Introducing the Autumn Statement, the Chancellor said:

> Let me start by placing squarely before the House of Commons and the British public the economic situation facing our country. Much of Europe now appears to be heading into a recession caused by a chronic lack of confidence in the ability of countries to deal with their debt. We will do whatever it takes to protect Britain from this debt storm while doing all we can—[Interruption.]—all we can to build the foundations of future growth.
>
> Today we set out how we will do that by demonstrating that the country has the will to live within its means and keep interest rates low; by acting to stimulate the supply of money and credit to ensure that those low interest rates are passed on to families and businesses; by matching our determination on the deficit with an active enterprise policy for business and lasting investment in our infrastructure and education so that Britain can pay its way in the future; and at every opportunity by helping families with the cost of living.

Contents

1 Key points

- The OBR announced downgraded growth forecasts and increased forecasts for borrowing.

- **GDP growth:** the OBR is now forecasting growth of 0.9% this year, 0.7% in 2012 and 2.1% in 2013. The previous forecasts were 1.7%, 2.5% and 2.9%. Despite the cut in the growth forecasts, on its central forecasts, the OBR projects that the UK will avoid a double-dip recession.

- **Public sector borrowing:** forecast to be around £20-30 billion higher in every year between 2012/13 and 2015/16 compared with the 2011 Budget forecast.

- **Fiscal targets:** the Government will still meet its fiscal rules despite higher forecasts for borrowing and debt. However, the Government is no longer meeting its fiscal targets a year early, as it was at the 2011 Budget.

- **Tax credits:** the child element of the Child Tax Credit and the disability elements of tax credits will be uprated in line with the CPI. The standard minimum income guarantee in Pension Credit will increase by 3.9% in April 2012. The Government will not go ahead with the planned £110 above inflation increase to the child element of the Child Tax Credit and will not uprate the couple and lone parent elements of the Working Tax Credit in 2012/13.

- **Public sector pay awards** will be set at an average of 1% for each of the two years after the current pay freeze, saving £600 million in 2013/14 and over £1 billion in 2014/15.

- **Credit easing:** the Government will introduce a National Loan Guarantee Scheme providing up to £20 billion of guarantees for bank funding over two years. The Government will make available £1 billion through a Business Finance Partnership which will invest in smaller and medium sized enterprises.

- **Infrastructure:**

  - £6.3 billion additional infrastructure up to 2014/15 (of which £1.3 billion already announced). This includes increasing the Regional Growth Fund by £1 billion

  - Commitments to £5 billion of capital projects after 2014/15 as part of the National Infrastructure Plan

  - Targeting up to £20 billion of private sector infrastructure investment.

- **Fuel duty:** the planned 3.02 pence per litre increase which was due to come into effect on 1 January 2012 is deferred to 1 August 2012 and the inflation increase planned for 1 August 2012 is cancelled (cost: £375 million in 2011/12 and £975 million in 2012/13).

- **Rail fares:** the increase in regulated rail fares and Transport for London fares will be limited to RPI plus 1% for one year from April 2012 (cost: £105 million in 2012/13)

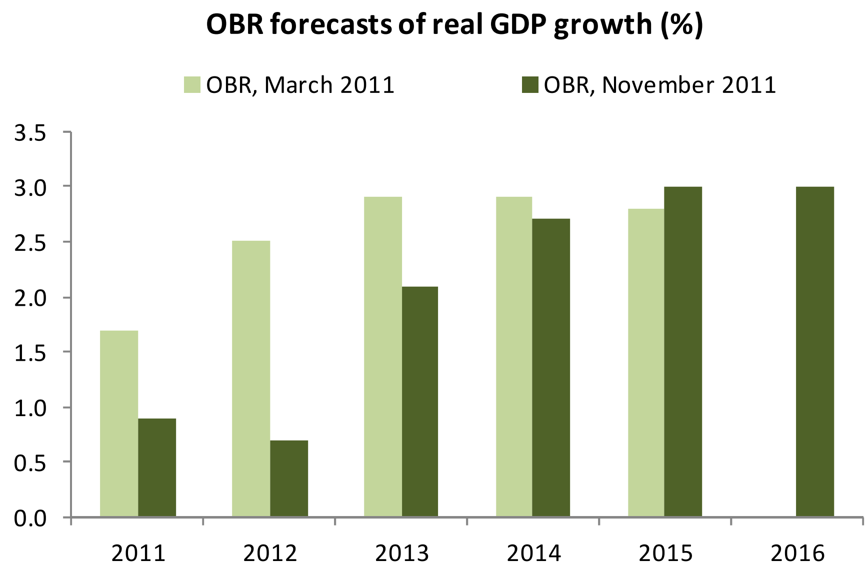
- **Youth contract:** a £940 million programme to tackle youth unemployment.

- **Bank levy:** an increase in the rate to 0.088% from 1 January 2012. The 2011 Budget set the rate at 0.078% from 1 January 2012. This will raise an additional £280m in 2012/13 and is designed to ensure that the levy will raise at least £2.5 billion a year.

2 Forecasts for the economy and the public finances

2.1 GDP and inflation

As expected, the OBR downgraded its forecast for economic growth. GDP is now forecast to grow by 0.9% this year and 0.7% in 2012. In March, the OBR had forecast growth of 1.7% and 2.5% for these years. The OBR forecast for 2011 is now similar to the average independent forecast (1.0%) for 2011 but is more pessimistic for 2012 where the average independent forecast is 1.2%. The OBR forecasts that growth will pick up to 2.1% in 2013, 2.7% in 2014 and 3.0% in both 2015 and 2016.



OBR forecasts: GDP growth (%)

	2011	2012	2013	2014	2015	2016
Mar-11	1.7	2.5	2.9	2.9	2.8	..
Nov-11	0.9	0.7	2.1	2.7	3.0	3.0

The OBR also provides a quarterly growth forecast up to the end of 2012. This shows the economy contracting by 0.1% in Q4 2011 before growing by only 0.1% in both Q1 and Q2 2012. Growth of 0.6% is forecast for Q3 and 0.3% for Q4 2012. While the growth outlook is gloomy for the next three quarters, the OBR are not forecasting a double-dip recession on their central forecast.

Inflation forecasts were revised up slightly. CPI inflation is now forecast to be 4.5% this year and 2.7% in 2012. In March, the forecasts were 4.2% and 2.5%.

OBR forecasts: CPI inflation (%)

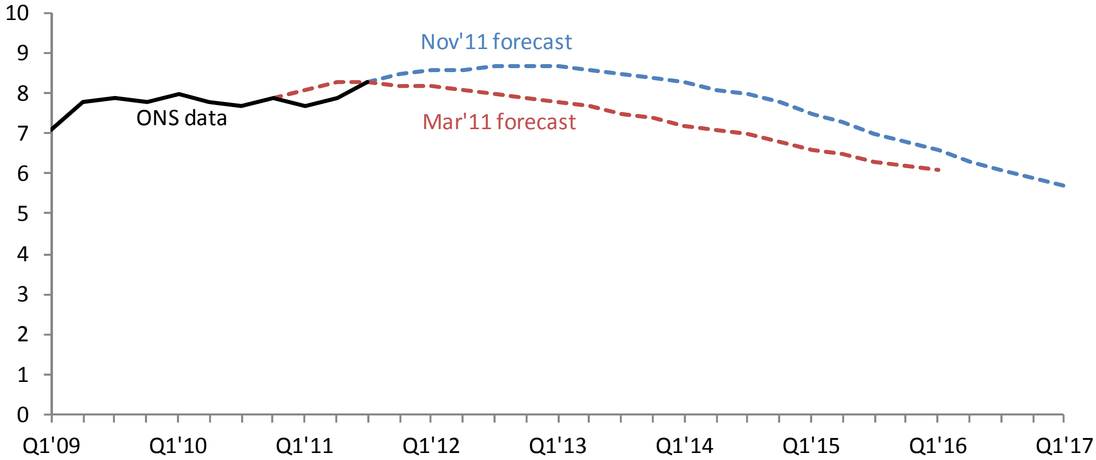
	2011	2012	2013	2014	2015	2016
Nov-11	4.5	2.7	2.1	2.0	2.0	2.0
Mar-11	4.2	2.5	2.0	2.0	2.0	..

2.2 Employment and unemployment

Unemployment is forecast to increase to 8.7% in 2012, up from 8.1% in 2011. It is then forecast to fall to 6.2% in 2016. These forecasts are higher than those made in March as the chart below shows.

OBR has increased its forecasts for unemployment

ILO unemployment rate, % of economically active



On the claimant count measure, unemployment is forecast to increase from 1.54 million this year to 1.77 million in 2013 before falling to 1.23 million in 2016.

OBR forecasts: employment and unemployment

Employment, millions	2011	2012	2013	2014	2015	2016
Mar-11	29.0	29.2	29.5	29.7	30.0	..
Nov-11	29.2	29.1	29.2	29.4	29.7	30.0
ILO unemployment, %						
Mar-11	8.2	8.1	7.6	7.0	6.4	..
Nov-11	8.1	8.7	8.6	8.0	7.2	6.2
Claimant count, millions						
Mar-11	1.54	1.53	1.43	1.31	1.18	..
Nov-11	1.54	1.75	1.77	1.67	1.45	1.23

The OBR's forecasts for general government employment have been significantly reduced since their March publication. Their forecast for 2011/12 is 180,000 lower and their forecast for 2015/16 is 220,000 lower.

According to their new forecasts general government employment will decrease by 710,000 between 2010/11 and 2016/17.

OBR forecasts for general government employment (millions)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
March 2011 forecast	5.67	5.65	5.64	5.55	5.36	5.25	N/A
November 2011 forecast	5.64	5.47	5.36	5.25	5.14	5.03	4.93

Notes:

Forecasts are for the final quarter of each financial year, and are based on projections of the growth of total government paybill and paybill per head.

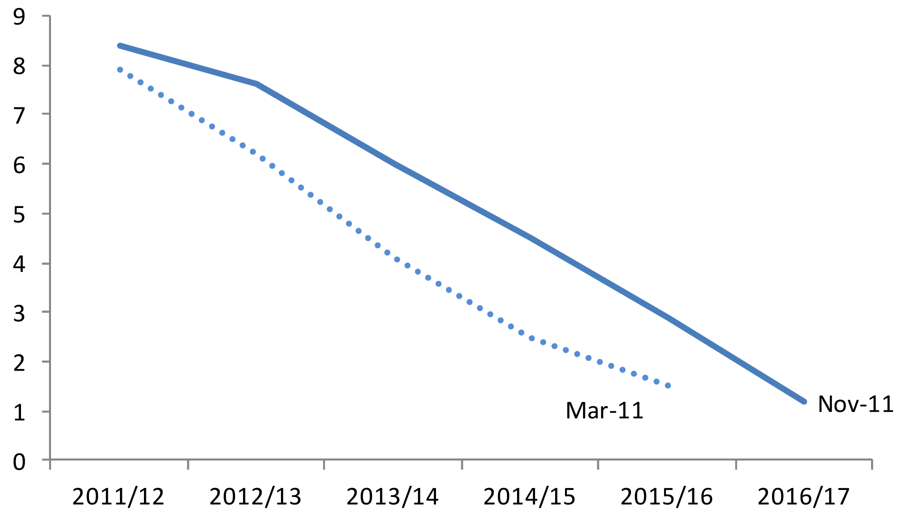
Estimate for the first quarter of 2011 are equal to a weighted average of ONS outturns for December 2010 and March 2011.

Forecasts cannot be compared directly with those from the interim OBR's June 2010 pre-Budget forecast because of changes to methodology and assumptions.

2.3 The public finances

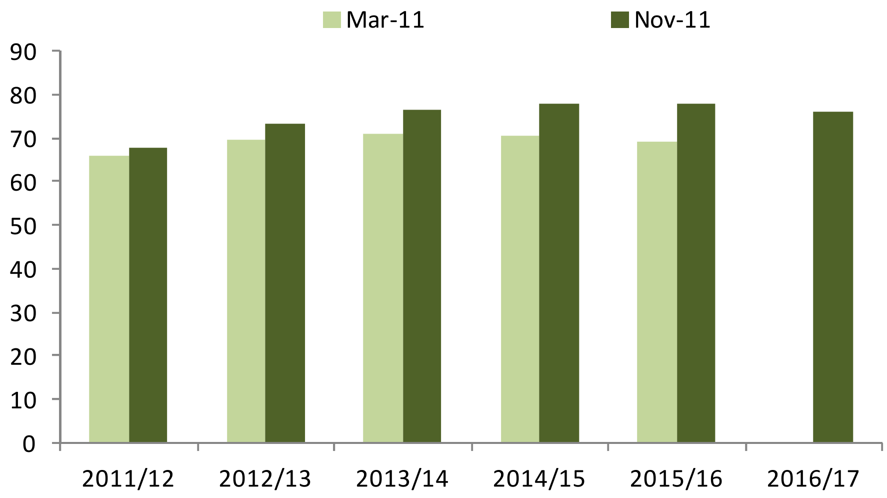
The OBR announced higher borrowing over the forecast period. This year, borrowing is forecast to be £127 billion and next year £120 billion. Borrowing is forecast to be higher in each year than forecast in March. Over the five years 2011/12 to 2015/16, the revised borrowing forecast is £111 billion higher than forecast in March. The chart below shows the new borrowing forecasts compared with those made in March.

Public sector net borrowing, % GDP



On public sector debt, the OBR forecast for 2011/12 is very similar to its March forecast. For future years, the debt forecast has been revised upwards. Debt is now forecast to be £1,044 billion in 2011/12 rising to £1,515 billion in 2016/17. As a share of GDP, debt is forecast to be 67.5% in 2011/12. It is forecast to peak at 78.0% of GDP in 2014/15 before falling to 75.8% in 2016/17.

OBR forecasts of government debt, % GDP



The OBR's new forecasts for the public finances, and those made in March, are summarised in the table below.

OBR forecasts: public finances

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Net borrowing, £ billion						
Mar-11	122	101	70	46	29	..
Nov-11	127	120	100	79	53	24
Net borrowing, % GDP						
Mar-11	7.9	6.2	4.1	2.5	1.5	..
Nov-11	8.4	7.6	6.0	4.5	2.9	1.2
Net debt, £ billion						
Mar-11	1,046	1,164	1,251	1,314	1,359	..
Nov-11	1,044	1,182	1,300	1,397	1,470	1,515
Net debt, % GDP						
Mar-11	66.1	69.7	70.9	70.5	69.1	..
Nov-11	67.5	73.3	76.6	78.0	77.7	75.8

2.4 The fiscal rules

The Chancellor has two fiscal rules governing borrowing and debt. Both rules are still met on the basis of the OBR's revised forecasts. However, both rules were met a year early on the 2011 Budget forecasts. The higher forecasts for borrowing and debt mean this is no longer the case.

In his first Budget, the Chancellor announced a "fiscal mandate":

To achieve cyclically adjusted current balance by the end of a rolling five year period[1]

The current balance is a measure of government borrowing, excluding investment spending. The fiscal mandate also looks at a cyclically-adjusted measure of the deficit. This means that the mandate takes into account the fact that government borrowing fluctuates with the economic cycle. As a result, the mandate focuses on the structural, or underlying, element of the deficit.

This rule is measured against a rolling five year forecast period. The reference year moved back a year to 2016/17 in the Autumn Statement. According to the OBR forecast, the rule is met as the cyclically-adjusted current balance moves into surplus in that year. However, as the table below shows, this is two years later than forecast in March.

OBR forecasts: Cyclically adjusted current balance, % GDP

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Mar-11	-3.2	-2.0	-0.6	0.4	0.8	..
Nov-11	-4.6	-3.9	-2.7	-1.6	-0.6	0.5

Note: negative figures indicate a deficit, positive figures a surplus

In addition to the borrowing target, there is a supplementary target for government debt. This requires public sector net debt to be falling as a percentage of GDP at a fixed date of 2015/16. This target is also met according to the OBR's forecasts with debt falling from 78.0% of GDP in 2014/15 to 77.7% in 2015/16. As with the borrowing rule, the Government has lost the room for manoeuvre it had at the time of the Budget forecast when the debt target was expected to be achieved a year early. The year in which debt starts to fall has been pushed back a year in the Autumn Statement.

3 Growth policies

The Chancellor announced a raft of policies alongside the economic and fiscal forecasts aimed at stimulating growth in the economy. Most of the major announcements were covered in the press in the days leading up to the statement. A full list of 148 "supply-side reforms" is set out in Annex A of the Autumn Statement document.

3.1 Infrastructure

The Chancellor set out several measures aimed at increasing investment in infrastructure. It is commonly supposed that infrastructure investment can increase an economy's long term growth rate. Combined, the measures below may amount to up to £30 billion additional capital investment over an extended period, though details, especially of private sector involvement, remain very vague:

- Additional savings in current expenditure, including lower than previously planned tax credits and public sector pay restraint, will be used to fund Government infrastructure expenditure. A total of £6.3 billion over the period to 2014/15 has been announced, of which £5 billion was officially announced for the first time.

- Commitments to £5 billion of capital projects in the next Spending Review period were announced as part of the *National Infrastructure Plan*.

1 At the 2011 Budget, the end of the five year period was 2015/16. In the Autumn Statement it will move forward by a year to 2016/17.

- The Government has signed a Memorandum of Understanding with two groups of UK pension funds to support additional investment in UK infrastructure. The *Autumn Statement* says that the Government is "working with the Association of British Insurers to set up an Insurers' Infrastructure Investment Forum". Combined, these initiatives "will target up to £20 billion of investment", though details are very limited at the moment.

In addition, the Regional Growth Fund, previously worth £1.4 billion across England for the period 2011/12 to 2013/14, has been awarded an additional £1 billion of capital spending and extended to 2014/15. Taking into account Barnett formula allocations to the devolved administrations, this will cost an additional £1.2 billion.

As part of its infrastructure plans, the Government will also invest in science, broadband and mobile network coverage.

However, despite the Government's infrastructure plans, the Office for Budget Responsibility's *Economic and Fiscal Outlook* shows that total public sector gross investment is now expected to be lower in each year from 2010/11 to 2015/16 than it expected in its March forecast.[2]

3.2 Credit easing

The Government announced it would introduce a National Loan Guarantee Scheme. This will guarantee up to £20 billion of bank funding over two years. This is intended to allow banks to offer lower cost lending to businesses with turnover of less than £50 million, subject to state aid approval. The Government suggests that "in many cases, this will lead to a reduction of up to one percentage point on the cost of the business loan". The scheme will focus on new loans, and banks "will have to show that they are passing through the benefit of the guarantee to cheaper loans". The scheme is intended to be operational "as soon as possible".

The Chancellor also announced he would "make available an initial £1 billion through a Business Finance Partnership, which will invest in smaller and mid-sized businesses in the UK through non-bank channels". This cost is spread over the period 2012/13 to 2015/16.

3.3 Employment law

The Statement announced various reviews of employment law, including:

- Alternatives to tribunal hearings
- Shortening the collective redundancy process
- Consultation on the introduction of compensated no-fault dismissal for businesses with fewer than 10 employees
- Consultation on "a simpler, quicker and clearer dismissal process"
- Examining how local public sector pay could be made more responsive to local labour markets

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[2] OBR, *Economic and fiscal outlook – November 2011*, table 4.19

3.4 Business

Several measures were announced:

- The Government will reduce the impact of green taxes and regulation on electricity-intensive industries for the costs of green tax and regulation by offsetting the indirect cost of the carbon price floor and the EU Emissions Trading System, subject to state aid, and increasing the level of relief from the climate change levy on electricity for Climate Change Agreement participants to 90%. This will begin in 2013 and will be worth "around £250 million over the Spending Review period".

- The small business rate relief holiday will be extended by six months from 1 October 2012. This will cost an additional £210 million in 2012/13. Businesses will also be allowed to defer 60% of the increase in their 2012/13 business rate bills to be repaid equally across the following two years.

- A Seed Enterprise Investment Scheme (SEIS) will be introduced from April 2012, to encourage investment in new start-up companies. SEIS will provide income tax relief of 50% for individuals who invest in shares in qualifying companies, with an annual investment limit for individuals of £100,000 and cumulative investment limit for companies of £150,000. The SEIS will also offer a capital gains tax exemption on gains realised in 2012/13 and then invested through the scheme in the same year. These measures are expected to cost £115 million over four years from 2013/14.

- The Statement confirmed that 24 Enterprise Zones (EZs) in England (previously announced) would go ahead. Businesses in the Black Country, Humber, Liverpool, North Eastern, Sheffield, and Tees Valley EZs will benefit from 100% capital allowances.

- An "above the line" R&D tax credit for larger companies will be introduced in 2013. The detail will be consulted on in the next Budget.

- BIS will lead an industry working group to explore how to further develop access to non-bank lending channels, including forms of bond issuance, for SMEs and mid-sized businesses. The group will report by Budget 2012.

3.5 Youth unemployment

A new Youth Contract was announced for unemployed people aged 18-24. This is expected to be worth £940 million over the three years from 2012/13 to 2014/15. This will include:

- 160,000 wage subsidies of up to £2,275 each for private businesses that take on an 18-24 year old from the Work Programme.

- An additional 20,000 extra incentive payments of up to £1,500 each for employers to take on people aged 18-24 as apprentices, taking the total number of such payments up to "at least 40,000".

- 250,000 extra work experience places over three years.

- More advice and support for the young unemployed, but also more demands in return for benefits.

- £50 million per year of additional support for 16-17 year-olds not in employment, education or training (NEET).

3.6 Housing

The Government set out its housing strategy in *Laying the Foundations* on 21 November 2011. These plans include a £400m *Get Britain Building* fund, which will provide development finance for companies to build "up to 16,000 new homes" and a new mortgage indemnity scheme to help 100,000 buyers get home loans for new properties with 5% mortgages. The Government also intended to "reinvigorate the Right to Buy", promising to build a new affordable home for every one bought by tenants.

4 Reaction

Responding to the statement, Ed Balls, the shadow chancellor, said:

> Let us be clear about what the OBR has told us today, which the Chancellor could not bring himself to say: growth is flatlining and will be down this year, next year and the year after; unemployment is rising; and there will be well over £100 billion more borrowing than he planned a year ago, and more than was set out in the plan he inherited at the general election. As a result, his economic and fiscal strategy is in tatters. After 18 months in office, the verdict is in: plan A has failed, and failed colossally. With prices rising and unemployment soaring, families, pensioners and businesses already know that it is hurting. With billions of pounds more in borrowing to pay for rising unemployment, today we find out the truth that it is just not working.
>
> The Prime Minister likes to say, "You can't borrow your way out of a crisis." Will the Chancellor confirm that that is exactly what he has been forced to do? He has been forced into higher borrowing to pay for the crisis in growth and jobs in Britain, the higher unemployment and higher benefits bill that his failing plan has delivered.
>
> […]
>
> If, after just 18 months, the Chancellor's plan is leading to falling growth, rising unemployment and £158 billion more in borrowing, the country needs either a new Chancellor or a new plan—a balanced and credible plan on jobs, growth and the deficit. We need real tax cuts, real investment, a real plan for jobs, growth and deficit reduction: Labour's five-point plan for jobs, growth and deficit reduction.
>
> Protecting our economy, businesses, jobs and family finances is more important than trying to protect a failed economic plan. For his sake, for his party's sake, and in the national interest, the Chancellor needs to change course, and he needs to do so now.

Stephanie Flanders, the BBC's economics editor, said the following:

> This statement is every bit as gloomy as forecast. And as predicted, some of the worst news has come not from the Treasury but from the Office for Budget Responsibility (OBR), in its new, gloomier estimate of the amount of spare capacity in the economy, and the scope for faster growth in the next few years.
>
> Here's one bit of that bad news: previously the OBR thought Britain's potential output would grow by 2.3% over the next two years. Now it believes our potential will grow by just 1.2% in 2012 and 2% in 2013.

The only silver lining is that it now thinks our potential will grow by 2.3% after that, somewhat higher than the previous 2.1%. But that estimate for 2012 and 2013, coupled with the reassessment of the boom years and the impact of the crisis, has had a major impact on the extent to which today's new extra borrowing is deemed to be "structural".[3]

[3] Stephanie Flanders, *Mr Osborne's unwelcome statement*, 29 November 2011