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## Fiscal impact of the Autumn Statement

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**2.1** Chapter 1 explains how the measures announced in the Autumn Statement advance the Government's long-term goals. This chapter presents a summary of how these measures affect the public finances. The tables in this chapter set out the fiscal impacts of all Autumn Statement policy decisions.<sup>1</sup>

**2.2** Alongside the Autumn Statement, the Office for Budget Responsibility (OBR) has published an independent forecast of the public finances and the economy, incorporating autumn policy decisions. To produce this forecast, the OBR has scrutinised the Government's assessment of the direct costs or yield of autumn policy decisions that affect public finance forecasts and has made an assessment of the indirect effects of Autumn Statement measures on the economy.

**2.3** Consistent with its commitment to transparency, the Government is following the approach taken at the June Budget 2010 and Budget 2011 in publishing the methodology underlying the calculation of the fiscal impact of each Autumn Statement policy decision. This is included in the supplementary document *Autumn Statement 2011 policy costings*.<sup>2</sup>

### Autumn Statement policy decisions

**2.4** Table 2.1 shows the cost or yield of Autumn Statement policy decisions with a direct effect on public sector net borrowing (PSNB). This includes tax measures, measures affecting Annually Managed Expenditure (AME) and changes to Departmental Expenditure Limits (DEL).

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<sup>1</sup>The numbers or lower-case letters in brackets after each measure refer to the line in Table 2.1 or Table 2.4 where its cost or yield is shown.

<sup>2</sup>*Autumn Statement 2011 policy costings*, HM Treasury, Department for Work and Pensions, and HM Revenue & Customs (HMRC), November 2011.

Table 2.1: Autumn Statement policy decisions<sup>1</sup>

	Head	£ million						
		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	
<b>Measures announced since Budget 2011</b>								
1	VAT: low value consignment relief	Tax	0	+90	+95	+95	+100	+110
2	Manufactured overseas dividends	Tax	0	+30	+40	+40	+40	+40
3	North Sea oil and gas	Tax	0	0	-5	-5	-50	-10
4	APD: Northern Ireland	Tax	neg	neg	-5	-5	-5	-5
5	Housing Benefit changes	Spend	neg	-10	-15	-15	-15	-15
6	JSA training	Spend	neg	-5	-5	-5	-5	-5
<b>Tax measures</b>								
7	Fuel duty: delay January 2012 increase to August and cancel August 2012 increase	Tax	-375	-975	-825	-850	-875	-925
8	Asset-backed pension contributions: tax treatment	Tax	+340	+450	+450	+450	+450	+450
9	Bank Levy	Tax	0	+280	+310	+310	+315	+325
10	CGT: freeze annual exempt amount	Tax	0	0	+25	+25	+25	+30
11	APD: business jets	Tax	0	0	+5	+5	+5	+5
12	Small business rate relief: extend holiday	Tax	0	-210	+5	0	0	0
13	Business rates: deferral of payments	Tax	0	-85	+45	+40	0	0
14	CCL: increase electricity relief to 90 per cent	Tax	0	0	-15	-20	-20	-20
15	Seed Enterprise Investment Scheme: scheme and 2012 CGT holiday	Tax	0	0	-50	-25	-20	-20
16	VAT cost sharing exemption	Tax	0	-25	-50	-75	-100	-125
17	Capital allowances: Enterprise Zones	Tax	0	-25	-40	-25	-5	neg
18	Gifts of pre-eminent objects	Tax	0	-15	-15	-15	-15	-15
<b>Total tax policy decisions<sup>2</sup></b>			<b>-35</b>	<b>-305</b>	<b>+145</b>	<b>+130</b>	<b>+20</b>	<b>+15</b>
<b>Spending measures</b>								
19	Changes to current spending	Spend	0	+910	+1,175	+1,735	+8,290	+15,105
20	Changes to capital spending	Spend	0	-660	-1,455	-1,645	0	0
<b>Total spending policy decisions</b>			<b>0</b>	<b>+250</b>	<b>-280</b>	<b>+90</b>	<b>+8,290</b>	<b>+15,105</b>
<b>Of which current spending savings</b>								
21	Child Tax Credit: remove over-indexation	Spend	0	+975	+955	+1,020	+995	+995
22	Working Tax Credit: freeze	Spend	0	+265	+290	+275	+275	+280
23	Public sector pay restraint	Spend	0	+75	+600	+1,075	-	-
24	Official Development Assistance: adjusting to meet 0.7 per cent GNI target	Spend	0	+380	+265	+525	-	-
<b>Of which additional current spending</b>								
25	Youth Contract	Spend	0	-365	-310	-265	-	-
26	Early years childcare	Spend	0	-85	-240	-455	-	-
27	Rail fares	Spend	0	-105	-105	-135	-	-
28	Carbon price floor: energy intensive industries	Spend	0	0	-40	-60	-	-
29	Science	Spend	0	-30	-30	-30	-	-
30	Pension Credit: changes	Spend	0	neg	neg	neg	neg	neg
<b>Of which capital spending</b>								
31	New funding for infrastructure <sup>3</sup>	Spend	0	-760	-1,785	-2,145	-	-
32	Reserve reprofiling	Spend	0	+100	+330	+500	-	-
<b>TOTAL POLICY DECISIONS</b>			<b>-35</b>	<b>-55</b>	<b>-135</b>	<b>+220</b>	<b>+8,310</b>	<b>+15,120</b>

<sup>1</sup>"neg" Negligible

– Spending measures do not affect borrowing in 2015-16 and 2016-17 as they fall within the Total Managed Expenditure assumption

<sup>2</sup>Costings reflect the Office for Budget Responsibility's latest economic and fiscal determinants.

<sup>3</sup>Includes the negative tax element of Tax Credits measures – breakdown included in the Autumn Statement 2011 policy costings document.

<sup>4</sup>Details set out in Table 2.3.

## Public spending

**2.5 Spending assumption for next Spending Review** – The Government will set plans for public spending in 2015-16 and 2016-17 in line with the spending reductions over the Spending Review 2010 period. Total Managed Expenditure (TME) will fall by 0.9 per cent a year in real terms, the same rate as set in Spending Review 2010, with a baseline excluding the one-off investments in infrastructure announced in the Autumn Statement. As a result, spending will be £15 billion lower in 2016-17 than it would be if it increased in line with inflation from 2014-15.

Table 2.2: Total Managed Expenditure

	£ billion					
	2011-12	2012-13	Forecasts			
			2013-14	2014-15	2015-16	2016-17
<b>CURRENT EXPENDITURE</b>						
Resource Annually Managed Expenditure	310.3	321.9	328.8	342.8	356.9	368.6
Resource Departmental Expenditure Limits	342.1	344.8	348.9	347.4	–	–
<i>Implied RDEL assuming unchanged policy of which</i>					344.0	343.3
<i>RDEL excluding depreciation<sup>1</sup></i>	326.0	327.3	330.8	328.1	324.5	323.5
<b>Public sector current expenditure</b>	652.4	666.7	677.7	690.2	701.0	711.9
<b>CAPITAL EXPENDITURE</b>						
Capital Annually Managed Expenditure	7.0	4.6	4.7	4.3	3.2	2.6
Capital Departmental Expenditure Limits	44.2	43.3	40.7	41.9	–	–
<i>Implied CDEL assuming unchanged policy</i>					42.5	44.2
<b>Public sector gross investment</b>	50.2	47.9	45.4	46.2	45.7	46.8
<b>TOTAL MANAGED EXPENDITURE</b>	702.6	714.5	723.1	736.4	746.6	758.7
<i>Memo:</i>						
<i>TME excluding one-off investments</i>	702.6	713.9	721.6	734.8	746.6	758.7
<i>Year on year real growth (per cent)</i>	-0.4%	-1.2%	-1.4%	-0.7%	-0.9%	-0.9%

<sup>1</sup>RDEL excluding ring-fenced non-cash depreciation is the Treasury's primary control within resource budgets and the basis on which Spending Review settlements were agreed.

**2.6 Reserve reprofiling** – The Reserve will be reduced by £930 million over the next three years, reflecting anticipated receipts and underspends. (32)

**2.7 Public sector pay restraint** – Public sector pay awards will average one per cent for each of the two years following the end of the pay freeze. Departmental budgets will be adjusted in line with this policy, with the exception of health and schools budgets. The Home Secretary will take into account the Government's overall pay policy when considering the Police Negotiating Board recommendations. The Government does not control pay awards within local government or the devolved authorities; budgets will be adjusted on the assumption of comparable action being taken and in line with devolved funding principles. (23)

**2.8 Official Development Assistance** – The Government will adjust the allocation of Official Development Assistance (ODA) in line with the OBR's revised growth forecast, so that the UK spends 0.56 per cent of Gross National Income on ODA in 2012, and 0.7 per cent in 2013 and thereafter. (24)

**2.9 Youth Contract** – From 2012-13, the Government will deliver a package of measures worth almost £1 billion to support young people into employment and training. These measures are set out in Chapter 1 of this document. (25)

**2.10 Extension of early years childcare** – In line with the approach to child poverty set out in *The Child Poverty Strategy*, the Government will take action to tackle the causes of child poverty rather than simply funding extra welfare payments. The Government will invest a further £380 million a year by 2014-15 to extend its new offer of 15 hours of free education and care

a week for disadvantaged two year olds, to cover an extra 130,000 children. The devolved administrations will receive additional funding in line with this increase based on the Barnett formula. (26)

**2.11 Transport for London and regulated rail fares** – The Government will limit the increase to regulated rail and Transport for London fares in January 2012 to the Retail Prices Index plus one per cent. (27)

**2.12 Compensation for indirect carbon price floor costs** – The Government will provide up to £100 million over the Spending Review period, to mitigate from April 2013 the impacts of the carbon price floor on electricity costs to businesses that are electricity intensive and operate in internationally competitive markets. It will consult on the precise thresholds for eligibility to ensure the most at risk industries are captured. This compensation is subject to relevant state aid rules. (28)

**2.13 Science** – In December 2011, the Prime Minister will set out the Government's strategy to ensure that the UK is the best location for undertaking translational research in life science. (29)

**2.14 Infrastructure spending** – Table 2.3 sets out £6.3 billion of additional infrastructure spending over the Spending Review period, of which £1.3 billion was announced earlier in the autumn. In addition, there will be £1 billion of new private sector investment in regulated industries supported by government guarantee. More detail on these measures can be found in Annex A. (31)

Table 2.3: Autumn Statement infrastructure spending

	£ million				Capital value of Network Rail investment	
	2011-12	2012-13	2013-14	2014-15		
<b>Education</b>						
a	100 new Free Schools, including maths Free Schools	0	0	-355	-355	
b	Extra funding for school places	0	-345	-210	-160	
<b>Environment</b>						
c	Green Deal incentives	0	-30	-175	0	
<b>Growth</b>						
d	Additional funding for Regional Growth Fund	0	-70	-400	-720	
e	Science funding including large facilities capital	0	-100	-60	-40	
f	Mobile network coverage	0	-30	-60	-60	
g	High performance computing	-110	0	0	0	
h	Urban broadband	0	-20	-60	-20	
i	Innovation funding, including for SME R&D and Open Data Institute	0	-25	-25	-25	
j	National Graphene Institute	0	-50	0	0	
<b>Housing</b>						
k	Growing Places	-500	0	0	0	
l	Get Britain Building	0	-310	-185	+50	
m	Empty homes	0	0	-25	-25	
<b>Rail</b>						
n	Southern rail carriages	-80	0	0	0	
o	Carriages for Caledonian sleeper fleet	-50	0	0	0	
p	Flexible smart ticketing across London and South East	-45	0	0	0	
q	Bringing forward investment in Tyne & Wear Metro	-5	0	0	0	
<b>Rail (contribution to Network Rail Regulated Asset Base)<sup>1</sup></b>						
r	Funding for bridge renewals, station enhancements and improving winter resilience	-5	-15	-15	-5	-290
s	The East-West rail project (Oxford to Bedford)	0	0	0	-25	-270
t	Electrification of the Trans-Pennine Express	0	0	0	-20	-290
u	Funding to reduce disruption on the rail network	0	0	0	-10	-100
<b>Roads and local transport</b>						
v	Additional Highways Agency improvement schemes (A45/A46 & A453 and M1/M6 intersection)	neg	-40	-140	-190	
w	Funding to ease congestion at key pinch points	-5	-10	-105	-135	
x	Additional local authority major transport projects	-40	0	-90	-70	
y	Additional managed motorway schemes (M6 J10A-13, M3 J2-4a)	neg	-10	-60	-120	
z	New link road to Manchester Airport	-5	-10	-60	-65	
aa	A14 J7-9 Kettering Bypass widening and improvements between Huntingdon and Cambridge	0	-5	-45	-75	
ab	Accelerate M25 J23-27 and M1 J39-42 improvements	0	0	0	-120	
ac	Local transport investment in the Integrated Transport Block	-50	0	0	0	
ad	Low carbon emission buses	-25	0	0	0	
<b>TOTAL INFRASTRUCTURE SPENDING<sup>2</sup></b>		-920	-1,070	-2,070	-2,195	
of which financial transactions <sup>3</sup>		0	-310	-185	+50	
of which funded from existing allocations		-920	0	-100	-100	
<b>of which new funding<sup>4</sup></b>		0	-760	-1,785	-2,145	

"neg" Negligible.

<sup>1</sup>Costs in the Spending Review 2010 period are government contributions to payments on the Network Rail Regulated Asset Base. The capital value of Network Rail investment in each scheme is in italics.

<sup>2</sup>May not sum due to rounding. All costs include Barnett consequentials for the devolved administrations where applicable.

<sup>3</sup>As shown in Table 2.4.

<sup>4</sup>As shown in Table 2.1.

## Personal tax and welfare

### **2.15 Enterprise Investment Scheme, Venture Capital Trusts and Seed Enterprise Investment Scheme**

– The Government announced at Budget 2011 that it would consult on options to provide new support for seed investment, simplify the Enterprise Investment Scheme (EIS) and refocus both EIS and Venture Capital Trusts (VCTs) to ensure they are targeted at genuine risk capital investments.

**2.16** As a result of the consultation the Government will introduce the new Seed Enterprise Investment Scheme (SEIS) to encourage investment in new start-up companies. SEIS will provide income tax relief of 50 per cent 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.

**2.17** In addition, the Government will offer a capital gains tax holiday for investments made into the new scheme. This will provide for a capital gains tax exemption on gains realised on disposal of an asset in 2012-13 and invested through SEIS in the same year.

**2.18** The Government will also simplify the EIS by relaxing the connected person rules and the definition of shares that qualify for relief. The Government will tighten the focus of the schemes by introducing a new test to exclude companies set up for the purpose of accessing relief, exclude acquisition of shares in another company and exclude investment in Feed-in-Tariffs businesses. In addition to these changes that were consulted on, the Government will remove the £1 million investment limit per company for VCTs to reduce the administrative burdens of the scheme. (15)

**2.19 Capital gains tax: annual exempt amount** – The annual exempt amount for capital gains tax will be frozen at £10,600 for 2012-13. (10)

**2.20 Asset-backed pensions contributions** – Following consultation, to prevent employers gaining excessive tax relief for asset-backed pension contributions to their pension schemes, the Government will introduce Finance Bill 2012 legislation that takes effect on 29 November 2011 to ensure no excessive relief can arise for new arrangements. Transitional rules will apply to existing asset-backed arrangements that have already received tax relief to ensure the correct amount is given by the end of an arrangement. (8)

**2.21 Housing Benefit: shared accommodation rate exemptions** – As announced on 19 July 2011, the Government will exempt former rough sleepers and dangerous ex-offenders from the extension of the Housing Benefit shared accommodation rate to single Housing Benefit claimants aged under 35. (5)

**2.22 Jobseeker's Allowance** – On 21 November 2011, the Government introduced flexibility into the Jobseeker's Allowance (JSA) regime to enable claimants after six months or more to be referred to full-time training for up to eight weeks whilst remaining on JSA. (6)

**2.23 Tax credits: uprating** – 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. The child element of the Child Tax Credit and the disability elements of tax credits will be uprated in line with the Consumer Prices Index in 2012-13. (21, 22)

**2.24 Pension Credit: uprating** – The standard minimum income guarantee in Pension Credit will rise by 3.9 per cent in April 2012 so that no single pensioner need live on less than £142.70 a week and no pensioner couple on less than £217.90 a week. The threshold for Savings Credit will increase to £111.10 for single pensioners and £177.20 for pensioner couples in April 2012. The net effect of these two measures is broadly cost neutral. (30)

## Corporate taxes

**2.25 Capital allowances: Enterprise Zones** – Enterprise Zones in six assisted areas will qualify for enhanced capital allowances. In these areas, 100 per cent allowances will be available for plant and machinery investment incurred between April 2012 and March 2017. Discussions continue with the devolved administrations regarding enhanced capital allowances in their Enterprise Zones. (17)

**2.26 Small business rate relief holiday** – The Government will extend the small business rate relief holiday for a further six months from 1 October 2012. (12)

**2.27 Business rate deferral scheme 2012-13** – The Government will give businesses the opportunity to defer 60 per cent of the increase in their 2012-13 business rate bills as a result of the Retail Prices Index uprating, to be repaid equally across the following two years. (13)

**2.28 Bank Levy rate** – The full rate of the Bank Levy will be set at 0.088 per cent from 1 January 2012. (9)

**2.29 North Sea oil and gas: Ring Fence Expenditure Supplement** – As announced on 5 July 2011, the Government will increase the annual rate of Ring Fence Expenditure Supplement from six per cent to ten per cent. This will be effective for accounting periods on or after 1 January 2012. (3)

## Indirect taxes

**2.30 Fuel duty** – The Government announces that the 3.02 pence per litre (ppl) fuel duty increase that was due to take effect on 1 January 2012 will be deferred to 1 August 2012. In addition, the increase that was planned for 1 August 2012 will be cancelled. On 1 August 2012, the duty rate for leaded petrol and compressed natural gas will change by the same monetary amount as main fuel duty, and the duty rate for aviation gasoline and rebated oils will change in proportion to the main rate. The duty differential for liquefied petroleum gas will be maintained until 1 August 2012 when it will be reduced by 1 ppl. (7)

**2.31 Air Passenger Duty** – Air Passenger Duty (APD) rates will increase from 1 April 2012, as set out at Budget 2011. The Government will also proceed with the extension of APD to flights taken aboard business jets, effective from 1 April 2013. Details will be set out in the Government's response to the APD consultation on 6 December 2011. As announced on 27 September 2011, APD will be cut for passengers travelling on direct long-haul routes departing from airports in Northern Ireland, effective from 1 November 2011. The direct long-haul rates will fall to the prevailing band A rate of APD. To provide a lasting solution, the Government has launched a parallel process to devolve aspects of APD to the Northern Ireland Assembly. (4, 11)

**2.32 Climate change levy: relief for electricity** – The climate change levy discount on electricity for climate change agreement participants available from 1 April 2013 will be increased to 90 per cent. (14)

**2.33 VAT: low value consignment relief** – As announced on 9 November 2011, the Government will remove the VAT relief for low value goods (below £15) sent to the UK from the Channel Islands with effect from 1 April 2012. (1)

**2.34 VAT: cost sharing exemption** – Following consultation after Budget 2011, the Government will introduce a VAT exemption for services shared between VAT exempt bodies, including charities and universities. (16)

## Other tax measures

**2.35 Gifts of pre-eminent objects** – At Budget 2011, the Government announced that it would consult on proposals to encourage donations of pre-eminent works of art or historical objects to the nation in return for a tax reduction. Following consultation, the Government

will legislate to enable individuals to receive a reduction in their income tax or capital gains tax liabilities, and companies to receive a reduction in their corporation tax liabilities, in return for donating pre-eminent objects under this new scheme. Total tax reductions under this scheme, and taxes offset under the existing inheritance tax Acceptance in Lieu scheme, will be subject to an increased annual limit of £30 million a year overall. (18)

**2.36 Manufactured overseas dividends** – The Government will put beyond doubt that manufactured overseas dividends cannot be used to obtain repayment or set off of income tax that the Exchequer does not receive. This was announced in a Written Ministerial Statement on 15 September 2011 and will take effect from that date. (2)

## Financial transactions and contingent liabilities

**2.37** A number of policy measures announced in the Autumn Statement do not directly affect PSNB in the same way as conventional spending or taxation. These include financial transactions that directly impact only on the central government net cash requirement (CGNCR) and public sector net debt (PSND), and transactions likely to be recorded as contingent liabilities. Table 2.4 shows the effects of financial transactions on CGNCR.

Table 2.4: Financial Transactions: Impact on central government net cash requirement<sup>1, 2</sup>

	£ million					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
i Business Finance Partnership	0	-150	-400	-350	-100	0
ii Get Britain Building	0	-310	-185	+50	+60	+50
<b>TOTAL POLICY DECISIONS</b>	<b>0</b>	<b>-460</b>	<b>-585</b>	<b>-300</b>	<b>-40</b>	<b>+50</b>

<sup>1</sup> Costings reflect the Office for Budget Responsibility's latest economic and fiscal determinants.

<sup>2</sup> Following convention, a negative figure shows an increase in the central government net cash requirement.

**2.38 New build indemnity scheme** – The Government announced on 21 November 2011 a guarantee for up to 100,000 new mortgages at up to 95 per cent loan to value for new build properties in England. For each new build property sold under the scheme, the home builder will contribute 3.5 per cent into an indemnity fund, with the Government supporting the fund to a total of nine per cent of the property value. The indemnity fund pays out to the lender if a property financed under the scheme is repossessed and there is a shortfall. Builders will take the first loss in the indemnity, with Government only being called upon to pay once the builder's fund has been exhausted. The Government's maximum contingent liability under the scheme will be capped at £1 billion.

**2.39 Credit easing: National Loan Guarantee Scheme** – The Government will make available up to £20 billion of guarantees for bank funding over two years. This will allow banks to offer lower cost lending to smaller businesses, subject to state aid approval. This is expected to be recorded as a contingent liability.

**2.40 Credit easing: Business Finance Partnership** – The Government will make available an initial £1 billion, through a Business Finance Partnership, to invest in SMEs and mid-sized businesses in the UK through non-bank lending channels. This will initially focus on co-investment, with the private sector through loan funds that lend directly to mid-sized businesses. The Government will also consider options for investing through other non-bank channels. This is expected to be recorded as a financial transaction, affecting PSND. (i)

**2.41 Get Britain Building** – In its Housing Strategy published on 21 November 2011, the Government announced the launch of a new £400 million Get Britain Building investment fund. This is expected to be recorded as a financial transaction, affecting PSND. (ii)