



HM TREASURY

AUTUMN STATEMENT 2011



Autumn Statement 2011

Presented to Parliament by
the Chancellor of the Exchequer
by Command of Her Majesty

November 2011

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Executive summary

The UK economy is recovering from the biggest financial crisis in generations. Prior to the crisis, underlying competitiveness fell and economic growth was driven by unsustainable levels of debt. The June Budget 2010 set out the Government's plan to reduce the deficit and rebuild the economy. The actions taken restored stability, reduced market interest rates to record lows and set in place a plan to build a stronger and more balanced economy for the future.

Since then, the UK economy has been hit by a series of shocks which have significantly weakened the economic and fiscal outlook:

- higher than expected inflation, driven by a sharp increase in global commodity prices — the Office for Budget Responsibility (OBR) consider this to be the main reason the economy has grown more slowly than expected since the June Budget 2010;
- the euro area crisis has increased instability and uncertainty — this is feeding through to household and corporate spending decisions and to tighter credit conditions across the world; and
- most significantly for medium-term growth prospects, the full scale and persistent impact of the 2008–09 financial crisis has become clearer — the OBR has now significantly revised down its projection of the trend rate of growth by a margin consistent with previous financial crises.

The intensifying sovereign debt crisis shows how important it is for the Government to implement its deficit reduction plan and maintain the UK's position as a safe haven. The Government is therefore taking action in the Autumn Statement to ensure it continues to meet its fiscal targets and protect the economy.

The Government will deliver permanent reductions in spending, using the savings over the Spending Review period to fund infrastructure investment critical to growth and to support social mobility. The Government will complement the monetary activism of low interest rates and quantitative easing by launching a package of credit easing measures to protect the flow of credit to smaller and mid-sized businesses. Finally, the Government will accelerate its supply-side reforms to support enterprise and create a balanced model of economic growth in the medium term.

The Autumn Statement sets out the actions the Government will take in three areas:

- protecting the economy;
- building a stronger economy for the future; and
- fairness.

Protecting the economy

The OBR forecast that, as a result of the ongoing impact of the financial crisis, the euro area crisis and commodity shocks economic growth will be slower, the trend level of economic

output will be lower, and borrowing will be higher over the forecast period. In order to maintain economic stability and meet its fiscal rules, 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;**
- **raise the State Pension age to 67 between April 2026 and April 2028 in response to changes in demography. This measure is expected to save around £60 billion in today's prices between 2026–27 and 2035–36;**
- **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;
- **uprate the child element of the Child Tax Credit and disability elements of tax credits in line with the Consumer Prices Index in 2012–13. 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, to ensure the welfare system remains affordable;** and
- **adjust the allocation of Official Development Assistance in line with the OBR's revised growth forecast,** so that the UK spends 0.56 per cent of Gross National Income on Official Development Assistance in 2012, and 0.7 per cent in 2013 and thereafter.

These measures will reduce spending permanently in the medium and long term and make the public finances more sustainable. Over the Spending Review period, the Government will use the savings to build a stronger and more balanced economy, support social mobility and help young people find work.

The Government's strategy allows a more active monetary policy by the Bank of England to stimulate demand while controlling inflation. To complement this, the Government will **launch a package of up to £21 billion of credit easing measures to support smaller and mid-sized businesses that do not have ready access to capital markets.**

The OBR forecast that, including all measures set out in the Autumn Statement, the Government has a greater than 50 per cent chance of meeting its fiscal mandate and supplementary debt target.

The first section of Chapter 1 sets out the Government's economic and fiscal plans in more detail.

Building a stronger economy for the future

The first phase of the Growth Review, led by the Chancellor of the Exchequer and the Secretary of State for Business, Innovation and Skills, was published alongside Budget 2011 in *The Plan for Growth*.¹ Work has started on all 137 commitments and substantial progress has been made. Full details on progress have been published alongside the Autumn Statement.²

In the Autumn Statement, the Government is taking further action to accelerate its supply side reforms to invest in infrastructure, support enterprise and build a stronger and more balanced economy.

Infrastructure

The Government:

¹ *The Plan for Growth*, HM Treasury and the Department for Business, Innovation and Skills, March 2011.

² Available on the HM Treasury website at www.hm-treasury.gov.uk.

- will set out a new strategy for coordinating public and private investment in UK infrastructure. **The Government will use the savings from current spending generated over the Spending Review 2010 period to fund £6.3 billion of additional infrastructure spending, of which £1.3 billion was announced earlier in the autumn. Alongside this, around £1 billion of new private sector investment in regulated industries will be supported by government guarantee. The Government is also announcing commitments to £5 billion of capital projects in the next Spending Review period, as part of the *National Infrastructure Plan*;**
- **has signed a Memorandum of Understanding with two groups of UK pension funds to support additional investment in UK infrastructure. The Government is also working with the Association of British Insurers to set up an Insurers' Infrastructure Investment Forum, and will target up to £20 billion of investment from these initiatives.** In total the Autumn Statement supports around £30 billion of new capital investment; and
- **will increase the Regional Growth Fund for England by £1 billion, plus Barnett consequential for the devolved administrations, and extend it into 2014–15,** to provide ongoing support to grow the private sector in areas currently dependent on the public sector.

Credit easing

The Government will:

- **introduce a National Loan Guarantee Scheme. Up to £20 billion of guarantees for bank funding will be made available over two years.** This will allow banks to offer lower cost lending to smaller businesses, subject to state aid approval; and
- **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.**

Enterprise

The Government will:

- **look for ways to provide a quicker and cheaper alternative to a tribunal hearing in simple cases — a 'Rapid Resolution' scheme;**
- **complete a call for evidence on the impact of reducing the collective redundancy process for redundancies of 100 or more staff from the current 90 days to 60, 45 or 30 days;**
- **begin a call for evidence on two proposals for radical reform of UK employment law. First, the Government will seek views on the introduction of compensated no-fault dismissal for micro-businesses with fewer than 10 employees. Second, the Government will look at how it could move to a simpler, quicker and clearer dismissal process,** potentially including working with ACAS to make changes to their code or by introducing supplementary guidance for small businesses;
- **ask independent Pay Review Bodies to consider how public sector pay can be made more responsive to local labour markets, to report by July 2012;**
- **launch a new Seed Enterprise Investment Scheme (SEIS) from April 2012, offering 50 per cent income tax relief on investments, and will offer a capital gains tax exemption on gains realised in 2012–13 and then invested through SEIS in the same year;**

- **make 100 per cent capital allowances available in the Black Country, Humber, Liverpool, North Eastern, Sheffield, and Tees Valley Enterprise Zones;** and
- **introduce an ‘above the line’ tax credit in 2013 to encourage research and development activity by larger companies.**

Education

The Government will:

- **invest an extra £600 million to fund 100 additional Free Schools** by the end of this Parliament. This will include new specialist maths Free Schools for 16-18 year olds, supported by strong university maths departments and academics; and
- **invest an additional £600 million to support those local authorities with the greatest demographic pressures.** This funding is enough to deliver an additional 40,000 school places.

Housing

The Government will:

- **introduce a new build indemnity scheme to increase the supply of affordable mortgage finance for new build homes;** and
- **reinvigorate the Right to Buy to support social tenants who aspire to own their own home.**

The second section of Chapter 1 sets out further information on these and other announcements. The full list of over 140 new measures is set out in Annex A.

Fairness

Fairness underpins the Government’s plans to protect, rebalance and strengthen the economy. The measures in the Autumn Statement will ensure that businesses and families continue to benefit from low interest rates, that future generations are not burdened with unsustainable debt, and that the country remains protected from the worst of the global crisis.

The Government is taking further action to help households and businesses cope with higher inflation; to ensure deficit reduction is implemented fairly, with the financial sector paying a fair share; and to support young people in the labour market.

The Government will:

- **defer the 3.02 pence per litre (ppl) fuel duty increase that was due to take effect on 1 January 2012 to 1 August 2012, and will cancel the inflation increase that was planned for 1 August 2012, currently expected to be worth 1.92ppl;³**
- **limit the increase to Transport for London fares and regulated rail fares to the Retail Prices Index (RPI) plus one per cent for one year from 2012;**
- **increase the rate of the Bank Levy to 0.088 per cent from 1 January 2012, to offset the forecast shortfall in receipts for 2011 and future years.** This is consistent with the Government’s intention, set out in Budget 2011, that the Bank Levy should raise at least £2½ billion each year;
- **proceed with the extension of Air Passenger Duty to flights taken aboard business jets, effective from 1 April 2013;**

³The estimate is based on the latest OBR RPI forecast for 2012–13 Q3.

- **ensure the amount of tax relief given to employers making asset-backed pension contributions to registered pension schemes accurately reflects the amount of payments made**, and does not give rise to unintended excess relief; and
- **introduce a Youth Contract worth a total of £940 million over the Spending Review 2010 period.** The Government will fund wage incentives for 160,000 young people to make it easier for private sector employers to take them on, at least 40,000 incentive payments for small firms to take on young apprentices, extra support from Jobcentre Plus for unemployed 18–24 year olds, an offer of a work experience or a Sector Based Work Academy place for every unemployed 18–24 year old who wants one after three months on Jobseeker’s Allowance, and a new £50 million a year programme to support some of the most disadvantaged 16–17 year olds into education, an apprenticeship or a job with training.

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.⁴ **The Government will invest a further £380 million a year by 2014–15 to extend its new offer of 15 hours free education and care a week for disadvantaged two year olds to cover an extra 130,000 children.**

The third section of Chapter 1 sets out further information on these announcements. Further information on the estimated distributional impact of the Autumn Statement is available in *Impact on households: distributional analysis to accompany the Autumn Statement 2011*.⁵

Annex B presents financing information.

Annex C presents selected tables from the OBR’s November 2011 *Economic and fiscal outlook*.

Autumn Statement decisions and Government spending and revenue

A summary of the fiscal impact of Autumn Statement policy decisions is set out in the table below. Chapter 2 provides more information on the fiscal impact of the Autumn Statement.

Table 1: Summary of Autumn Statement policy decisions

	£ million					
	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Total tax policy decisions	-35	-305	+145	+130	+20	+15
Spending measures announced at the Autumn Statement						
Changes to current spending	0	+910	+1,175	+1,735	+8,290	+15,105
Changes to capital spending	0	-660	-1,455	-1,645	0	0
Total spending policy decisions	0	+250	-280	+90	+8,290	+15,105
TOTAL POLICY DECISIONS	-35	-55	-135	+220	+8,310	+15,120

⁴ *A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families’ Lives*, Department for Work and Pensions and Department for Education, April 2011.

⁵ Available on the HM Treasury website at www.hm-treasury.gov.uk.

1

Autumn Statement

Protecting the economy

1.1 The UK economy is recovering from the biggest financial crisis in generations. Prior to the crisis, underlying competitiveness fell and economic growth was driven by unsustainable levels of debt, with the UK seeing the greatest expansion in debt of all the world's major economies over the last decade.¹ As a result, the UK experienced the deepest recession of any major economy except Japan and the Government inherited a budget deficit forecast to be the largest in the G20.² The June Budget 2010 set out the Government's strategy to address this legacy.

1.2 That emergency Budget succeeded in restoring stability and has secured low market interest rates. Since then, the economy has been hit by a series of further shocks. A sharp increase in global commodity prices has pushed up inflation. The Office for Budget Responsibility (OBR) estimate that *"the main reason that GDP has grown less quickly over the past 18 months than the interim OBR expected in its June 2010 forecast is higher-than-expected inflation squeezing household incomes and consumption."*³

1.3 The intensifying euro area debt crisis, driven by excessive levels of debt, now represents the most dangerous threat to the world economy since Lehman Brothers collapsed in autumn 2008. Even if this crisis is resolved quickly, the financial instability and uncertainty it has caused has been a blow to confidence and is damaging the UK economy.

1.4 It has been clear that the financial crisis of 2008 and 2009 reduced the UK's growth potential relative to the unsustainable pre-crisis trend, but the extent of that loss is uncertain. Most significantly for medium-term growth prospects, the OBR has now substantially revised down its assessment of the level of potential output. That is consistent with evidence from previous financial crises, which have shown large output losses typically persist for many years.

1.5 As a result of these three factors — the inflation shock, the impact of the euro area debt crisis on confidence, and the ongoing structural impact of the financial crisis — the OBR's November 2011 *Economic and fiscal outlook* shows that:

- economic growth has been revised down to 0.9 per cent for 2011 and 0.7 per cent in 2012, with a slower recovery thereafter;
- the trend level of economic output has been revised down by about 3½ per cent by the end of the forecast period. Comparing the OBR's trend output projection with an extension of the Budget 2008 projection, trend output will be around 13 per cent below the pre-crisis assumption by the end of the forecast;
- public sector net borrowing and the structural deficit have been revised up in every year of the forecast as a consequence of the weaker economy; and
- public sector net debt as a proportion of GDP is forecast to peak at 78.0 per cent in 2014–15, 7.5 percentage points higher than forecast at Budget 2011.

¹*The real effects of debt*, Bank for International Settlements, working paper No. 352, September 2011.

²*Fiscal Monitor*, IMF, May 2010.

³*Economic and fiscal outlook*, OBR, November 2011.

1.6 If left unaddressed, high levels of public borrowing and debt risk undermining growth and economic stability in the UK. They would also undermine fairness, as future generations bear the burden of this greater debt.

1.7 The intensifying international sovereign debt crisis has demonstrated the economic risks of high deficits and rapidly rising debt. Many countries have been forced to make faster and deeper cuts to their public expenditure than previously planned to maintain market confidence and restore stability.

1.8 In comparison, as a result of the clear and credible consolidation plans the Government has set out, the UK has been seen as a relative safe haven, with interest rates at record lows. This has helped keep interest rates lower for families, businesses and the taxpayer. The heightened risks to stability and growth in the current international environment make it all the more critical for the UK to maintain this market confidence.

1.9 The Government is therefore taking action to ensure that its fiscal mandate and debt target are met. The Autumn Statement confirms the spending totals for the years 2015–16 and 2016–17 and makes additional savings to current spending over the Spending Review 2010 period.

1.10 The Government will use all the levers at its disposal to protect the economy and rebalance growth for the future:

- returning the public finances to a sustainable position and **meeting the Government's fiscal targets**;
- taking tough decisions to deliver permanent savings in the medium and long term, including by **setting plans for public spending in 2015–16 and 2016–17 in line with the spending reductions over the Spending Review 2010 period, increasing the State Pension age to 67 between 2026 and 2028, further controlling public sector pay and tax credits, and adjusting the allocation of Official Development Assistance in line with the OBR's revised growth forecast**;
- using the savings from current spending generated over the Spending Review 2010 period to fund **£6.3 billion of additional infrastructure spending, of which £1.3 billion was announced earlier in the autumn. Alongside this, around £1 billion of new private sector investment in regulated industries will be supported by government guarantee. The Government is also announcing commitments to £5 billion of capital projects in the next Spending Review period as part of the National Infrastructure Plan and is working with UK pension funds to unlock an additional £20 billion of investment in UK infrastructure. In total, the Autumn Statement supports around £30 billion of new capital investment**;
- **launching a package of credit easing measures, worth up to £21 billion, to improve the flow of credit to smaller and mid-sized businesses**, complementing the monetary activism of low interest rates and quantitative easing;
- **reforming the financial system to improve the regulatory framework**, reduce risks and lower taxpayers' exposure to shocks in the financial system; and
- building on its major reforms to education, welfare, taxation and regulation with **a new wave of supply-side reforms including changes to employment regulation, planning reform and active interventions, such as new Enterprise Zones**, with tax incentives to support business creation and growth.

Recent economic developments and prospects

1.11 Revised data from the Office for National Statistics (ONS) show the peak-to-trough fall in UK output during the 2008–09 recession is now estimated to have been 7.1 per cent, deeper than for any major economy except Japan.

1.12 In line with recoveries from previous financial crises, growth in the UK has been subdued; and as with all recoveries, particularly from deep recessions, quarterly growth has been choppy. Growth has been modest in the first half of 2011 at 0.5 per cent. The ONS estimates that GDP grew by 0.5 per cent in the third quarter of this year.

Commodity prices

1.13 Over the past 18 months, the economy has been hit by a series of shocks, the largest of which was the sharp increase in global commodity prices that began at the end of 2010. As Chart 1.1 shows, oil prices remain 40 per cent higher than the 2010 average due to a combination of growing demand from emerging economies and supply disruptions in the Middle East.⁴ Food prices also increased sharply.

1.14 High commodity prices have pushed up inflation, reducing real incomes and weighing on growth around the world. The OBR estimate that since the June Budget 2010, for the UK economy *“most of the weakness can be explained by an external inflation shock constraining real household consumption”*.⁵

1.15 Forecasters expect the inflationary impact of high commodity prices to recede over the coming year and inflation to fall sharply from its current elevated level. The OBR forecast Consumer Prices Index (CPI) inflation to fall sharply in the first quarter of 2012 as the January 2011 VAT increase falls out of the annual comparison. The OBR forecast inflation to fall to 2.4 per cent in 2012 Q4 and to return to the 2 per cent target by the end of 2013, as external pressures fade and the disinflationary impact of spare capacity in the economy bears down on inflation. Lower inflation will provide a degree of support to real incomes and the recovery.

Short-term economic prospects

1.16 The impact of the euro area crisis on confidence and export prospects is making the recovery more difficult still. The latest phase of the debt crisis continues to play out around the world because fundamental problems of excessive levels of debt have yet to be comprehensively addressed.

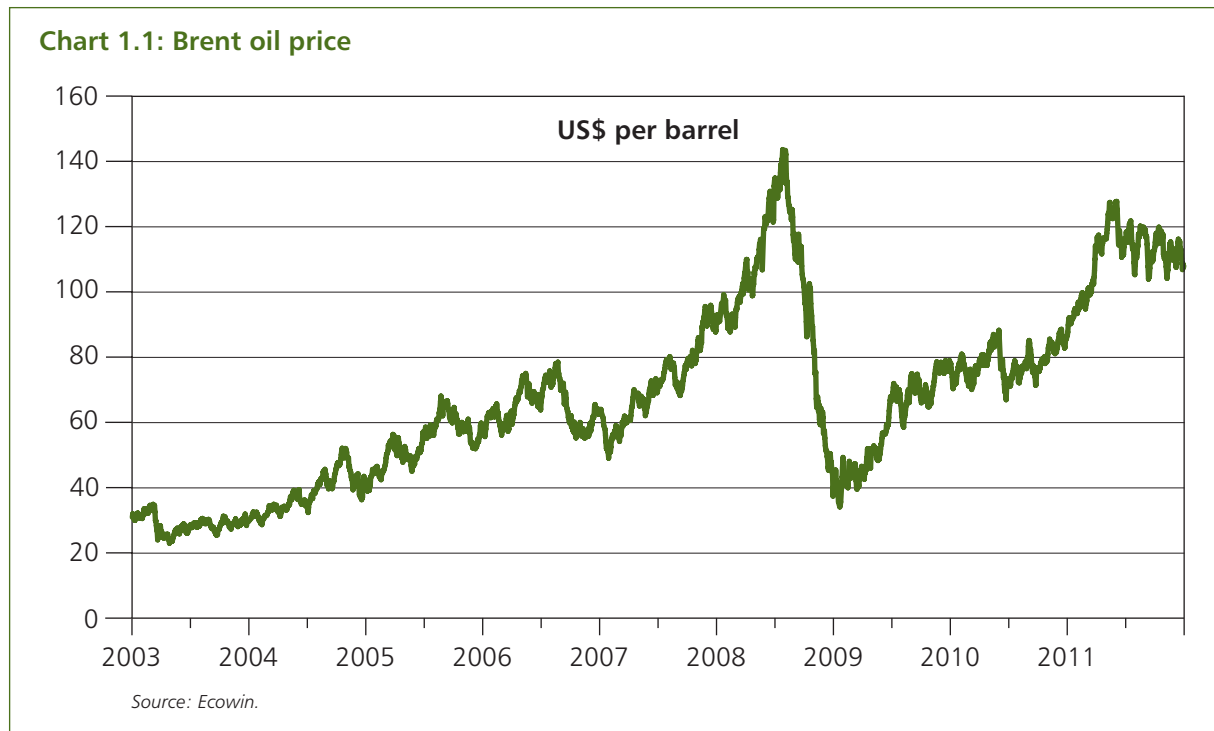
1.17 Credit conditions have tightened due to strains in bank funding markets. Confidence indicators and business surveys have weakened due to the instability and uncertainty caused by the crisis. That uncertainty has fed through to household spending and to companies' investment and hiring decisions, causing GDP and private sector employment growth to slow. Unemployment has risen in recent months, with labour market conditions particularly challenging for young people.

1.18 As a result, growth forecasts for 2012 have been revised down significantly around the world. The OBR has revised down its forecast for world growth in 2012 from 4.3 per cent to 3.5 per cent and for euro area growth from 1.8 per cent to 0.5 per cent. The OECD, European Commission and IMF forecasts for growth in 2012 have all been revised down in recent months.

⁴The average price of Brent crude was around \$80 in 2010. If the oil price remains at its current November level for the remainder of the year, the average price of Brent crude in 2011 would be \$112. This would represent a 40 per cent increase compared with 2010.

⁵*Economic and fiscal outlook*, OBR, November 2011.

1.19 In the UK, global uncertainty and instability are also affecting confidence and slowing growth. The cost and availability of credit has deteriorated, particularly for smaller businesses that are most reliant on bank finance. In export markets, conditions are even more challenging, given Europe remains the UK's major trading partner, accounting for around half of all UK exports.



Medium-term economic prospects

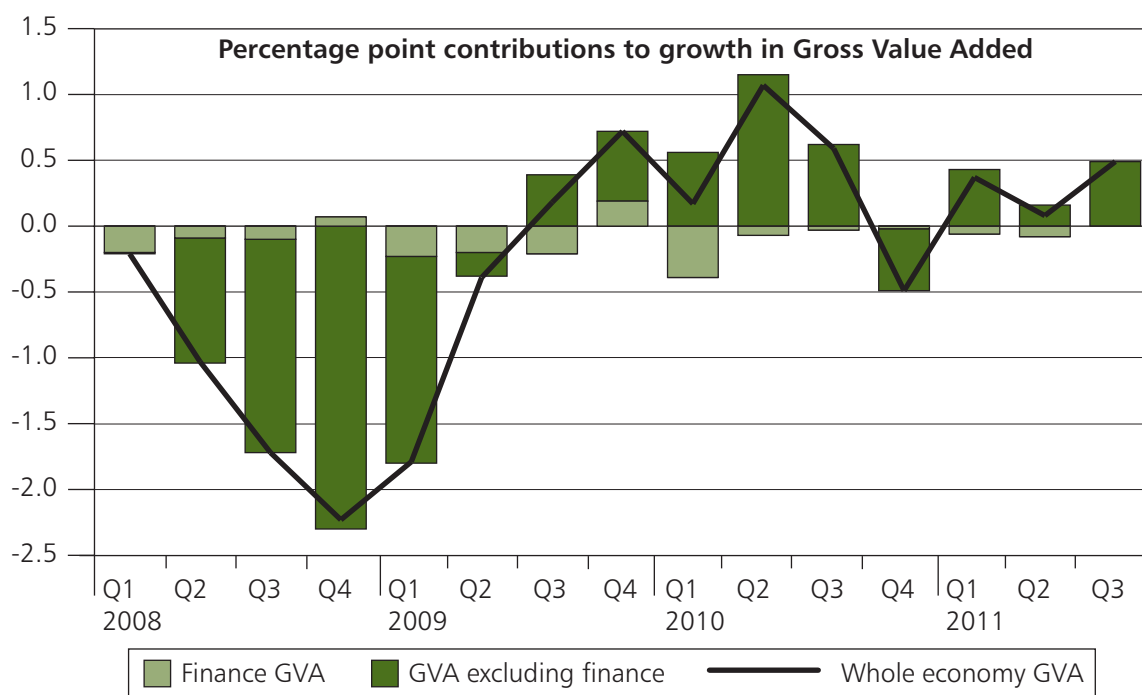
1.20 The UK saw the biggest expansion in debt of all the world's major economies over the past decade.⁶ In the June Budget 2010, the Government acknowledged the likelihood that the financial crisis would have a lasting impact on the economy. The full scale and persistence of that impact is slowly becoming clearer.

1.21 Unsustainable borrowing in the private and public sectors was accompanied by an increasing reliance on poorly regulated growth in the financial sector. As Chart 1.2 shows, since the end of the recession the financial sector has acted as a drag on growth. In the two and a quarter years since the recession ended, whole economy output has grown by 3.2 per cent, but output excluding the financial sector has grown more strongly, by 4.3 per cent.

1.22 After such a large credit boom, the process of balance sheet repair in the UK is likely to continue to weigh on demand. This is reflected in the OBR forecast. The household saving ratio is forecast to average around 6 per cent over the forecast horizon, up from around 3½ per cent at Budget 2011.

⁶*The real effects of debt*, Bank for International Settlements, working paper No. 352, September 2011.

Chart 1.2: Growth in the financial and non-financial sectors



Source: Office for National Statistics and HM Treasury.

1.23 Compared with its previous forecasts, the OBR has substantially revised down its estimate of the level of potential output. While the OBR highlight the difficulties quantifying underlying productivity, they suggest the reduction is consistent with evidence that financial crises are typically associated with large output losses that persist for many years. The comprehensive analysis carried out by Reinhart and Rogoff concludes that *“the aftermath of severe post-war financial crises shows that these crises have had a deep and lasting effect on asset prices, output and employment.”*⁷

1.24 The OBR now projects the trend rate of growth to average 1.1 per cent a year in 2011 and 2012, rising to 2.0 per cent in 2013 and 2.3 per cent thereafter. That compares with 2.35 per cent a year over that period projected at Budget 2011. Overall, these revisions reduce the level of trend output at the end of the forecast horizon by around 3½ per cent. The OBR has not revised up its judgement of the structural rate of unemployment, which remains at around 5¼ per cent.

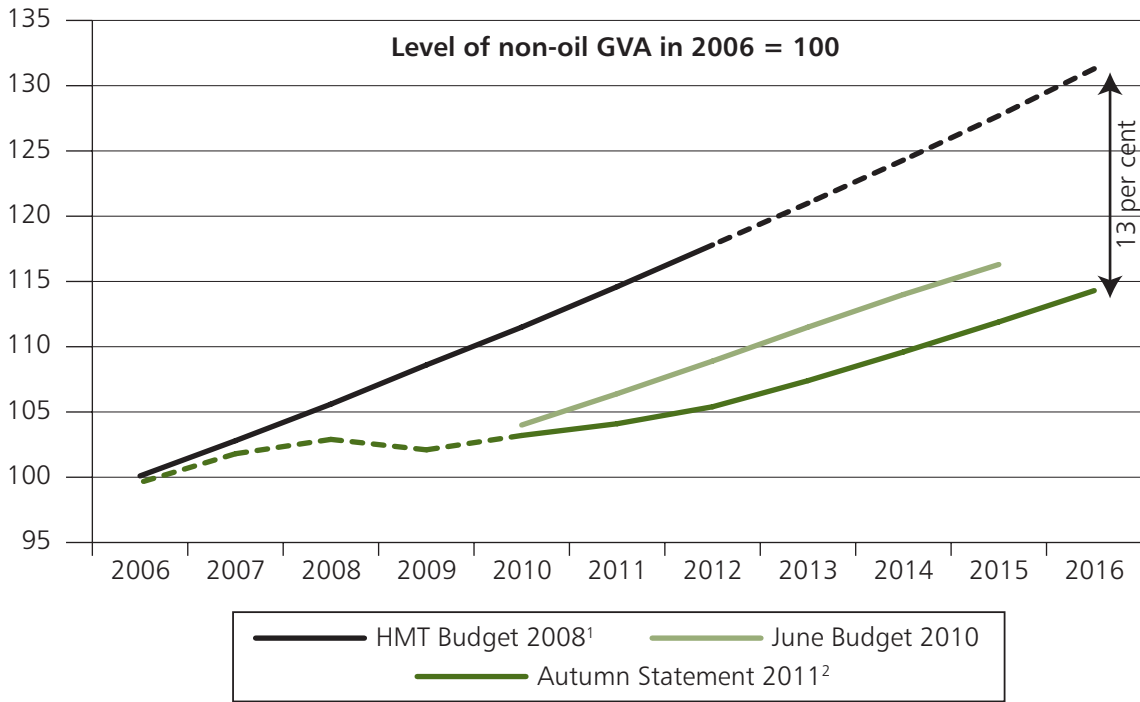
1.25 There is also uncertainty over the degree of spare capacity in the economy — the extent to which actual output is below trend output. The Bank of England’s November 2011 *Inflation Report* highlights the difficulties of assessing current levels of spare capacity. This is evidenced by the range of external organisations’ estimates of the output gap in 2011.⁸ There is also uncertainty over the rate at which potential output will grow in the future.

1.26 Chart 1.3 compares the OBR’s current and previous trend output projections with an extension of the Budget 2008 projection. It shows that by the end of the forecast, trend output is projected to be around 13 per cent below the level consistent with the pre-crisis projection. This difference suggests that the damage to potential output caused by the financial crisis has been greater than previously estimated.

⁷*This Time is Different: Eight Centuries of Financial Folly*, Reinhart C. and Rogoff K., Princeton University Press, 2009.

⁸External estimates of the output gap are discussed in *Economic and fiscal outlook*, OBR, November 2011.

Chart 1.3: Trend output projections



¹Budget 2008 projection assumes trend growth of 2.75 per cent from 2013 onwards.

²Trend output for the Autumn Statement 2011 pre-2010 is based on the principle components analysis (PCA) estimate of the output gap published in OBR Working paper No.1: Estimating the UK's historical output gap. The Autumn Statement 2011 trend growth projection has been adjusted for changes to ONS deflation methodology introduced in Blue Book 2011, see OBR Economic and fiscal outlook, November 2011.

Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

OBR economic and fiscal forecasts

Economic forecast

1.27 Table 1.1 provides a summary of the OBR's central economic forecast. Annex C reproduces key tables from the OBR's economic and fiscal forecast. Further information is provided in the OBR's November 2011 *Economic and fiscal outlook*, published alongside the Autumn Statement. Like other recent external forecasts, their assessment is conditioned on the assumption that the euro area crisis does not escalate further and is eventually resolved, allowing a gradual improvement in credit conditions.

1.28 The OBR forecast a gradual recovery reflecting the impacts of higher inflation, difficulties in the euro area, and the medium-term impact of the financial crisis on trend output. The economy is forecast to grow by 0.9 per cent in 2011 and 0.7 per cent in 2012, significantly below the Budget 2011 forecast. The OBR forecast subdued growth in the first half of 2012 but a stronger performance in the second half. Growth is forecast to return to above trend rates from 2013, supported by growth in business investment and net trade.

Table 1.1: Summary of OBR's central economic forecast¹

	Percentage points, unless otherwise stated							
	Pre crisis decade average contribution ²	Forecast						
		2010	2011	2012	2013	2014	2015	2016
GDP growth, per cent	3.2	1.8	0.9	0.7	2.1	2.7	3.0	3.0
Main contributions								
Private consumption	2.3	0.7	-0.7	0.1	0.7	1.4	1.7	1.8
Business investment	0.4	0.1	-0.1	0.6	0.8	0.9	1.3	1.4
Dwellings investment ³	0.3	0.3	-0.1	0.1	0.4	0.5	0.4	0.4
Government ⁴	0.7	0.4	0.3	-0.3	-0.5	-0.5	-0.7	-0.7
Change in inventories	0.0	1.3	0.0	-0.3	0.0	0.1	0.0	0.0
Net trade	-0.5	-0.8	1.2	0.3	0.6	0.3	0.2	0.1
CPI inflation (Q4)		3.4	4.6	2.4	2.0	2.0	2.0	2.0

¹ All figures in this table are rounded to the nearest decimal place. This is not intended to convey a degree of unwarranted accuracy. Components may not sum to total due to rounding, omission of transfer costs of land and existing buildings, and the statistical discrepancy.

² The average contribution to real GDP growth between 1997 and 2007. In 2006, private consumption accounted for 64 per cent of GDP, business investment for 9 per cent, dwellings investment for 6 per cent, Government for 24 per cent and change in inventories for less than 1 per cent.

³ The sum of public corporations and private sector investment in new dwellings and improvement to dwellings.

⁴ The sum of government consumption and general government investment.

Source: Office for Budget Responsibility and Office for National Statistics.

1.29 There is a high degree of uncertainty over developments in the euro area, which could have a significant impact on the outlook for UK growth. The OBR highlight that a disorderly outcome to the euro area crisis poses a significant downside risk to their central forecast. The OBR set out the channels by which an intensification of the euro area crisis could affect the economy:⁹

- weaker net trade as a result of reduced euro area demand;
- elevated bank funding costs leading to tighter credit conditions that bear down on activity for longer and lead to a slower recovery in the housing market;
- financial system impairment through a disorderly sovereign default resulting in further negative feedback to credit, trade, the fiscal position and world output; and
- the fiscal position would also be impacted through movements in gilt yields, tax receipts and the operation of the automatic stabilisers.

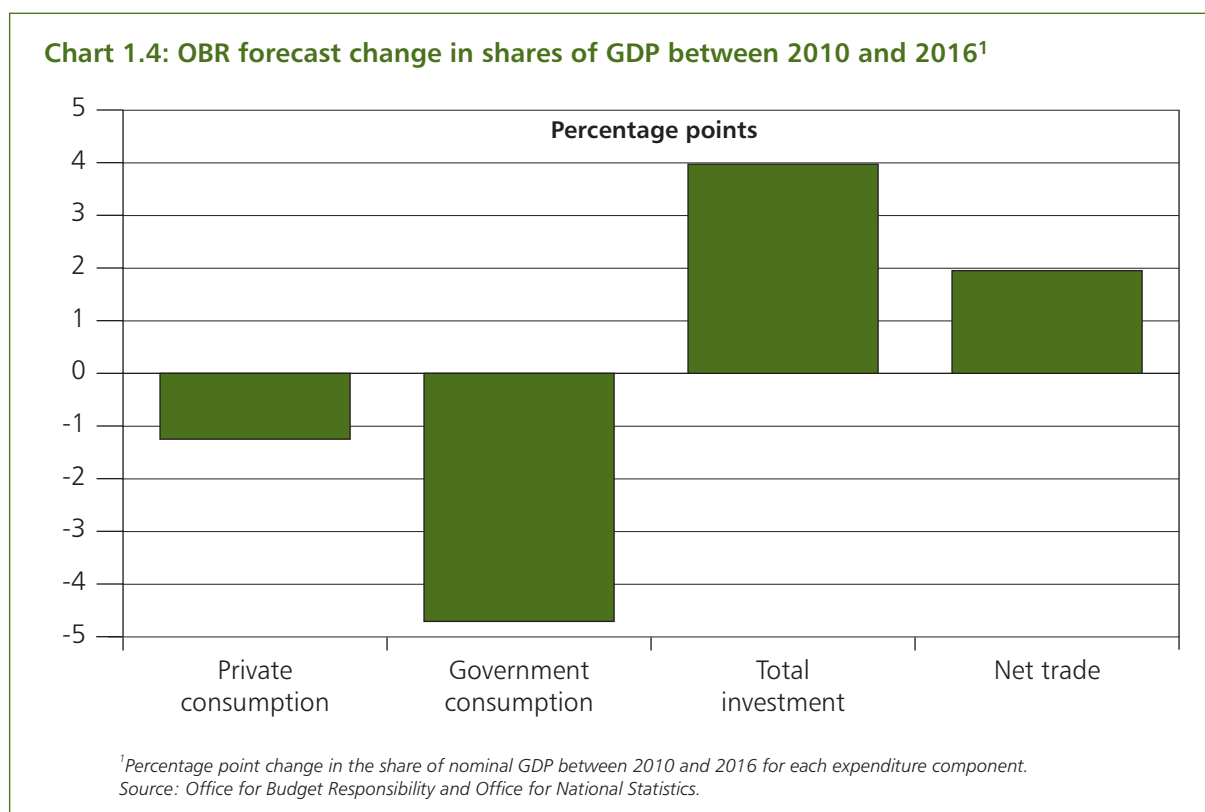
Rebalancing the economy

1.30 Rebalancing of expenditure in the UK economy away from government and consumer spending towards net trade and investment has been progressing, although the global backdrop is now acting as a significant headwind.

1.31 The OBR forecast the economy will rebalance in the coming years. As global conditions normalise, private sector investment is forecast to grow strongly. The OBR forecast business investment growth to pick up over the forecast period and to contribute over one percentage point a year on average to growth from 2014. The contribution from net trade over the previous few years has been revised up by the ONS, and is now more consistent with the response of net trade to previous periods of depreciation. Net trade, which made a negative contribution to growth on average in the pre-crisis decade, is forecast to make a positive contribution to growth over the forecast period.

⁹Economic and fiscal outlook, OBR, November 2011.

1.32 Chart 1.4 shows the extent of the rebalancing forecast by the OBR, with the share of net trade and total investment in GDP rising, while government and private consumption falls over the forecast period, remaining lower over the forecast horizon than in the pre-crisis decade.



Fiscal forecast

1.33 Table 1.2 provides a summary of the OBR's central forecast for the public finances based on this economic outlook and including the measures set out in the Autumn Statement.

1.34 Public sector net borrowing will continue to fall from its post-war peak of 11.2 per cent of GDP in 2009–10, but at a slower rate than previously forecast:

- at Budget 2011 it was forecast that borrowing would fall by 2.0 per cent of GDP in 2011–12 and by 1.7 per cent of GDP in 2012–13;
- borrowing is now forecast to fall by 0.9 per cent of GDP in 2011–12 and by 0.8 per cent of GDP in 2012–13; and
- the reduction in borrowing from 2012–13 to 2015–16 is forecast to remain broadly the same as predicted in March, with a reduction of 4.7 per cent of GDP over the period.

1.35 As set out above, the OBR have also reassessed the level of potential output in the UK economy in the medium term. This assessment implies that more of the UK's deficit is structural than estimated at Budget 2011. The structural deficit (cyclically-adjusted net borrowing) is projected to be 1.2 per cent of GDP higher in 2015–16. The cyclically-adjusted primary balance, a measure of the structural deficit excluding debt interest payments, is in surplus in 2014–15.

1.36 Higher borrowing feeds through into higher than expected debt levels. Public sector net debt as a proportion of GDP is forecast to be 8.6 per cent higher in 2015–16 than forecast at Budget 2011. But as a result of the fiscal consolidation plans reducing borrowing in the future, it is set to fall from a peak of 78.0 per cent of GDP in 2014–15 to 75.8 per cent of GDP in 2016–17.

Table 1.2: Overview of OBR central fiscal forecast

	Per cent of GDP							
	Outturn		Forecast					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Deficit								
Public sector net borrowing	11.2	9.3	8.4	7.6	6.0	4.5	2.9	1.2
Surplus on current budget	-7.7	-6.7	-6.5	-6.0	-4.7	-3.3	-1.8	-0.1
Primary balance	-9.1	-6.5	-5.4	-4.9	-3.2	-1.7	0.0	1.6
Cyclically-adjusted net borrowing	9.0	7.1	6.4	5.5	4.0	2.8	1.7	0.6
Cyclically-adjusted surplus on current budget	-5.5	-4.5	-4.6	-3.9	-2.7	-1.6	-0.6	0.5
Treaty deficit ¹	11.6	9.5	8.4	7.6	6.1	4.6	3.0	1.3
Cyclically-adjusted Treaty deficit	9.5	7.3	6.4	5.5	4.0	2.9	1.8	0.7
Debt								
Public sector net debt ²	52.9	60.5	67.5	73.3	76.6	78.0	77.7	75.8
Treaty debt ratio ³	71.5	76.5	84.2	90.1	93.1	93.9	92.6	89.7
Output gap								
	-4.0	-2.8	-2.8	-3.1	-2.8	-2.3	-1.5	-0.7
<i>Memo: HMT estimate of cyclically-adjusted primary balance⁴</i>	-7.0	-4.4	-3.5	-2.7	-1.2	0.0	1.2	2.2
<i>Memo: Total policy decisions⁵</i>			0.0	0.0	0.0	0.0	0.5	0.8

¹ General government net borrowing on a Maastricht basis.

² Debt at end March; GDP centred on end March.

³ General government gross debt on a Maastricht basis.

⁴ This is a Treasury estimate of the cyclically-adjusted primary balance. It has been calculated by applying the cyclical-adjustment methodology set out in *Public finances and the cycle: Treasury Economic Working Paper No.5 (November 2008)*, which the OBR also use for their forecast of cyclically-adjusted aggregates.

⁵ Equivalent to the 'Total policy decisions' line in Table 2.1.

Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

Performance against EU obligations

1.37 The Government remains committed to reducing the UK's deficit below the 3 per cent of GDP target set out in the Stability and Growth Pact (SGP). Given the level of global uncertainty, it is important to focus on the structural position.¹⁰ As set out in Table 1.2, the cyclically-adjusted Treaty deficit is forecast to be 2.9 per cent of GDP in 2014–15, with the UK forecast to meet the SGP target for the Treaty deficit in 2015–16.

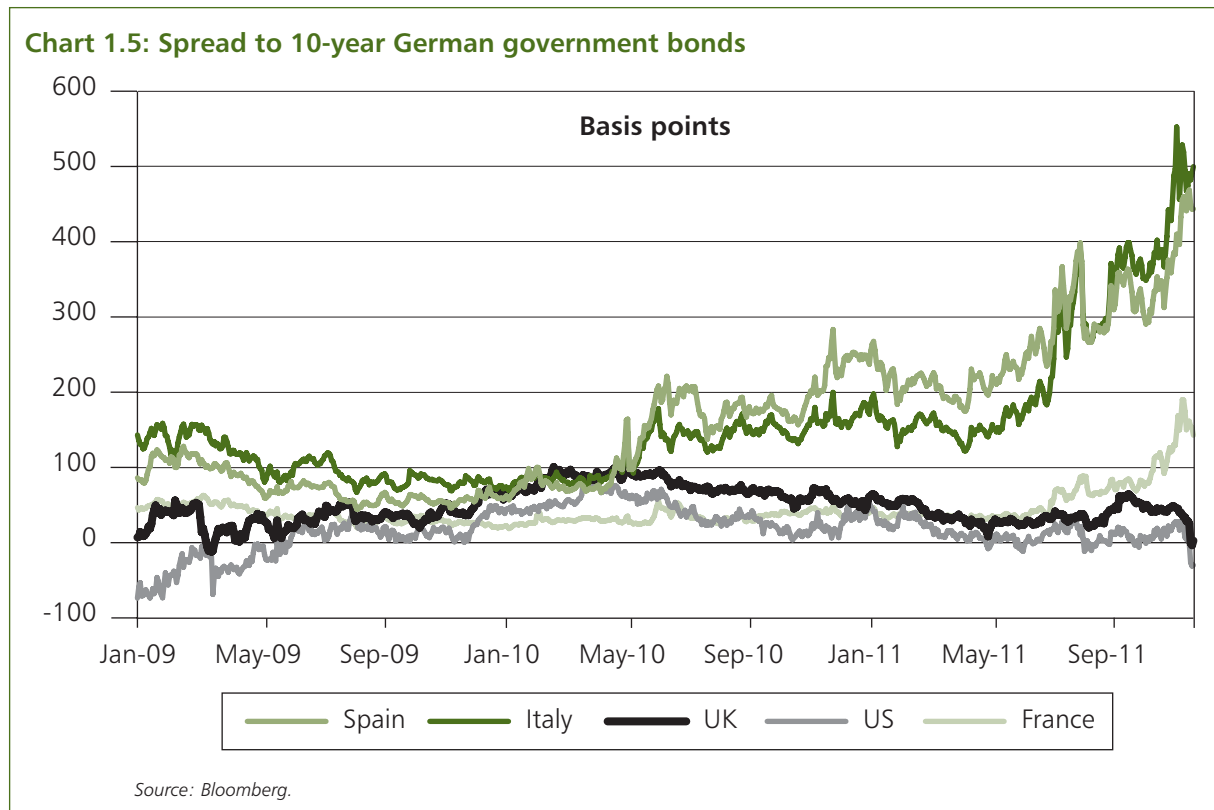
Debt management

1.38 The Debt Management Office's (DMO) financing remit for 2011–12 has been revised to reflect the changes to the OBR's forecast for the central government net cash requirement in 2011–12. Details of the revisions, including the £13.8 billion increase in the net financing requirement in 2011–12 to £178.5 billion, are set out in Annex B.

¹⁰As highlighted in the European Commission's *European Economic Forecast*, autumn 2011.

Reducing risks

1.39 Clear and credible fiscal consolidation plans are essential to reduce the risk of a costly loss of market confidence in the UK. As Chart 1.5 shows, there is evidence that the Government's fiscal plans are contributing to improved market confidence, with UK long-term interest rates reaching a record low.



1.40 As the international debt crisis intensifies, global developments have shown that the consequences of losing market confidence can be sudden and severe:

- some European countries have smaller budget deficits than the UK, but have had to specify additional consolidation measures in recent months as a result of deteriorating economic conditions in the euro area; and
- in May 2010 the spread of UK gilts to German bunds was around the same level as that of Italy and Spain. However, Spain now faces long-term interest rates above six per cent and Italy above seven per cent.

1.41 A sharp rise in interest rates would be particularly damaging to an economy with the UK's level of indebtedness. As Table 1.3 shows, a one percentage point rise in government bond yields would add around £7.5 billion to debt interest payments by 2016–17. A one percentage point rise in effective mortgage rates would add £12 billion a year to households' mortgage interest payments.

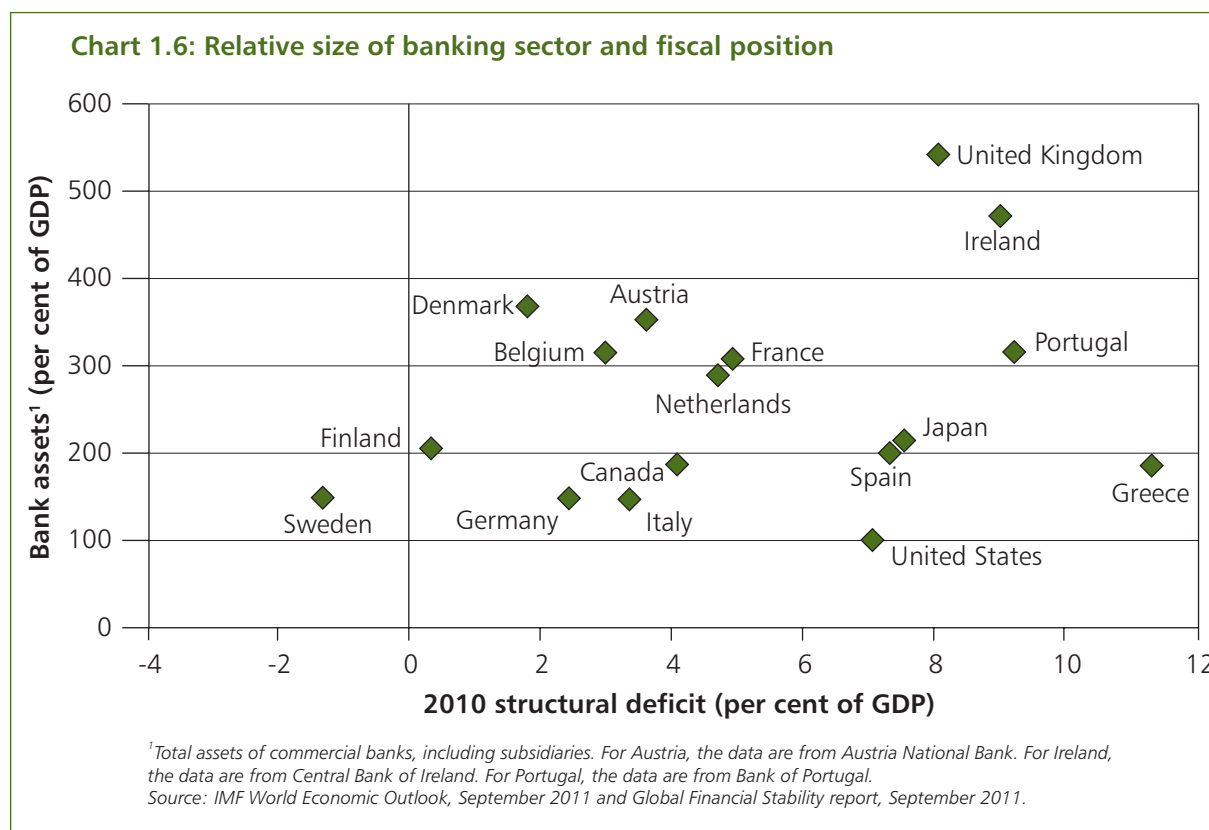
Table 1.3: Impact of higher interest rates on debt interest payments

	£ billion					Total
	Annual increase in debt interest payments					
	2012-13	2013-14	2014-15	2015-16	2016-17	
Increase in interest rates¹						
1 percentage point	0.7	2.5	4.3	6.0	7.5	21.0
2 percentage points	1.3	5.1	8.7	12.0	15.1	42.2
3 percentage points	2.0	7.7	13.1	18.2	23.0	63.9
4 percentage points	2.6	10.2	17.5	24.5	31.0	85.8
5 percentage points	3.3	12.8	22.0	30.8	39.3	108.1

¹ Above market gilt rates, consistent with the OBR's November 2011 Economic and fiscal outlook. Increases are applied to each gilt maturity from 2012 Q2 and are assumed to continue throughout the forecast period.

Source: HM Treasury.

1.42 Fiscal consolidation also reduces the risk of negative feedback loops between weak public finances and a strained financial sector. These feedback loops can be very damaging, as evidenced by recent events in the euro area. The UK has a very large financial sector, both globally and relative to the size of its economy (see Chart 1.6), meaning any loss of investor confidence in the UK's fiscal position would not only affect the UK, but also the global economy. As the IMF have stated "the stability and efficiency of the UK financial system is a 'global public good' due to potential spillovers".¹¹ It is the IMF's view that the UK's economic and financial sector policies have a systemic impact on the global economy.^{12, 13}



¹¹ Article IV staff report, IMF, July 2011.

¹² Spillover Report, IMF, August 2011.

¹³ As set out in the IMF's April 2011 Fiscal Monitor, the IMF consider risks in a similar framework, publishing the Fiscal Sustainability Risk Map which shows the relative risk to fiscal sustainability from core fiscal variables, financial sector risk and macroeconomic uncertainty. Their analysis also considers the long-term fiscal challenge, the risk from the liability structure of public debt and policy implementation risks.

1.43 Finally, recent research shows that higher levels of public debt would progressively weaken medium-term growth prospects.¹⁴ The Bank for International Settlements estimate that once general government gross debt exceeds 85 per cent of GDP, it starts to act as a drag on economic growth. The Government's fiscal plans ensure that debt is set on a downward trajectory from 2015–16.

Government response

1.44 The Government's macroeconomic strategy is designed to protect the economy through this period of instability, to maintain market confidence in the UK and to lay the foundations for a stronger more balanced economy in the future. The Government is taking decisive action with:

- a clear and credible response to the fiscal deterioration, restoring the public finances to a sustainable path, maintaining market confidence and keeping interest rates low;
- monetary activism and credit easing to support the flow of credit in the economy, stimulate demand and maintain price stability;
- reform of the financial system, improving the regulatory framework to reduce risks and lower taxpayers' exposure; and
- a comprehensive package of structural reforms to rebalance and strengthen the economy for the future, including an ambitious package of infrastructure investment.

1.45 Credible fiscal consolidation plans create the space for monetary activism to support the economy and are the essential precondition for stability and a more balanced economy in the future.

1.46 As the OBR has highlighted, in this period of global instability all forecasts are subject to a high degree of uncertainty, particularly regarding developments in the euro area. Recognising this, the Government is committed to taking further action if necessary to meet its fiscal targets, protect the economy and maintain financial stability.

Sustainable public finances

1.47 The Government's consolidation plans, set out in the June Budget 2010, Spending Review 2010 and Budget 2011, have been endorsed by the IMF, OECD, European Commission, credit rating agencies and UK business organisations.¹⁵ Following Spending Review 2010, the credit rating agency Standard and Poor's restored the UK's AAA rating to a stable outlook.

The fiscal mandate and supplementary debt target

1.48 The Government's fiscal strategy is underpinned by clear targets that ensure the public finances are set on a sustainable path. As announced in the June Budget 2010, the Government has set a forward-looking fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period. This fiscal mandate is based on:

- the current balance, to protect the most productive public investment expenditure;
- a cyclically-adjusted aggregate, to allow some fiscal flexibility at times of economic uncertainty; and
- a rolling five-year forecast period, ensuring that fiscal consolidation is delivered over a realistic and credible timescale and providing flexibility in the current exceptional economic environment.

¹⁴*The real effects of debt*, Bank for International Settlements, working paper No. 352, September 2011 and *This Time is Different: Eight Centuries of Financial Folly*, Reinhart C. and Rogoff K., Princeton University Press, 2009.

¹⁵For example, *Article IV staff report*, IMF, July 2011 and *Economic Outlook*, OECD, November 2011.

1.49 As set out in the April 2011 *Charter for Budget Responsibility*, the OBR publish forecasts of the economy and public finances for a period of at least five financial years following the date of publication.¹⁶

1.50 In line with this approach, the forecast horizon for the June Budget 2010, Autumn Statement 2010 and Budget 2011 extended five financial years to 2015–16. At the Autumn Statement, which takes place in a new financial year, the end of the forecast horizon extends to 2016–17.

1.51 The fiscal mandate is supported by a supplementary target for debt that requires public sector net debt as a percentage of GDP to be falling at a fixed date of 2015–16, ensuring that the public finances are restored to a sustainable path.

1.52 The creation of the OBR has significantly enhanced the credibility of the UK's fiscal position by ensuring that the Government's performance against these targets is scrutinised and assessed impartially, independent of ministers. The establishment of the OBR has placed the UK at the forefront of institutional reform internationally.¹⁷

Further fiscal action

1.53 The Government is taking further measures to ensure sustainable public finances and meet its fiscal targets. 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 will fall by 0.9 per cent a year in real terms, the same rate as in the Spending Review 2010 period, with a baseline excluding the one-off investments in infrastructure announced in the Autumn Statement. Public Sector Gross Investment, excluding these one-off investments, will continue to grow with general inflation in the economy in 2015–16 and 2016–17;
- **raise the State Pension age to 67 between April 2026 and April 2028, which is expected to save around £60 billion in today's prices between 2026–27 and 2035–36.** While increasing life expectancy is to be welcomed, the OBR's *Fiscal sustainability report* forecasts that spending on state pensions will rise from 5.5 per cent of GDP in 2015–16 to 7.9 per cent of GDP in 2060–61.¹⁸ The Government has taken action to address the fiscal challenges this creates and legislated to bring forward the increase in the State Pension age to 66 by October 2020. Since the life expectancy projections underpinning the original State Pension age timetable were published, average life expectancy at State Pension age in 2028 has increased by at least one and a half years for men and women. Given the ongoing increases in life expectancy beyond 2026, the Government will raise the State Pension age to 67 between April 2026 and April 2028. Future increases in the State Pension age will also be based on demographic evidence and the Government will discuss further the process that could be put in place to allow the views of interested parties to be considered when these decisions are made;
- **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. This will protect expenditure on public services;
- **not go ahead with the planned £110 above inflation increase to the child element of the Child Tax Credit and 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 disability elements of tax credits will be uprated in line with CPI in 2012–13; and

¹⁶ Available on the HM Treasury website at www.hm-treasury.gov.uk.

¹⁷ *Article IV staff report*, IMF, July 2011.

¹⁸ *Fiscal sustainability report*, OBR, July 2011. Available on the OBR website at www.budgetresponsibility.independent.gov.uk.

- **adjust the allocation of Official Development Assistance in line with the OBR's revised growth forecast**, so that the UK spends 0.56 per cent of Gross National Income on Official Development Assistance in 2012 and 0.7 per cent in 2013 and thereafter.

1.54 These measures will reduce spending permanently in the medium and long term and so make the fiscal position more sustainable. In the short term, the Government is using the savings in current spending generated from the decisions taken on public sector pay, tax credits and Official Development Assistance to fund a package of measures that will support balanced economic growth, social mobility and help young people find work while ensuring that young children from disadvantaged backgrounds receive sufficient support.

1.55 The Autumn Statement announces £6.3 billion of additional infrastructure spending over the Spending Review 2010 period, of which £1.3 billion was announced earlier in the autumn; commitments to £5 billion of capital projects in the next spending review period as part of the National Infrastructure Plan; and around £1 billion of new private sector investment in regulated industries supported by government guarantee. These one-off investments in transport, broadband, science, regional growth and education will boost economic growth, unlock private investment and help businesses grow and compete effectively in the global economy. **The Government is also working with UK pension funds to unlock additional investment in UK infrastructure, targeting up to £20 billion of new investment. In total, the Autumn Statement supports around £30 billion of additional capital investment.**

1.56 The impacts of each of these measures on the public finances are set out in Table 2.1 in Chapter 2. The Government will ensure that future reforms are also governed by the need to ensure the long-term sustainability of the public finances.

Fiscal consolidation

1.57 As set out in Table 1.4, the Government plans a total consolidation of £147 billion per year by 2016–17, consisting of total reductions in spending of £116 billion and a net increase in taxes of £31 billion. Implementation of these plans is well underway with all of the tax consolidation measures legislated following Finance Act 2011. Spending Review 2010 implementation is on track. Many of the major structural reforms required to deliver savings while protecting priority public service outcomes are already underway, including reforms to higher education, housing and welfare.

1.58 Taking the consolidation as a whole, 72 per cent of the total consolidation will be delivered by lower spending in 2014–15, rising to 79 per cent in 2016–17. This is consistent with OECD and IMF research, which suggests that fiscal consolidation efforts that are skewed to spending cuts are more likely to be successful.¹⁹

1.59 Chart 1.7 shows that as a result of the plans set out in the Autumn Statement, public spending is projected by the OBR to fall from around 48 per cent of GDP in 2009–10 to 39 per cent of GDP by 2016–17, around the same level as 2003–04. Public sector current receipts are projected to rise from around 36½ per cent of GDP to around 38 per cent of GDP by 2016–17.

¹⁹See *Economic Outlook*, OECD, June 2007, *OECD Economic Survey: United Kingdom 2011*, OECD, March 2011 and *UK Article IV Consultation*, IMF, May 2009.

Table 1.4: Total consolidation plans over the forecast period

	£ billion					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Policy inherited by the Government	26	40	56	70		
Spending ¹	14	24	37	49		
Tax	12	16	19	21		
<i>Spending share of consolidation (per cent)</i>	<i>54</i>	<i>60</i>	<i>66</i>	<i>70</i>		
Total discretionary consolidation	42	60	85	107	130	147
Spending ^{1,2,3}	22	37	56	77	100	116
Tax ²	20	23	29	30	30	31
<i>Spending share of consolidation (per cent)</i>	<i>53</i>	<i>62</i>	<i>66</i>	<i>72</i>	<i>77</i>	<i>79</i>

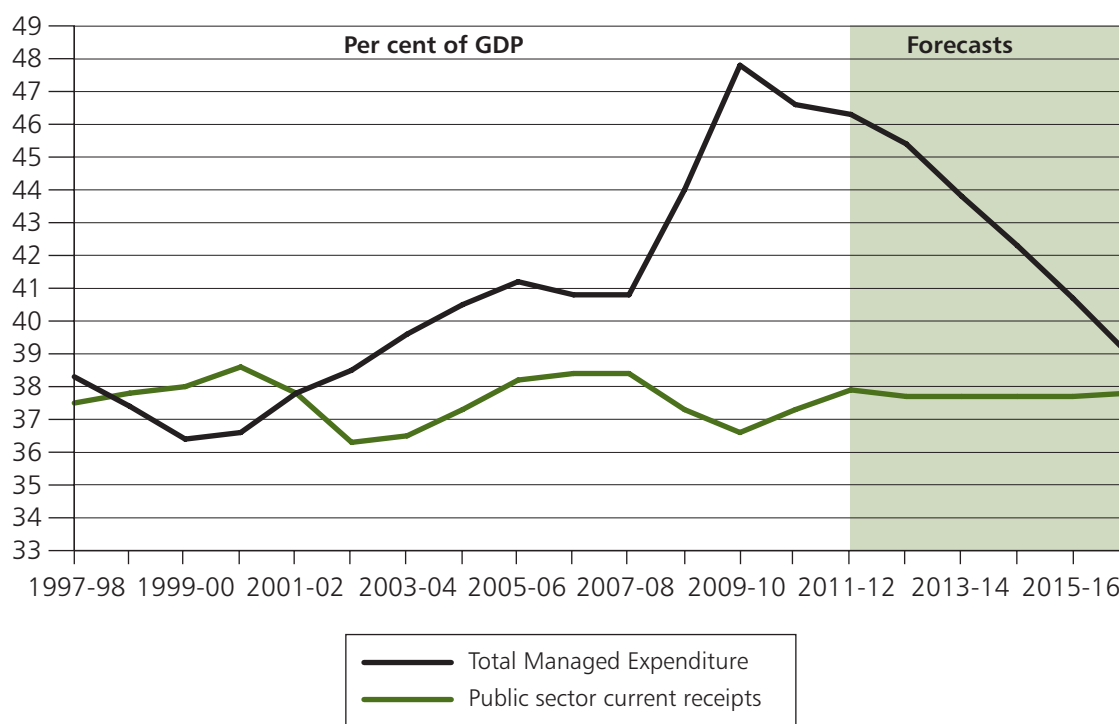
¹ Spending consolidation is attributable to three factors: (a) reductions in DEL are calculated by assessing nominal DEL totals against a counterfactual of growing DELs from 2010–11 in line with general inflation in the economy, as set out in Table 4.8 of the OBR's pre-Budget forecast (June 2010); (b) reductions in welfare AME due to the net effect of policy changes announced since June Budget 2010; (c) estimated debt interest savings, updated for market interest rates consistent with the OBR's November 2011 Economic and fiscal outlook. The fall in market interest rates, since Budget 2011, as used by the OBR, reduces the nominal totals for spending consolidation.

² Tax and welfare AME measures as costed previously. For outer years that have now come into the forecast period, the impacts of tax and welfare AME measures announced previously are grown in line with general inflation in the economy.

³ The Government has not set DELs for 2015–16 and 2016–17. Figures shown above are based on plans for public spending beyond the Spending Review 2010 period as set out in Table 2.2.

Source: Office for Budget Responsibility and HM Treasury.

Chart 1.7: Receipts and expenditure



Source: Office for Budget Responsibility and Office for National Statistics.

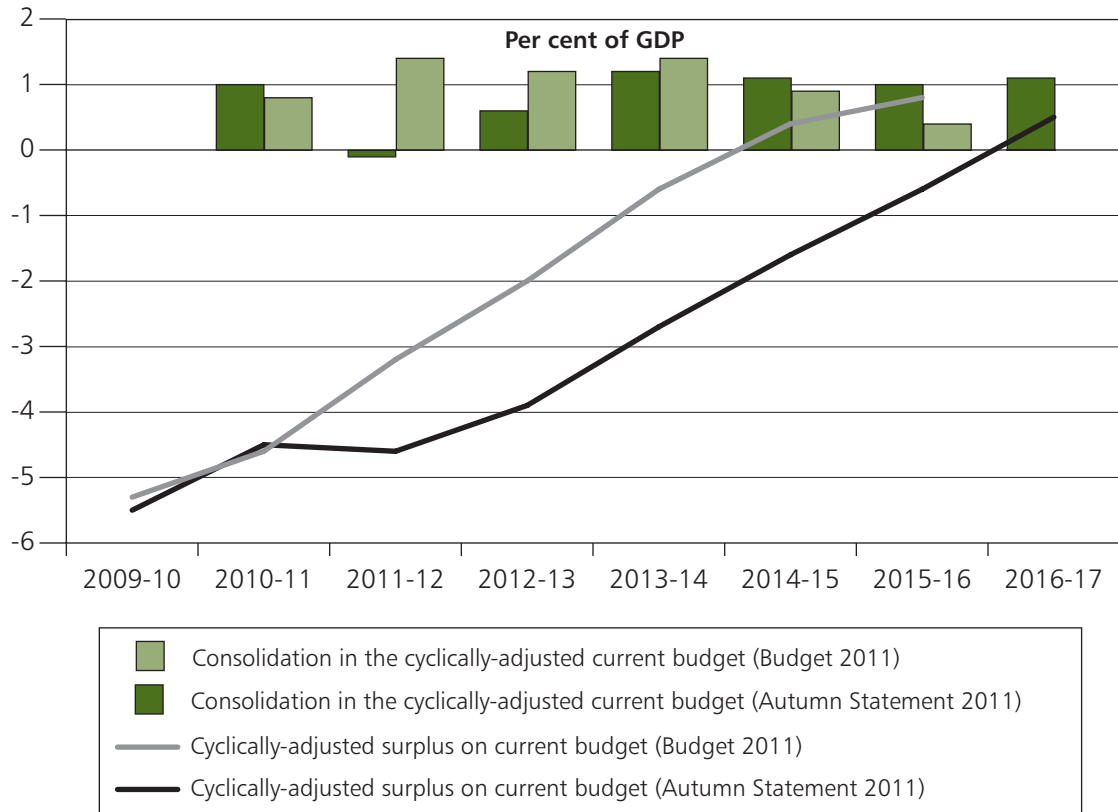
Performance against the mandate

1.60 Including all measures set out in the Autumn Statement, the OBR's November 2011 *Economic and fiscal outlook* concludes that the Government remains on course to meet the fiscal mandate and the supplementary debt target. The OBR's judgement is that the Government's policies are consistent with:

- roughly a 60 per cent chance of achieving the Government's fiscal mandate in 2016–17; and
- meeting the supplementary target for debt in 2015–16.

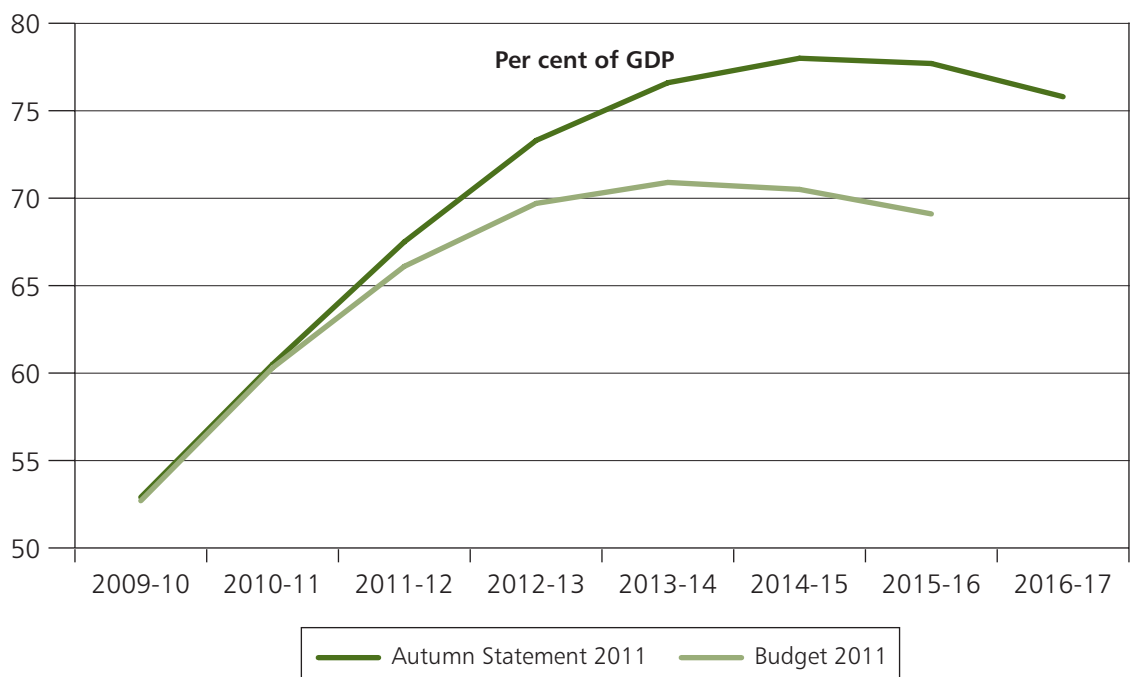
1.61 Charts 1.8 and 1.9 show performance against the Government’s fiscal mandate and the supplementary debt target. Slower progress in reducing the cyclically adjusted current budget deficit in 2011–12 and 2012–13 reflects the OBR’s downwards revision to trend growth, consistent with evidence suggesting that financial crises are typically associated with large output losses that persist for many years after that event.

Chart 1.8: Consolidation in the cyclically-adjusted current budget



Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

Chart 1.9: Public sector net debt



Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

Transparency

1.62 Alongside the Autumn Statement, the Government has published the first audited Whole of Government Accounts, based on International Financial Reporting Standards, for the year ending 31 March 2010. This is a major landmark in the delivery of the Government's commitment to improve the transparency of how public finances are managed and provides a more complete picture of the state's assets, accumulated liabilities and contingent liabilities.

1.63 These accounts provide policy makers with additional information to assess fiscal sustainability that over time will become increasingly useful to assess developments in long-term implications of policy changes.

Monetary activism

1.64 Monetary policy should be the primary tool for responding to changes in the economic outlook, to ensure that inflation remains on track to meet the 2 per cent inflation target in the medium term. Monetary policy has a critical role in supporting the economy as the Government delivers on its commitment to necessary fiscal consolidation. The credibility of the Government's fiscal plan allows the independent Monetary Policy Committee (MPC) to keep Bank Rate lower than it would otherwise have been and to deliver additional monetary stimulus through quantitative easing.

Quantitative easing and the Asset Purchase Facility

1.65 The MPC has decided to undertake further asset purchases financed by the issuance of central bank reserves through the Asset Purchase Facility (APF), known as quantitative easing. This was based on the MPC's judgement in October that, in large part due to tensions in the world economy that threaten the UK recovery, inflation was otherwise more likely to be below the 2 per cent inflation target in the medium term than above. The Chancellor has authorised an increase in the ceiling on these asset purchases by £75 billion to £275 billion.²⁰ Recent Bank of England analysis provides evidence of the effectiveness of asset purchases in supporting demand.²¹ The MPC's most recent assessment in the November 2011 *Inflation Report* is that, conditioned on Bank Rate moving in line with market interest rates and £275 billion of asset purchases, inflation is more likely to be below the target than above it in the medium term, but that there are substantial uncertainties. The MPC continues to stress that it stands ready to respond accordingly to changes in the balance of risks to the inflation outlook.

1.66 The APF can also purchase eligible private sector assets financed by central bank reserves, Treasury bills and the DMO's cash management operations. It has been shown over the life of the APF that its objective to ensure the normal functioning of corporate capital markets can be delivered by undertaking asset purchases of substantially less than the ceiling of £50 billion set in 2009. **The ceiling on private sector asset purchases is therefore being reduced by £40 billion to £10 billion.** This provides scope for the Government to announce a package of credit easing interventions.

Credit easing

1.67 Shocks to confidence and credit conditions stemming from the euro area crisis are affecting the UK recovery. These problems are most acute for smaller and mid-sized companies that are most reliant on the banking system for finance. To complement the action taken by the Bank of England to support demand, **the Government is launching a package of interventions worth up to £21 billion to ease the flow of credit to businesses that do not have ready access to capital markets, with scope to increase the scale of this package in future if necessary. The package includes up to £20 billion for the National**

²⁰The Chancellor's letter to the Governor of the Bank of England is available on the HM Treasury website at www.hm-treasury.gov.uk.

²¹*Quarterly Bulletin 2011 Q3, Volume 51 No. 3*, Bank of England, September 2011.

Loan Guarantee Scheme and an initial £1 billion for the Business Finance Partnership.

These measures are described in more detail in the next section of this chapter.

1.68 Credit easing will provide support to the economy. In the short term, it will relieve constraints on the supply of bank lending and enhance the demand for credit by reducing the price of loans for eligible companies. In the medium term, it will help to tackle the long-standing problems in the supply of finance to smaller and mid-sized businesses in the UK. The Government will continue to assess further options to increase the supply of credit to smaller and mid-sized businesses. Further progress will be announced at Budget 2012.

1.69 The impact of these measures on the fiscal aggregates will be determined in due course by the ONS. In this forecast, the OBR anticipate that the main transactions within the Business Finance Partnership are most likely to be treated as financial transactions, which do not directly impact on borrowing but do increase public sector net debt. For the National Loan Guarantee Scheme, the guarantees are expected to be recorded as contingent liabilities, which do not directly affect borrowing or debt unless they are called. The most likely outcome is that these schemes make a small positive return for the Exchequer.

Financial sector regulation

1.70 The Government is implementing its plans to overhaul the tripartite system of financial regulation, by meeting its commitment to provide the Bank of England with:

- control of macro-prudential regulation, which relates to system wide risks. The Government will legislate to create a Financial Policy Committee (FPC) within the Bank of England, with a clear macro-prudential remit to identify the risks that build up across the system as a whole and the power to ensure that action is taken to address those risks before they can threaten wider stability. An interim FPC, established in February 2011, has met three times; and,
- oversight of micro-prudential regulation, which focuses on risks within individual financial institutions. The Government will establish the Prudential Regulation Authority (PRA) as a subsidiary of the Bank. The PRA will promote the safety and soundness of the financial institutions it regulates, minimising the wider economic impact should a firm fail.

1.71 The Government has published and consulted on draft primary legislation to implement these reforms. The draft Bill is currently undergoing pre-legislative scrutiny by a Joint Committee of Parliament. Subject to Parliamentary timetabling, the legislation will be introduced early in 2012.

The Independent Commission on Banking

1.72 The Independent Commission on Banking (ICB), chaired by Sir John Vickers, was asked in June 2010 to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition. Following an initial consultation last year, and an interim report on 11 April 2011, the ICB's final report was published on 12 September 2011.

1.73 The Government welcomes in principle the ICB's suggestions for:

- a ring-fence around better-capitalised high street banks to make them safer, and to protect their vital services to the economy;
- bail-in instead of bail-out — so that private investors, not taxpayers, bear the losses if things go wrong; and
- measures to increase competition in retail banking.

1.74 The Government is considering a variety of options for implementing the recommendations. The Government will respond before the end of the year with more detail.

International response

1.75 Solving the euro area crisis is a necessary condition for restoring confidence, but it is not sufficient on its own to deliver a sustainable global recovery. At the G20 summit in Cannes, world leaders agreed an action plan for growth and jobs, which includes many of the things that the UK is already doing: clear and credible fiscal consolidation; monetary activism; removing barriers to business; and job creation. The action plan also identified a group of countries where, unlike in the UK, public finances remain relatively strong (Australia, Brazil, Canada, China, Germany, Korea and Indonesia) who could take discretionary measures to support domestic demand as appropriate, while maintaining their medium-term fiscal objectives.

1.76 The action plan also agreed to take further steps to resolve the imbalances within and between their economies to support strong, sustainable and balanced growth, including to:

- implement clear, credible and specific measures to achieve fiscal consolidation;
- take further steps towards promoting domestic demand in countries with large current account surpluses; and
- move more rapidly toward market-determined exchange rate systems.

1.77 The G20 committed to implement its financial regulation agreements and agreed a new package of reforms for systemically important financial institutions, in particular introducing increased loss absorbency for globally systemic banks.

1.78 The UK secured an important objective when the G20 critically agreed to halt the slide towards protectionism. It reaffirmed its pledge not to take protectionist actions; committed to roll back any new protectionist measures that may have arisen; and reaffirmed its determination to refrain from competitive devaluation of currencies. The G20 agreed to pursue fresh, credible approaches to furthering negotiations in the Doha Development Round, beginning at the upcoming Ministerial meeting in Geneva. The global challenges to economic prosperity require global solutions. The Government will continue to engage with its international partners to deliver the best outcome for future global prosperity.

European growth agenda

1.79 The European Union (EU) has an important role to play in the UK recovery. Around half of the UK's trade, worth around £450 billion in 2010, is with the other EU countries, helping around 300,000 businesses and, directly and indirectly, accounting for 3.5 million jobs. Increased levels of competition have also benefited businesses and consumers alike — increased levels of innovation have led to higher productivity, lower costs and prices and a greater choice for consumers with a wider diversity of higher quality products now available. As a result, the Department for Business, Innovation and Skills (BIS) estimate that the EU's single market could have boosted household incomes by up to six per cent or £3,300 a family a year.

1.80 While successive liberalisations have delivered an effective EU market in goods, significant barriers to cross border trade in services still exist. Services account for over 70 per cent of GDP, but only 20 per cent of intra-EU trade. The European Commission believes that further progress on services could bring gains of 0.5 to 1 per cent of EU GDP, financial markets 1.1 per cent of GDP and energy 0.6 to 0.8 per cent of GDP.

1.81 The UK has therefore been at the forefront of calling for further action, encouraging the European Commission to focus on measures to boost the single market, support trade with third countries, reduce regulation and boost innovation to deliver growth and jobs.

Building a stronger economy for the future

1.82 In addition to fiscal consolidation and monetary activism, the Government will accelerate its supply side reforms to build a stronger and more balanced economy in the medium term. After a period in which the UK lost ground to the rest of the world, recent evidence suggests that the UK is becoming a more competitive place to do business.¹

1.83 The first phase of the Growth Review, led by the Chancellor of the Exchequer and the Secretary of State for Business, Innovation and Skills, was published alongside Budget 2011 in *The Plan for Growth*.² Work has started on all 137 commitments and substantial progress has been made. Full details on progress have been published alongside the Autumn Statement.³

1.84 This section sets out further reforms the Government is undertaking to achieve each of the four overarching ambitions for the UK economy set out in *The Plan for Growth*:

- encouraging investment and exports as a route to a more balanced economy;
- creating a more educated workforce that is the most flexible in Europe;
- making the UK the best place in Europe to start, finance and grow a business; and
- creating the most competitive tax system in the G20.

1.85 This section also includes details of £6.3 billion, of which £1.3 billion was announced earlier in the autumn, of additional infrastructure spending over the Spending Review 2010 period funded through savings, and around £1 billion of new private sector investment in regulated industries supported by government guarantee.⁴ The full list of over 140 new measures is set out in Annex A.⁵ The Government is also announcing commitments to £5 billion of capital projects in the next Spending Review period, as part of a *National Infrastructure Plan*, and is working with UK pension funds to unlock an additional £20 billion of investment in infrastructure. In total the Autumn Statement supports around £30 billion of new capital investment.

Encouraging investment and exports as a route to a more balanced economy

Infrastructure strategy

1.86 High quality infrastructure is essential if the UK is to remain competitive. After many years of under investment, the UK is perceived poorly in international comparisons of infrastructure quality and in one recent survey was ranked only 28th in the world.⁶

1.87 To make the UK's infrastructure fit for the 21st century, **the Government has published its National Infrastructure Plan 2011 alongside the Autumn Statement.**⁷ The plan brings together the first ever comprehensive cross-sectoral analysis of the UK's infrastructure networks and sets out a pipeline of over 500 infrastructure projects. It commits to clear ambitions to address the key challenges in each major infrastructure sector - energy, transport, telecommunications, water and waste.

1.88 In order to mobilise the finance required to deliver the *National Infrastructure Plan*, **the Autumn Statement announces a new strategy for coordinating public and private**

¹Between 1998 and 2010 the UK fell from 4th to 12th in the World Economic Forum's (WEF) Global Competitiveness Index. Since the beginning of the Parliament, the UK has re-entered the top 10.

²*The Plan for Growth*, HM Treasury and the Department for Business, Innovation and Skills, March 2011.

³Available on the HM Treasury website at www.hm-treasury.gov.uk

⁴Capital value of Network Rail investment, see Table 2.3.

⁵The costs set out in this chapter and Annex A are the whole life costs of each scheme, and do not include the cost of Barnett consequential for the devolved administrations. For these reasons, not all costs will reconcile with Table 2.3, which sets out costs over the Spending Review 2010 period and includes Barnett consequential where appropriate.

⁶World Economic Forum Global Competitiveness Index, 2011.

⁷Available on the HM Treasury website at www.hm-treasury.gov.uk

investment in UK infrastructure. The Government will use all the tools at its disposal to facilitate the private investment that will finance the majority of the UK's infrastructure. The Government will:

- bring new investors into UK infrastructure. **The Government has signed a Memorandum of Understanding with two groups of UK pension funds** (including the National Association of Pension Funds, Pension Protection Fund, and a separate group representing pension plans and infrastructure fund managers) **to support additional investment in UK infrastructure. The Government is also working with the Association of British Insurers to set up an Insurers' Infrastructure Investment Forum. The Government will target up to £20 billion of investment from these initiatives;**
- explore new sources of revenue to support investment. **The Government commits to increasing capacity and improving performance on the A14**, which will support proposed housing developments in Northstowe, Waterbeach and Alconbury. **The Government will explore innovative ways of financing this work, including tolls, which will also be investigated for other new capacity proposals.** By spring 2012, the Government will have developed proposals with local partners for improvements to the A14 road and the other local transport networks;
- allow local authorities more flexibility to support major infrastructure. **The Autumn Statement announces the Government's support for the extension of the Northern Line to Battersea. The Government will consider creating a new Enterprise Zone at Battersea and allowing local borrowing against the Community Infrastructure Levy (CIL) to support this, subject to a commitment by April 2013 from a developer to contribute and develop the site.** As part of its commitment to enable Tax Increment Financing, the Government will also consider allowing city mayors to borrow against future CIL receipts where this can make a significant contribution to national infrastructure; and
- use guarantees when investors cannot accommodate certain risks. **The Government will, subject to affordability, consider using transparent forms of guarantee to support specific projects where this provides best value for money for taxpayers and users**, recognising that the private sector cannot always bear every risk in major new projects. In line with this, the Government recently confirmed its openness in principle to provide contingent financial support for exceptional risks in the construction of the Thames Tideway tunnel.

1.89 The Government is also increasing public investment in infrastructure, and has already announced the £500 million Growing Places local infrastructure fund and £150 million to expand mobile network coverage. As part of the new investment at the Autumn Statement, the Government can also announce major investments in road, rail, and broadband networks.

1.90 The Government will invest over £1 billion (of which around £900 million will be in the Spending Review 2010 period) to tackle areas of congestion and improve the national road network, including:

- **£270 million for two new managed motorway schemes to allow use of the hard shoulder at congested times on the M3 and M6;**
- **£150 million for improvements to the M1/M6 intersection, £110 million for the A14 Kettering Bypass, £160 million for widening the A453 and £110 million for the A45/46 Tollbar End improvement scheme; and**
- **£220 million for smaller projects which will deliver significant improvements on the road network, such as removing bottlenecks and improving safety and road layout.**

1.91 More than £1.4 billion will be invested in railway infrastructure and commuter links, including:

- supporting Network Rail to deliver £290 million to electrify the Transpennine railway route from Manchester to Leeds, and £270 million for a rail link between Oxford and Bedford;
- supporting Network Rail to deliver £390 million of enhancement and renewal works to improve stations and rail infrastructure, improve resilience against extreme weather and tackle problems more quickly;⁸ and
- the Government funding improvements to the quality of travel for rail users, including £45 million to extend smart ticketing across London and the South-East, £80 million to support the Southern Rail franchise's procurement of 130 new carriages, and £290 million to limit the increase to regulated rail and Transport for London fares in January 2012 to the Retail Prices Index (RPI) plus one per cent.

1.92 The Government will commit £170 million of extra funding to allow more local transport projects to go ahead, including the Kingskerswell Bypass in Devon, the Lincoln Eastern Bypass and Manchester Cross City Bus, and will write down £150 million of debt on the Humber Bridge, which will halve the tolls for cars.

1.93 The Government will invest £100 million to create up to ten 'super-connected cities' across the UK, with 80-100 megabits per second broadband and city-wide high-speed mobile connectivity. There will be a particular focus on small and medium-sized enterprises (SMEs) and strategic employment zones to support economic growth. Edinburgh, Belfast, Cardiff and London will all receive support from this fund, and a UK-wide competition will decide up to six further cities that will also receive funding.

1.94 Where appropriate the devolved administrations will receive Barnett consequential to invest in their key infrastructure priorities. In addition, £50 million will be made available to replace the Caledonian Sleeper fleet, to improve on-train facilities. The funding is subject to the Scottish Government agreeing to co-fund the replacement and provide the remainder of the funding. The Government has announced around an additional £100 million for the Scottish Government to enable it to draw down its fossil fuel levy surplus and increase investment on renewable energy in Scotland. The Government will also engage with the Welsh Government on improvements to the M4 in south east Wales.

1.95 *The National Infrastructure Plan* also commits the Government to support the delivery of key infrastructure projects. **The Prime Minister has asked the Chief Secretary to the Treasury to chair a new cabinet committee on infrastructure.** This committee will monitor the delivery of the 40 infrastructure projects and programmes most critical to growth. It will ensure the Government shows decisive leadership in tackling planning and regulatory delays and addressing key commercial and policy issues.

1.96 The Government's focus on delivery has:

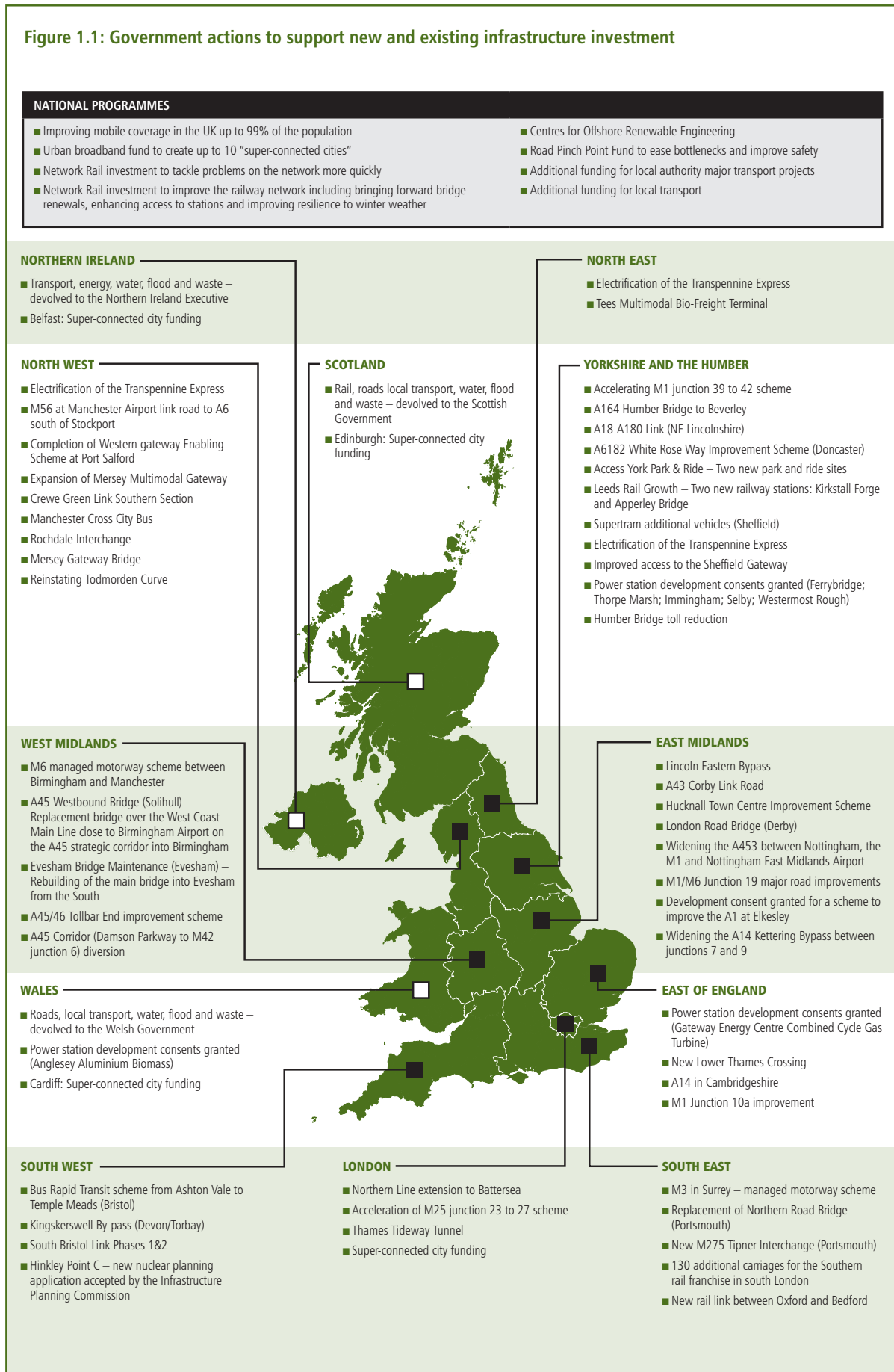
- enabled eight major projects around the country to proceed since summer 2011, including the A1 at Elkesley and seven electricity generation projects that are collectively worth an estimated £4 billion but which were held up by delays in receiving planning approval;
- led to a commitment, announced in the Autumn Statement, to build a new crossing across the Lower Thames, with the Government launching analysis of three options to inform a consultation in 2013. The Government will also explore the options for tackling pressures at Junction 30 of the M25 and on the A13 corridor as part of that analysis; and
- supported the development of the London Gateway port, which is forecast to create 12,000 jobs, by helping the developer identify sufficient traffic management measures that, once formalised, will enable the next phase to proceed within a variation to the existing planning consent.⁹

⁸Costs are the total capital values of schemes that the Government will support Network Rail to deliver. The Government's contributions to payments on the Network Rail Regulated Asset Base over the 2010 Spending Review period are set out in Table 2.3.

⁹Developer's estimates at www.londongateway.com/about-us/key-statistics.

1.97 Figure 1.1 sets out infrastructure projects that will be taken forward across the UK. Further detail on these measures and on progress across all the priority projects and programmes is set out in the *National Infrastructure Plan*.

Figure 1.1: Government actions to support new and existing infrastructure investment



Planning reform

1.98 The Government is also reforming the planning and consenting regime, which can significantly delay infrastructure projects and add to their delivery cost. This has been cited as a key reason for UK infrastructure being more expensive to build than in other European countries.¹⁰ In response to the Penfold Review, the Government will:

- **ensure the key consenting and advisory agencies have a remit to promote sustainable development as soon as the National Planning Policy Framework is finalised.** This will ensure that these bodies consider the impact of their decisions on sustainable economic growth and swiftly approve consents when it is appropriate to do so; and
- **introduce a 13-week maximum timescale for the majority of non-planning consents,** to speed up the consenting process and give certainty to developers. This will take immediate effect for government agencies.

1.99 In addition, the Government will:

- **ensure that there is a more effective mechanism for applicants to obtain an award of costs, if there is an appeal against refusal of a planning permission where a statutory consultee has acted unreasonably,** through measures to be implemented in summer 2012. The Government will also improve the performance of the key statutory consultees in responding swiftly to applications. This will include key statutory bodies bringing forward an improvement plan by spring 2012;
- **build more flexibility into the new major infrastructure planning process, particularly in the pre-application phase,** by summer 2012, as part of a light touch review of the process responding to feedback from users of the regime; and
- **ensure that compliance with the Habitats and Wild Birds Directives does not lead to unnecessary costs and delays to development,** while continuing to support the Directives' objectives. The Government is reviewing the Directives as currently implemented in England by Budget 2012 and is committed to tackling blockages for developments where compliance is particularly complex or has large impacts. In addition, the Government has announced progress on specific projects where compliance has already proved problematic, including Falmouth Harbour.¹¹

1.100 These measures will complement the Government's wider reforms of the planning system. The Government has already made substantial progress through the Localism Act 2011 and the publication of the draft National Planning Policy Framework, which sets out a presumption in favour of sustainable development. Building on these reforms, the Government will:

- **review planning appeals procedures,** seeking to make the process faster and more transparent, improve consistency and increase certainty of decision timescales. Proposals will be brought forward for implementation in summer 2012;
- **consult on a proposal to allow the reconsideration of those planning obligations agreed prior to April 2010 where development is stalled;** and
- **consult on proposals to allow existing agricultural buildings to be used for other business purposes such as offices, leisure and retail space,** to make it easier for rural businesses to find the premises they need to expand.

¹⁰*Infrastructure Cost Review*, HM Treasury, December 2010.

¹¹Details are set out in the *National Infrastructure Plan*.

Housing market

1.101 *Laying the Foundations: A Housing Strategy for England*, published on 21 November 2011, set out a number of actions the Government is taking to increase house building, stabilise the housing market and enable more people to own their own home.¹² The Government will:

- **introduce a new build indemnity scheme to increase the supply of affordable mortgage finance for new build homes.** Under the scheme, home buyers will be able to purchase new build houses and flats with a five per cent deposit. House builders and the Government will help provide security for the loan. The Government will take on a contingent liability which will build up in line with purchases under the scheme, to a maximum of £1 billion. This will help up to 100,000 families and young people to buy their own home;
- **reinvigorate the Right to Buy to support social tenants who aspire to own their own home**, by raising the discounts to make it attractive to tenants across England. For each home purchased, the Government will provide an additional affordable home, in addition to plans to deliver up to 170,000 affordable homes through the new Affordable Homes Programme;
- **launch a new £400 million Get Britain Building investment fund**, which will support firms in need of development finance. This will help to drive progress on stalled sites which have planning permission and are otherwise ready to start. The Government will issue a prospectus to interested developers by the end of the year; and
- **support new development, which could include modern garden cities, urban and village extensions.** The Government will invite proposals from developers and local authorities for new developments which have clear local support.

1.102 The Government is committed, through the Green Deal, to improving the energy efficiency of buildings to benefit energy bill payers and the environment. As additional one-off support for this, delivering the commitment at Budget 2011, **the Government is allocating £200 million to encourage early uptake of the Green Deal in its initial phase over 2012-13 and 2013-14.** Further details will be set out next year and will be subject to state aid considerations.

1.103 The Government is publishing analysis showing that the stamp duty land tax relief for first time buyers has been ineffective in increasing the number of first time buyers entering the market. This relief will therefore end on 24 March 2012 as planned. The Government is instead prioritising more effective measures which provide better value for money as set out above and in *Laying the Foundations: A Housing Strategy for England*.

UK exports

1.104 The Government has introduced a number of measures to promote trade and investment as set out in the Trade and Investment White Paper.¹³ In addition, the Government will:

- **spend £10 million to make available to 500 mid-sized businesses each year the bespoke export support services of UK Trade & Investment (UKTI);**
- **spend £35 million to double, from 25,000 to 50,000, the number of SMEs that UKTI supports each year;**¹⁴

¹²*Laying the Foundations: A Housing Strategy for England*, Department for Communities and Local Government, November 2011.

¹³*Trade and Investment for Growth*, Department for Business, Innovation and Skills, February 2011.

¹⁴*Britain Open for Business*, UKTI's five year strategy, May 2011.

- work through the EU to complete free trade agreements with India, Singapore and Canada in 2012, and make substantial progress towards completing trade agreements with Mercosur, most ASEAN countries and Japan within the next three years; and
- **capitalise on the growth potential of education exports by launching HE Global, an online information and advice portal for higher education (HE) institutions wishing to expand abroad, and developing a vehicle to bring together government, HE and industry expertise to package and sell education offers overseas.**

Energy-intensive manufacturing

1.105 The Government is committed to ensuring that manufacturing is able to remain competitive during the shift to a low carbon economy and to minimising the 'carbon leakage' which might happen if investment relocated abroad. **The Government intends to implement measures to reduce the impact of policy on the costs of electricity for the most electricity-intensive industries, beginning in 2013 and worth around £250 million over the Spending Review period.** As part of this the Government will:

- **compensate key electricity-intensive businesses to help offset the indirect cost of the carbon price floor and the EU Emissions Trading System, subject to state aid guidelines;** and
- **increase the level of relief from the climate change levy on electricity for Climate Change Agreement participants to 90 per cent.**

1.106 The Government will also explore options for reducing the impact of electricity costs on electricity-intensive industries as a result of electricity market reform policies where this has a significant impact on their competitiveness.

Creating a more educated workforce that is the most flexible in Europe

Education and skills

1.107 In order to raise school standards and support areas facing the greatest pressures on school places, the Government will provide an additional £1.2 billion for capital investment in schools in England, including:

- **an extra £600 million to fund 100 additional Free Schools** by the end of this Parliament. This will include new specialist maths Free Schools for 16-18 year olds, supported by strong university maths departments and academics; and
- **an additional £600 million to support those local authorities with the greatest demographic pressures.** This funding is enough to deliver an additional 40,000 school places.

1.108 In order to make the education and skills system more responsive to employer needs, the Government will:

- **enable businesses to design, develop and purchase the vocational training programmes they need through a new £250 million pilot fund.** In early 2012, employers will be invited to bid for a share of the fund;
- **improve the apprenticeships programme and reduce red tape,** including by: requiring all apprenticeships providers to support training in English and maths up to good GCSE standard where not already achieved; ensuring that employers are able to advertise a vacancy within one month of deciding to take on an apprentice and have them ready to start work within three months; and removing all excess health and safety requirements for apprenticeships;

- **increase young people's access to high quality work experience by investing £4.5 million over the next two years to support work experience as part of post-16 programmes of study; work with the Federation of Small Businesses and other employer groups to review regulation impacting on the provision of work experience by the end of December 2011; and publish shortly a guide on work experience; and**
- **support the kite-marking of courses that employers value by science, technology, engineering and maths Sector Skills Councils supported by the Confederation of British Industry.**

Public sector pay

1.109 Public and private sector organisations compete for employees in different markets across the UK. However, while private sector pay is set in accordance with local labour markets, public sector pay is usually set on a national basis. As a result, in many areas, public sector pay does not reflect local labour market conditions. For example, the Institute for Fiscal Studies have found that public sector workers are paid similar wages to private sector workers in some parts of the country, but over 10 per cent more in other locations.¹⁵

1.110 Such differences between public and private sector pay can adversely affect private sector businesses which have to compete with higher public sector wages. It also leads to unfair variations in public sector service quality and limits the number of jobs that the public sector can support. Some public sector organisations, such as Her Majesty's Courts and Tribunals Service, have already successfully taken action to ensure that their pay is in line with local labour markets, but there is the potential for others to take a similar approach. The Autumn Statement therefore announces that:

- **the Government will ask independent Pay Review Bodies to consider how public sector pay can be made more responsive to local labour markets, to report by July 2012; and**
- **the Minister for the Cabinet Office will review how more local, market-facing pay could be introduced in civil service departments.** Secretaries of State may then choose to take forward recommendations for their departments.

Employment regulation

1.111 The Government is committed to making it as easy as possible for people to find work by reducing the burden of complying with employment law. The Government is increasing the qualifying period for unfair dismissal claims from one year to two years from April 2012 to help address employers' fears about the risks of taking on a new member of staff. The Government will also introduce fees for individuals who want to bring cases to employment tribunals and will consult on the level of fees. Potential claimants will be less likely to pursue this option unless the employer has a genuine case to answer.

1.112 The recently announced outcomes of the employment law Red Tape Challenge set out actions to remove barriers to hiring. As part of this the Government will:

- **look for ways to provide a quicker and cheaper alternative to a tribunal hearing in simple cases – a 'Rapid Resolution' scheme;**
- **complete a call for evidence on the effectiveness of the TUPE (Transfer of Undertakings – Protection of Employment) regulations and will consult on proposals for any changes in early 2012;**
- **complete a call for evidence on the impact of reducing the collective redundancy process for redundancies of 100 or more staff from the current 90 days to 60, 45 or 30 days; and**

¹⁵The IFS Green Budget, The Institute for Fiscal Studies, February 2011.

- **begin a call for evidence on two proposals for radical reform of UK employment law. First, the Government will seek views on the introduction of compensated no-fault dismissal for micro-businesses with fewer than 10 employees. Second, the Government will consider how it could move to a simpler, quicker and clearer dismissal process,** potentially including working with the Advisory, Conciliation and Arbitration Service (ACAS) to make changes to their Code or by introducing supplementary guidance for small businesses.

1.113 To ensure effective delivery of its broader deregulatory agenda the Government will:

- **launch a review of regulators to ensure that enforcement arrangements are appropriate, proportionate, fit for purpose and risk-based,** in order to tackle heavy handed, prescriptive and inefficient enforcement, and build on good practice where it exists; and
- **accept the recommendations of Professor Löfstedt's review of health and safety regulation and look to go further as part of the Red Tape Challenge.**

Making the UK the best place in Europe to start, finance and grow a business

Credit easing

1.114 The Government is launching a package of interventions worth up to £21 billion to ease the flow of credit to businesses that do not have ready access to capital markets, with scope to increase the scale of this package in future if necessary.

1.115 The National Loan Guarantee Scheme will lower the cost of bank loans for smaller businesses with turnover of up to £50 million. The Government will allow participating banks to raise up to a total of £20 billion of cheaper funding over the next two years under a government guarantee, provided they pass through this lower cost of funding to smaller businesses. 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 overdrafts, to help increase the supply of credit in the economy. In considering banks' access to the scheme, the Government will take into account banks' commitment to smaller businesses. In order to qualify for the guarantees, banks will have to show that they are passing through the benefit of the guarantee to cheaper loans (as in the European Investment Bank's well-established 'Loans for SMEs' scheme). Firms should be able to apply for these funds through participating banks in the normal way. The scheme will be operational as soon as possible, subject to state aid approval.

1.116 The Government will also help businesses raise funds from non-bank sources by **making available an initial £1 billion through a Business Finance Partnership,** to invest in mid-sized businesses and SMEs in the UK. A number of reports have shown the reliance of these businesses on banks as a source of debt finance.¹⁶ The partnership will initially focus on co-investment with the private sector through loan funds, which will lend directly to mid-sized businesses in the UK. The Government will begin the process of allocating funds early in 2012. The Government will also consider options for investing through other non-bank lending channels, and welcomes proposals. This will help to diversify the sources of finance available to businesses.

1.117 In addition the Government will:

- **extend the Enterprise Finance Guarantee (EFG) from January 2012 to include businesses with up to £44 million annual turnover, and a number of new lenders will be accredited to offer EFG lending;**

¹⁶For example, *Financing a Private Sector Recovery*, HM Treasury and Department for Business, Innovation and Skills, July 2010; *Beyond The Banks*, NESTA, November 2011; and *Future Champions*, Confederation of British Industry, October 2011.

- **amend the regulations for UK covered bonds to provide greater transparency for investors and help banks use covered bonds to raise funding;**
- **establish 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 be led by the Department for Business, Innovation and Skills and will report by Budget 2012;** and
- **continue to work with the British Bankers' Association's (BBA) Business Finance Taskforce.** The Government welcomes the progress the banks have made in delivering their commitments, as well as their intention to continue to take these initiatives forward in future. In particular, the Government welcomes the BBA's intention to work with Community Development Finance Institutions (CDFIs) to put in place a system to refer unsuccessful loan applicants to CDFIs.

1.118 The Government will continue to assess further options to increase the supply of credit to SMEs and mid-sized businesses. Further progress will be announced at Budget 2012.

Financing and growing a business

1.119 To encourage investment in new start-up companies **the Government will launch a new Seed Enterprise Investment Scheme (SEIS) from April 2012**, offering 50 per cent income tax relief on investments, **and will offer a capital gains tax exemption on gains realised in 2012-13 and then invested through SEIS in the same year.** In addition, the Government will simplify and refocus the Enterprise Investment Scheme and Venture Capital Trusts.

1.120 The Government will **extend the current small business rate relief holiday for a further six months from 1 October 2012. The Government will also give businesses the opportunity to defer 60 per cent of the increase in their 2012-13 business rate bills as a result of the RPI uprating, to be repaid equally across the following two years.** The devolved administrations will be provided with Barnett consequentials to facilitate similar action if they choose to.

Regional growth

1.121 The Government is committed to rebalancing investment and growth across the whole of the UK. To support this, the Government will:

- **increase the Regional Growth Fund for England by £1 billion, plus Barnett consequentials for the devolved administrations, and extend it into 2014-15 to provide ongoing support to grow the private sector in areas currently dependent on the public sector.** The Regional Growth Fund has already allocated £1.4 billion to 169 projects supporting an estimated 325,000 jobs;
- **subject to due diligence, expand the existing Enterprise Zone in the North East to include land around the Port of Blyth, encouraging business investment in the renewables industry. The Government will also consider an Enterprise Zone in Battersea linked to the redevelopment of the power station;**
- **make 100 per cent capital allowances available in the following Enterprise Zones: the Black Country; Humber; Liverpool; North Eastern; Sheffield; and Tees Valley;** and
- **approve proposals from the Lancashire and Humber Local Enterprise Partnerships to form Enterprise Zones on and around the BAE Systems' sites in these areas.**

Procurement

1.122 In order to help build capability in strong UK-based supply chains and support SMEs and mid-sized businesses, the Government will:

- introduce a package of measures to deliver better value for the UK from public procurement. Having already published procurement plans for construction, wider infrastructure, information and communication technologies and facilities management, **the Government will publish medium-term plans setting out its procurement needs for other sectors by April 2012.** This will give suppliers the confidence to invest for the future and compete on a level playing field; and
- simplify the procurement process to reduce burdens on industry. **The Government will make better use of pre-procurement dialogue with suppliers** to ensure procurement processes are well designed and quickly carried out. **The Government will complete all but the very biggest and most complex procurement processes within 120 working days by introducing the Lean sourcing process from January 2012.**

Innovation

1.123 The Government will publish its Innovation and Research Strategy shortly to set out how it will support innovation in the UK. The Government is today announcing that it will:

- **invest an additional £75 million in supporting technology-based SMEs to develop, demonstrate and commercialise new products and services;**
- **invest an additional £200 million in science, including an £80 million investment in the Institute for Animal Health and £25 million for large-scale technology demonstrators;** and
- **introduce an 'above the line' tax credit in 2013 to encourage research and development (R&D) activity by larger companies. The Government will consult on the detail at Budget 2012 and will ensure that SME R&D incentives are not reduced as a result of this change.** This builds on measures at Budget 2011 to increase the generosity and accessibility of R&D tax credits for SMEs.

1.124 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 sciences. The strategy will outline how the Government will support the life sciences work of universities, the NHS, private investors and businesses, to attract and develop talent, and improve incentives.

1.125 Making more public sector information available will help catalyse new markets and innovative products and services as well as improving standards and transparency in public services. **The Government will open up access to core public datasets on transport, weather and health, including giving individuals access to their online GP records by the end of this Parliament. The Government will provide up to £10 million over five years to establish an Open Data Institute to help industry exploit the opportunities created through release of this data.**

Creating the most competitive tax system in the G20

1.126 The Government's aim is to create the most competitive tax system in the G20. In the Corporate Tax Road Map the Government set out a series of reforms in a single programme to give certainty to businesses.¹⁷ At Budget 2011 the Government cut the main rate of corporation tax to 26 per cent, and by 2014 it will reach 23 per cent - the lowest rate in the G7 and one of the lowest rates in the G20.

1.127 Following consultation over summer 2011, the Government will publish on 6 December 2011 further details of the Patent Box and of its reform of the Controlled Foreign Company rules and R&D tax credits.

¹⁷*Corporate Tax Reform: delivering a more competitive system*, HM Treasury, November 2010.

Fairness

Overview

1.128 Fairness underpins the Government's plans to protect, rebalance and strengthen the economy. The measures in the Autumn Statement will ensure that households and businesses continue to benefit from low interest rates; that future generations are not burdened with unsustainable debt; and that the country remains protected from the worst of the global crisis.

1.129 The Government is taking further action to help households and businesses cope with higher inflation; to ensure deficit reduction is implemented fairly, with the financial sector paying a fair share; and to support young people in the labour market.

1.130 In line with the child poverty strategy, the Government is taking further action to focus more of its resources on services which enable children to have the best start in life and find a sustainable route out of poverty in the long run.¹

Supporting households and businesses

Council tax

1.131 As announced on 3 October 2011, **the Government has set aside an extra £675 million for local authorities in England who freeze or reduce their council tax in 2012-13. The devolved administrations will receive additional funding in line with this increase based on the Barnett formula.** This will provide households with real help with living costs.

Fuel duty

1.132 Given the current high cost of fuel, to support motorists and businesses, **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, and the inflation increase that was planned for 1 August 2012, currently expected to be worth 1.92ppl,² will be cancelled.** This will ensure that there will only be one RPI increase next year. The 5ppl discount for the Inner and Outer Hebrides, the Northern Isles, the islands in the Clyde and the Isles of Scilly will, in addition, come into force on 1 March 2012. The Government will publish details of the design of the fair fuel stabiliser at Budget 2012.

Rail fares

1.133 The Government recognises the pressures that businesses and passengers are under as a result of public transport fares. **The Government has decided to limit the increase to Transport for London and regulated rail fares to RPI plus one per cent for one year from January 2012.**

Water bills in the South West

1.134 Households in the South West face by far the highest water bills in the country. **The Government has decided to fund South West Water to enable it to cut bills by £50 per year for all household customers.**

¹*A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives*, Department for Work and Pensions and Department for Education, April 2011.

² The estimate is based on the latest OBR RPI forecast for 2012-13 Q3.

Implementing the consolidation

Bank Levy

1.135 The Government will ensure banks continue to make a fair contribution reflecting the risks they pose to the financial system and the wider economy. As set out in Budget 2011, the Government intends that the Bank Levy should raise at least £2½ billion each year, more than the net revenue from the one-off Bank Payroll Tax. To offset the forecast shortfall in receipts for 2011 and future years, **the rate of the Bank Levy will increase to 0.088 per cent from 1 January 2012.**

Employer pension contributions

1.136 The Government is introducing changes to the tax rules to ensure the amount of tax relief given to employers making asset-backed pension contributions to registered pension schemes accurately reflects the amount of payments made, and does not give rise to unintended excess relief.

Air Passenger Duty

1.137 The Government will proceed with the extension of Air Passenger Duty (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.

Capital gains tax

1.138 The Government will freeze the annual exempt amount for capital gains tax at £10,600 for 2012-13.

Benefits and tax credits

1.139 The Government will ensure that the welfare system remains fair and affordable while protecting the most vulnerable in society. Recognising that the benefits system supports the poorest, **most working age and disability benefits will be updated in line with the CPI in 2012-13, an increase of 5.2 per cent.**

1.140 The child element of Child Tax Credit will also be updated in line with CPI, and will rise by £135 per year in 2012-13. Given this higher than expected increase, and the £180 above inflation increase in this element in 2011-12, **the £110 above inflation increase that was planned for 2012-13 will not go ahead.**

1.141 Recognising the additional needs of disabled people, **the disability elements of tax credits will be updated by CPI.** However, to support fiscal consolidation, **the Government will not uprate the couple and lone parent elements of the Working Tax Credit in 2012-13.**

1.142 The Government confirms the basic State Pension will increase by the triple guarantee, as announced in the June 2010 Budget. A full basic State Pension will rise by £5.30 to £107.45 per week in April 2012. The full couple rate for those whose entitlement is based on their spouse's or civil partner's pension will rise by £8.50 to £171.85 per week.

1.143 To ensure that pensioners with the lowest incomes benefit from the triple guarantee, **the standard minimum income guarantee in Pension Credit will increase by 3.9 per cent in April 2012** to £142.70 per week for single pensioners and £217.90 a week for pensioner couples. To limit the spread of means testing up the income distribution for pensioners, **the Government will raise the threshold for Savings Credit in April 2012 to £111.10 for single pensioners and £177.20 for pensioner couples.**

Youth contract

1.144 To ensure that every young person not already in work, education or training has support to get into the workplace, **the Government is introducing the Youth Contract, worth a total of £940 million over the Spending Review period.** The Youth Contract will:

- **provide extra support from Jobcentre Plus for unemployed 18-24 year olds, with additional advisor time and a careers interview from the National Careers Service after three months on Jobseeker's Allowance (JSA), and with weekly, rather than fortnightly, signing for all 18-24 year olds from month five.** This will be more demanding than the current regime; and
- **provide an offer of a work experience or a Sector Based Work Academy place for every unemployed 18-24 year old who wants one after three months on JSA, before they enter the Work Programme.** The Government is providing an additional 250,000 places.

1.145 Those young people still unemployed after nine months on JSA will transfer to the Work Programme. In addition the Youth Contract will:

- **provide funding for an estimated 160,000 wage incentives of £2,275 to make it easier for private sector employers to take on young people;**
- **ensure the funding for at least 40,000 incentive payments for small firms to take on young apprentices; and**
- **fund a new £50 million a year programme to provide support to some of the most disadvantaged 16-17 year olds not in education, employment or training (NEET) across the UK. This will provide vital support to help them to get into education, an apprenticeship or a job with training.**

Social mobility and child poverty

1.146 The Government is committed to tackling the causes of poverty and to ensuring that children born in low income families realise their full potential. Taking account of the uprating measures set out earlier in this section, around 80 per cent of households with children will see their tax credits awards increase at least in line with projected average earnings growth next year.³

1.147 As set out in Budget 2011, the Government has developed improved ways to measure poverty and social mobility. The child poverty strategy sets out a new approach to address the underlying causes of poverty.⁴ The Government will report progress on this in line with the Child Poverty Act 2010. The Government's actions will focus on helping families to find a route out of poverty and targeting investment, for example in early years education and health visitors, to give children the best start in life.

1.148 Consistent with this new approach, **the Government will invest a further £380 million a year by 2014-15 to extend its new offer of 15 hours free education and care a week for disadvantaged two year olds, to cover an extra 130,000 children.** This doubles the offer announced at the Spending Review, reaching around 40 per cent of all two year olds in England by 2014-15. This is in addition to investing over £7 billion in a "Fairness Premium" to support the prospects of children from low income families at every stage of their education – through free education and care at age two, funding for a Pupil

³HMRC analysis using tax credits administrative data.

⁴*A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives*, Department for Work and Pensions and Department for Education, April 2011.

Premium for school age pupils and a new national scholarship fund to support students in higher education.

1.149 Further information on the estimated impact of the Autumn Statement is available in *Impact on households: distributional analysis to accompany the Autumn Statement 2011*.⁵

⁵ Available on the HM Treasury website at www.hm-treasury.gov.uk.

2

Fiscal impact of the Autumn Statement

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.¹

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*.²

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).

¹The 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.

²*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 decisions¹

	Head	£ million						
		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	
Measures announced since Budget 2011								
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
Tax measures								
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
Total tax policy decisions²			-35	-305	+145	+130	+20	+15
Spending measures								
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
Total spending policy decisions			0	+250	-280	+90	+8,290	+15,105
Of which current spending savings								
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	-	-
Of which additional current spending								
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
Of which capital spending								
31	New funding for infrastructure ³	Spend	0	-760	-1,785	-2,145	-	-
32	Reserve reprofiling	Spend	0	+100	+330	+500	-	-
TOTAL POLICY DECISIONS			-35	-55	-135	+220	+8,310	+15,120

¹"neg" Negligible

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

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

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

⁴Details 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
CURRENT EXPENDITURE						
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 depreciation¹</i>	326.0	327.3	330.8	328.1	324.5	323.5
Public sector current expenditure	652.4	666.7	677.7	690.2	701.0	711.9
CAPITAL EXPENDITURE						
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
Public sector gross investment	50.2	47.9	45.4	46.2	45.7	46.8
TOTAL MANAGED EXPENDITURE	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%

¹RDEL 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	
Education					
a 100 new Free Schools, including maths Free Schools	0	0	-355	-355	
b Extra funding for school places	0	-345	-210	-160	
Environment					
c Green Deal incentives	0	-30	-175	0	
Growth					
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	
Housing					
k Growing Places	-500	0	0	0	
l Get Britain Building	0	-310	-185	+50	
m Empty homes	0	0	-25	-25	
Rail					
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	
Rail (contribution to Network Rail Regulated Asset Base)¹					
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
Roads and local transport					
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	
TOTAL INFRASTRUCTURE SPENDING²	-920	-1,070	-2,070	-2,195	
of which financial transactions ³	0	-310	-185	+50	
of which funded from existing allocations	-920	0	-100	-100	
of which new funding⁴	0	-760	-1,785	-2,145	

"neg" Negligible.

¹Costs 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.

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

³As shown in Table 2.4.

⁴As 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^{1, 2}

	£ 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
TOTAL POLICY DECISIONS	0	-460	-585	-300	-40	+50

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

² 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)

A

Supply-side reform of the economy

A.1 Chapter 1 sets out the Government's plan to build a stronger and more balanced economy, and a summary of the key measures the Government is taking to implement this plan. This annex provides further detail, by presenting a brief description of the new supply-side measures the Government is taking to rebalance and strengthen the economy in the medium term.^{1,2}

A.2 The costs set out in this annex are the whole-life costs of each scheme, and do not include the cost of Barnett consequentials for the devolved administrations. For these reasons, not all costs reconcile with those in Chapter 2, which sets out costs over the Spending Review 2010 period and includes Barnett consequentials where appropriate.

Encouraging investment and exports as a route to a more balanced economy

Roads

A.3 A14 immediate investment – The Government will invest £20 million to reduce congestion on the A14 including measures to improve junctions and increase resilience.

A.4 A14 challenge – The Government will examine ways to increase the long-term capacity and performance of the A14 with the launch in early December 2011 of a large-scale engagement programme: 'the A14 Challenge'. By spring 2012, it will have developed and assessed proposals including capacity enhancements on the Fen Ditton to Ellington section of the road. The Government will also look at the scope to relieve congestion by improving other modes including local roads, freight facilities and public transport. It will consider whether improvements can be funded through innovative financing mechanisms including tolling. This work will support the proposed development of new homes in Northstowe, Waterbeach and Alconbury. The Government will also consider tolls to fund other road infrastructure if appropriate.

A.5 A14 Kettering Bypass – The Government will invest £110 million for widening of the A14 Kettering Bypass between Junctions 7 and 9. (aa)

A.6 A45/46 Tollbar End improvement – The Government will invest £110 million for the A45/46 Tollbar End improvement scheme. (v)

A.7 Access to Manchester Airport – The Government will invest approximately £165 million in a new dual carriageway road linking the M56 at Manchester Airport to the A6 south of Stockport. (z)

A.8 A453 widening – The Government will invest £160 million for widening of the A453 between Nottingham, the M1 and East Midlands Airport. (v)

¹Two documents relating to the Government's supply-side reforms have been published near the Autumn Statement: *A Housing Strategy for England*, and the *National Infrastructure Plan*. This annex expands on measures from these two documents mentioned in Chapter 1, but does not duplicate these documents in their entirety.

²The lower-case letters in brackets after some measures refer to the lines in Table 2.3 where the cost for these measures is shown.

A.9 Managed motorway schemes – The Government will invest £270 million for two new managed motorway schemes: to use the hard shoulder to increase capacity on the M3 in Surrey; and the M6 along part of the route between Birmingham and Manchester. (y)

A.10 M25 and M1 junctions – The Government will invest £100 million to accelerate the current major projects planned on the M25 (Junctions 23-27) and the M1 (Junctions 39-42). Together these will deliver 48 miles of additional capacity.³ (ab)

A.11 M1/M6 Junction intersection – The Government will invest £150 million for major road improvements on the M1/M6 Junction intersection. (v)

A.12 Local transport projects – The Government will provide an extra £170 million of funding for local authority major transport projects to enable all the projects in the development pool for the Spending Review 2010 period to go ahead, subject to them passing the Department for Transport assurance process. As of 29 November 2011, 20 individual projects have passed this process including £76 million for the Kingskerswell Bypass in Devon and an additional £50 million on the bypass road to the east of Lincoln.⁴ (x)

A.13 Lower Thames crossing – The Government is committed to building a new crossing across the Lower Thames and has identified three possible locations for a crossing. The Government is launching its analysis of the relative merits of those options to inform a public consultation in 2013, and will be exploring the options for tackling Junction 30 of the M25 and pressures on the A13 corridor.

A.14 A1 Elkesley planning permission – The Government has approved the planning permission for the A1 at Elkesley.

A.15 Road Pinch Point fund – The Government will provide additional funding of £220 million for smaller projects which will ease local bottlenecks and improve safety and road layout. This fund will also invest in driver information, signage and closed-circuit television, to improve incident clear up times and assist road users, particularly road hauliers. (w)

A.16 M4 improvement – The Government will engage with the Welsh Government on improvements to the M4 in South-East Wales.

Public transport⁵

A.17 Northern Line extension – The Government will support the extension of the Northern Line to Battersea. Subject to commitment by April 2013 from a developer to develop the site and make agreed contributions, the Government will consider allowing the Mayor of London and partner authorities to borrow against the Community Infrastructure Levy (CIL) to support this scheme. This has the potential to support an estimated 16,000 new homes and 25,000 new jobs in the area, 28 years after electricity generation there stopped.⁶

A.18 Electrification of the Transpennine Express – The Government will support Network Rail to invest £290 million to electrify the Transpennine railway route from Manchester to Leeds starting next year. Before July 2012, the Government will consider further investment in the Northern Hub. (t)

A.19 East-West rail project – The Government will support Network Rail to develop a £270 million rail link between Oxford and Bedford. Before July 2012, the Government will announce

³Highways Agency calculation.

⁴Details of schemes in each area are published in the *National Infrastructure Plan* with further scheme announcements from Department for Transport due in December 2011.

⁵Costs for paragraphs A.18 to A.21 are the total capital values of schemes that the Government will support Network Rail to deliver. The Government's contribution to payments on the Network Rail Regulated Asset Base over the Spending Review period are set out in Table 2.3.

⁶Developer's estimates are available at: <http://www.battersea-powerstation.com>.

how it will implement this plan subject to support from local contributions, based on a developed business case. (s)

A.20 Reduction of disruption on rail network – The Government will support Network Rail to invest £100 million to tackle local problems on the rail network more quickly. (u)

A.21 Railway improvements – The Government will support Network Rail to invest £290 million to improve the railway network, including bringing forward bridge renewals, enhancing access to stations and improving resilience of the network to extreme winter weather. (r)

A.22 Flexible commuter rail tickets – The Government will invest £45 million to extend flexible smart ticketing across London and the South-East. (p)

A.23 New carriages for the Southern rail franchise – The Government will provide £80 million to support the Southern rail franchise's procurement of 130 new carriages to operate in south London. (n)

A.24 Local transport – The Government will invest an extra £50 million to be distributed to all local transport authorities outside London through the Integrated Transport Block. (ac)

A.25 Low carbon emission buses – The Government will invest £25 million to help bus companies and local authorities in England buy new low carbon buses. (ad)

A.26 Tyne and Wear Metro – The Government will invest £4 million to accelerate the upgrade to the Tyne and Wear Metro. (q)

Communications

A.27 Improving mobile network coverage – As announced on 3 October 2011, the Government will invest up to £150 million to improve the coverage and quality of mobile network services for the five to ten per cent of consumers in areas of the UK where existing mobile network coverage is poor or non-existent, with the aim of extending coverage to 99 per cent of the UK population. The Government will begin procurement by spring 2012 with businesses and consumers benefiting from improved coverage from early 2013 onwards. (f)

A.28 Urban broadband – The Government will establish a new £100 million urban broadband fund that will create up to 10 'super-connected cities' across the UK with 80-100 megabits per second superfast broadband. Belfast, Cardiff, Edinburgh, London and up to six further cities will receive support from the fund over the next three years. The first winning cities will be announced at Budget 2012. (h)

A.29 Digital single market – The Government is making enhancing alternative dispute resolution mechanisms an additional priority in pushing the EU for a digital single market, in order to overcome barriers to e-commerce and the electronic distribution of goods to Europe.

Infrastructure finance

A.30 Pension fund investment – The Government has signed a Memorandum of Understanding with two groups of UK pension funds (including the National Association of Pension Funds, the Pension Protection Fund, and a separate group representing pension plans and infrastructure fund managers) to support additional investment in UK infrastructure. The Government will target up to £20 billion of investment from these initiatives.

A.31 Insurers' Infrastructure Investment Forum – The Government will set up an Insurers' Infrastructure Investment Forum with the Association of British Insurers to explore ways to ensure that the capital markets continue to provide an efficient and attractive source of debt finance for infrastructure projects. This will include addressing the impact of potential regulatory changes in the insurance sector.

A.32 Growing Places fund – As announced on 18 September 2011, the Government has established a £500 million ‘Growing Places’ fund to unblock stalled local infrastructure projects and stimulate further private sector investment. Local areas are already making decisions on how to use their allocation, including a £7 million grant to Sheffield City Region to create a JESSICA fund, leveraging £13 million match funding from the EU.⁷ (k)

A.33 Local authority investment – The Government will consider allowing city mayors and partner local authorities to borrow against the income they receive through the CIL as part of its commitment to deliver tax increment financing (TIF) powers, where they can make a significant contribution to national infrastructure priorities. Further details on using business rates for TIF will be set out in the Local Government Resource Review in December 2011.

A.34 Government guarantee – The Government will, subject to affordability, consider using transparent forms of guarantee to support specific projects where this provides best value for money for taxpayers and users, recognising that the private sector cannot always bear every risk in major new projects.

Logistics

A.35 Major rail freight terminals – The Government has published a Written Ministerial Statement to support the development of, and investment in, strategic rail freight interchanges (SRFIs). This statement is supported by a detailed SRFI guidance document.

A.36 SRFIs: Network Rail support – The Government has asked Network Rail to support the development of a network of SRFIs, working with the wider logistics industry to: speed up the delivery of SRFI sites to meet business demand; assist with funding; and establish appropriate delivery vehicles for rail infrastructure elements of such proposals.

A.37 Strategic Rail Freight Network (SFRN) – The Government will support Network Rail to invest £55 million in the SFRN to help deliver schemes that remove bottlenecks and improve capability and longer-term connectivity to the UK’s major ports. This will include the Ely-Soham doubling scheme to remove a bottleneck on the Felixstowe-Nuneaton route, and gauge clearance of additional rail freight routes in the Midlands between Syston junction and Stoke.

A.38 Long-duration incidents and delays – The Government will deliver the recommendations from the Motorway Incidents Review to ensure it can reduce the frequency of long-duration incidents and delay to heavy goods vehicles (HGVs). This includes a £3 million fund to assist police forces to purchase laser scanning equipment to help speed up the investigation of serious incidents.

A.39 Semi-trailers – As announced on 11 October 2011, the Government will carry out a trial of longer semi-trailers. The trial will commence in January 2012 and last up to 10 years, with the anticipated value of the trial being an estimated £33 million to operators.

A.40 Operator licensing regime – The Government will explore opportunities to support green technologies through changes to the operator licensing regime, to reflect the increased costs to industry from low emission technologies that increase the overall weight of the vehicles.

A.41 Fuel efficiency technologies for the logistics industry – The Government is on 29 November 2011 launching an industry-led task force to promote use of fuel efficient, low emission road freight technologies. This will help to broker successful engagement between industry, Local Enterprise Partnerships (LEPs) and local authorities on trialling and implementing measures that support the use of low emission technologies and behaviours at minimal burden to the industry.

⁷Joint European Support for Sustainable Investment in City Areas.

A.42 HGVs: low emission technology – The Government will invest £8 million to pump prime the procurement of low emission HGV technologies and their supporting infrastructure. The Government will work with the Technology Strategy Board to launch a competition for this funding in March 2012.

A.43 Quiet night time deliveries – The Government will consider the need for further guidance on quiet night time deliveries as part of a forthcoming wider review. The Government will ask the Noise Abatement Society and the Freight Transport Association to: build on the Quiet Deliveries Demonstration Scheme by further developing the existing scheme's best practice guidance into a toolkit that includes standards for quiet night time deliveries; and identify whether further government guidance is needed to promote uptake.

A.44 Inclement weather conditions preparation – The Government will work with others to trial the temporary use of snow ploughs attached to certain types of heavy duty vehicles. Where necessary, the Government will consider relaxing certain weights and dimensions legislation to facilitate this.

A.45 Skills for Logistics – The Government will provide £4 million to Skills for Logistics to improve training approaches to increase the competitiveness and productivity of the logistics sector.

Other infrastructure

A.46 Cabinet committee on infrastructure – The Prime Minister has asked the Chief Secretary to the Treasury to chair a new cabinet committee on infrastructure. This committee will show decisive leadership in tackling planning and regulatory delays and addressing key commercial and policy issues, to support the delivery of the 40 infrastructure projects and programmes most critical to growth.

A.47 Humber Bridge – The Government will write-down £150 million of debt on the Humber Bridge, allowing tolls to fall from £3.00 to £1.50 for cars. Alongside the reduction in tolls the Government expects the Bridge Board and local authorities in the region to agree to a radical reform package for the governance of the bridge.

A.48 Metal theft – The Government will invest £5 million to set up a nationwide taskforce to target metal thieves and scrap metal dealers who illegally trade in stolen metal.

A.49 East London river crossing – The Government will work with the Mayor of London and Transport for London to explore options for proposed additional river crossings, for example at Silvertown.

A.50 Devolved administrations – Where appropriate the devolved administrations will receive Barnett consequential to invest in their key infrastructure priorities. £50 million will be made available to replace the Caledonian Sleeper fleet, to improve on-train facilities and improve cross-border services. This is subject to the Scottish Government agreeing to provide the remainder of the funding. (o)

Planning reform

A.51 Consenting bodies: Penfold Review – The Government will ensure the key consenting and advisory agencies have a remit to promote sustainable development as soon as the National Planning Policy Framework is finalised. The Government will also introduce a 13-week maximum timescale for the majority of non-planning consents, to speed up the consenting process and give certainty to developers. This will take immediate effect for Government agencies.

A.52 Consenting bodies: further measures – The Government will ensure that there is a more effective mechanism for applicants to obtain an award of costs, if there is an appeal against refusal of planning permission where a statutory consultee has acted unreasonably,

through measures to be implemented in summer 2012. The Government will also improve the performance of the key statutory consultees in responding swiftly to applications. This will include key statutory bodies bringing forward an improvement by spring 2012.

A.53 Major infrastructure planning regime – The Government will build more flexibility into the major infrastructure planning regime, particularly in working with developers in the pre-application phase. These improvements will be implemented by summer 2012.

A.54 Habitats Directive – The Government will ensure that compliance with the Habitats and Wild Birds Directives does not lead to unnecessary costs and delays to development, while continuing to support the Directives' objectives. The Government will review the directives as currently implemented in England by Budget 2012 and is committed to tackling blockages for developments where compliance is particularly complex or has large impacts. In addition, the Government has announced progress on specific projects where compliance has already proved problematic, including Falmouth Harbour.

A.55 Planning appeals – The Government will review planning appeals procedures, seeking to make the process faster and more transparent, improve consistency and increase certainty of decision timescales. Proposals will be brought forward for implementation in summer 2012.

A.56 Reconsideration of obligations – The Government will consult on a proposal to allow the reconsideration of those planning obligations agreed prior to April 2010 where development is stalled.

A.57 Agricultural buildings use and planning permission – The Government will consult on proposals to allow existing agricultural buildings to be used for other business purposes such as offices and retail space, to make it easier for rural businesses to find the premises they need to expand.

A.58 Non-domestic micro-generation – The Government will introduce new permitted development rights for non-domestic micro-generation of electricity. This will incentivise the take up of small scale renewable and low carbon energy technologies.

Investment in the housing market

A.59 Affordable mortgage finance – The Government will introduce a new build indemnity scheme to increase the supply of affordable mortgage finance for new build homes. Under the scheme, home buyers will be able to purchase new build houses and flats with a five per cent deposit. House builders and the Government will help provide security for the loan. The Government will take on a contingent liability which will build up in line with purchases under the scheme, to a maximum of £1 billion. This will help up to 100,000 families and young people buy their own home.

A.60 Right to Buy – The Government will raise the discounts for the Right to Buy scheme. For each home purchased, the Government will provide an additional affordable home, in addition to plans to deliver up to 170,000 affordable homes through the new Affordable Homes programme.

A.61 Stalled housing developments – the Government will launch a new £400 million 'Get Britain Building' investment fund, which will support firms in need of development finance. This will help to drive progress on stalled sites which have planning permission and are otherwise ready to start. The Government will issue a prospectus to interested developers by the end of the year. (I)

A.62 Locally planned large scale-development – The Government will support new development, which could include modern garden cities, urban and village extensions. The Government will invite proposals from developers and local authorities for new developments which have clear local support.

A.63 Green Deal – The Government is allocating £200 million of additional one-off capital resource to the Green Deal for energy efficiency in its initial phase over 2012-13 and 2013-14, to encourage early uptake. Further details will be set out next year and any plans will be subject to state aid considerations. (c)

A.64 Empty homes – The Spending Review allocated £100 million to bring problematic empty homes in areas of high demand back into use as affordable housing. The Housing Strategy announced a further £50 million of funds to help tackle some of the worst concentrations of empty homes in areas of low demand.⁸ (m)

Energy-intensive manufacturing

A.65 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.

A.66 Compensation for indirect carbon price floor costs – The Government will provide up to £100 million over the Spending Review period to mitigate the impacts of the carbon price floor on electricity costs to businesses that are electricity intensive and operate in internationally competitive markets from April 2013. 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.

A.67 Compensation for indirect EU Emissions Trading System costs – The Government will provide compensation for the indirect impacts of the EU Emissions Trading System on electricity costs from January 2013 of up to £110 million over the Spending Review period, from existing departmental budgets. Eligibility will be based on EU rules, which are due to be agreed in 2012.

A.68 Electricity market reform and future energy costs – The Government will explore options for reducing the impact of electricity costs arising as a result of electricity market reform policies, including the Feed-in Tariffs, on electricity intensive industries, where this significantly impacts their competitiveness and subject to value for money and state aid considerations.

A.69 Green infrastructure projects – The Government will invest as UK Green Investments (UKGI) in green infrastructure projects from April 2012, ahead of obtaining state aid approval for the Green Investment Bank. Non-domestic energy efficiency will be one of the priority sectors for UKGI, which will make available up to £100 million in the next financial year for commercial and industrial energy efficiency projects.

Creating a more educated workforce that is the most flexible in Europe

Education

A.70 Free Schools – The Government will invest £600 million to fund an estimated 100 additional Free Schools by the end of this Parliament.⁹ This will include new specialist maths Free Schools for 16-18 year olds, supported by strong university maths departments and academics. (a)

A.71 School places – The Government will invest an additional £600 million from 2012-13 to support those local authorities with the greatest demographic pressures. (b)

⁸*Laying the Foundations: A Housing Strategy for England*, Department for Communities and Local Government, November 2011.

⁹Department for Education estimate.

Apprenticeships and vocational qualifications

A.72 Apprenticeships quality – The Government will improve the quality of the apprenticeship programme by:

- requiring all apprenticeships providers to support training in English and maths up to A*-C GCSE standard, where not already achieved;
- launching a further opportunity in 2012 for organisations to bid for funding to extend Higher Apprenticeship provision; and
- conducting an employer-led review into the quality and standards of apprenticeships to report by spring 2012.

A.73 Apprenticeship administration – The Government will ensure that every employer is able to advertise a vacancy within one month of deciding to take on an apprentice, and have them ready to start work within three months, provided that employers play an active role. The Government will also remove all unnecessary health and safety requirements for apprenticeships.

A.74 Ofqual – The Government has welcomed a proposal from Ofqual, the independent regulator of qualifications, to work with the Office of Fair Trading and other bodies to review how well qualifications markets are operating.

Business links in skills

A.75 Employer ownership of skills funding – The Government will route public investment in skills directly to employers to allow them to purchase the vocational training they need through a new pilot fund of up to £250 million. In early 2012, employers will be invited to bid for a share of the fund.

A.76 Destination information publication – The Government will publish destination information at ages 16 and 18 from spring 2013 to encourage schools' focus on young people's future beyond school as well as attainment. The Government recognises the contribution that strong links between schools, colleges, and business can make to outcomes for young people, and will keep the impact of this measure under review and consider stronger incentives if needed.

A.77 Work experience – The Government will invest £4.5 million over the next two years to support work experience as part of post-16 learning; work with the Federation of Small Businesses and other employer groups to review regulation impacting on work experience by the end of December 2011; and publish a guide to address common misconceptions about work experience.

A.78 Course kite-marking – A group of Science, Technology, Engineering and Mathematics (STEM)-focused sector skills councils (the Sector Skills Council for Science, Engineering and Manufacturing Technologies; the Sector Skills Council for Chemicals, Pharmaceuticals, Nuclear, Oil and Gas, Petroleum and Polymer Businesses; and e-skills), with support from the Confederation of British Industry and Skillset, will lead an industry group to kite-mark courses, helping students understand better which courses are valued by employers. The Government will encourage other sector skills councils to do the same. Students will be able to access initial information on employer endorsement as part of the 2012 Key Information Sets.

A.79 Careers information, advice and guidance – The Government will create an improved careers information portal as part of the National Careers Service from April 2012, through which the public can access up to date, employer-sourced information on occupations, progression routes, wages and employment trends. As part of the Youth Contract, an additional £4.2 million over three years will be provided so that the service can provide careers interviews for 18–24 year olds who have been on Jobseeker's Allowance for three months.

A.80 Education export opportunities – The Government will launch HE Global, an online portal providing information and advice to higher education (HE) institutions on expanding abroad. It will also develop a vehicle to bring together government, the HE sector and industry expertise to package and sell education offers overseas.

STEM and literacy

A.81 Science teaching – The Government will invest £10 million over five years from 2013-14 in Project Enthuse, matched by investment from the Wellcome Trust, to improve the quality of science teaching in schools.

A.82 Undergraduate mentoring – The Government will offer undergraduates access to mentoring support drawn from the existing network of STEM Ambassadors to give undergraduates insight into STEM occupations and raise the profile of the STEM sector.

A.83 Literacy and numeracy – The Government will reform adult basic literacy and numeracy provision by piloting a new funding method for the providers of courses, which creates incentives for them to deliver the greatest skills gains for learners on basic skills courses.

Regulation

A.84 Unfair dismissal qualifying period – The Government will increase the qualifying period for unfair dismissal from one year to two years from April 2012.

A.85 Employment tribunal claims – The Government will require all potential claimants to submit their employment tribunal claim to the Advisory, Conciliation and Arbitration Service (ACAS) so that early conciliation can take place.

A.86 Determination of claims – The Government will look at whether and how a ‘Rapid Resolution’ scheme to provide quicker, cheaper determinations in low-value, straightforward claims (such as holiday pay) could be introduced as an alternative to the current employment tribunal process.

A.87 Transfer of Undertakings (Protection of Employment) (TUPE) regulations – The Government has launched a call for evidence on the effectiveness of the TUPE regulations protecting employees’ rights and smoothing the process of business restructuring. Should the balance of evidence call for possible changes to the current regulations, there will be a formal consultation on any proposed changes in 2012.

A.88 Collective redundancy rules – The Government has called for evidence on the collective redundancy rules, including the consequences of reducing the current 90-day consultation period for over 100 redundancies to 60, 45 or 30 days.

A.89 Employment tribunal Rules of Procedure – Mr Justice Underhill will lead a fundamental review of the employment tribunal Rules of Procedure. In the meantime, the Government will change the rules on witness statements and expenses, cost and deposit orders and judges sitting alone in unfair dismissal cases.

A.90 Mediation – The Government will work with industry and key stakeholders to change attitudes to mediation and embed it as an accepted part of the dispute resolution process. As a first step, the Government will explore with large businesses in the retail sector how they might share their mediation expertise with smaller businesses in their supply chain. The Government will also pilot local mediation networks for small and medium-sized enterprises (SMEs).

A.91 Financial penalties – The Government will introduce a provision for employment tribunals to levy a financial penalty on employers found to have breached employment rights (payable to the Exchequer), but will allow judges the discretion about whether to exercise this power to ensure that employers are not penalised for inadvertent errors.

A.92 Compromise agreements – The Government will develop a model agreement for use by smaller businesses, consult on a legislative change to enable compromise agreements to cover all existing and future claims, and rename agreements as ‘settlement agreements’.

A.93 Protected conversations – Subject to consultation, the Government will introduce a system of ‘protected conversations’ which will allow employers to have a conversation about any employment issue with their employees.

A.94 Employment tribunal fees – The Government will shortly publish a consultation on the introduction of fees for anyone wishing to take a claim to an employment tribunal.

A.95 Dismissal processes – The Government will begin a call for evidence on two proposals for radical reform of UK employment law. First, the Government will seek views on the introduction of compensated no-fault dismissal for micro-businesses with fewer than 10 employees. Second, the Government will consider how it could move to a simpler, quicker and clearer dismissal process, potentially including working with ACAS to make changes to their code or by introducing supplementary guidance for small businesses.

A.96 Employment and recruitment sector – The Government will consult in spring 2012 on streamlining the current regulation of the recruitment sector.

A.97 First employee support – The Government will work to remove common misconceptions about the burdens of employing staff for sole traders considering taking on their first employee.

A.98 Agency Workers Directive – The Government will examine the paperwork obligations of the Agency Worker Regulations in 18 months’ time to ensure that the practical arrangements for employers are as simple as possible.

A.99 Whistle blowing loophole – The Government will close a loophole in the Public Interest Disclosure Act 1998, which enables employees to blow the whistle about breaches to their own personal work contract.

A.100 National Minimum Wage (NMW) regulations – The Government will merge the current body of NMW regulations into a single set of consolidated regulation, to complement the work of the Low Pay Commission in considering simplification of the current regime.

A.101 Criminal Records Bureau (CRB) checks – The Government will deliver universal portability of CRB checks with an immediate checking service for employers via an online facility available from 2013.

A.102 The Black/Frost Independent Review of Sickness Absence – The Government will consider the recommendations of the review published on 21 November 2011, and will respond in 2012.

A.103 Implementation of EU Directives – The Government is publishing a report which includes 16 specific cases, highlighted by businesses, for EU regulatory reform to improve UK business growth. These cases reinforce UK aims to reduce the overall EU burden, foster EU innovation, complete the internal market and remove gold-plating. The Government is continuing to work to reduce the burdens imposed by EU regulations. Directives include: the Clinical Trials Directive; Classification Labelling and Packaging of Chemicals; the Working Time Directive; Registration, Evaluation, Authorisation and restriction of Chemicals; proposals related to the Posting of Workers Directive; the Air Quality Directive; National Emissions Ceilings; and the freshwater legislative framework.

A.104 Review of regulators – The Government will: launch a review of regulators; extend the Primary Authority scheme; impose sunset clauses on new regulators; and move towards greater

co-regulation and earned recognition for businesses to ensure that enforcement arrangements are appropriate, proportionate, fit for purpose and risk-based.

A.105 Health and safety regulations – The Government has accepted the recommendations of Professor Löfstedt’s review of health and safety regulation including:

- exempting self-employed people posing no risk to others from health and safety legislation;
- simplifying guidance and codes of practice;
- taking measures to ensure businesses see consistent and predictable regulation across the UK including a power for the Health and Safety Executive (HSE) to direct all local health and safety regulatory activities;
- the HSE taking steps to clarify the legal position of businesses to ensure they are only held accountable for those things they can realistically manage; and
- the HSE negotiating a risk- and evidence-based approach to health and safety regulation with the EU.

Public sector pay

A.106 Pay Review Bodies – The Government will ask the independent Pay Review Bodies to consider how public sector pay can be made more responsive to local labour markets, to report by July 2012. This will apply to all Pay Review Body workforces, with the exception of doctors, dentists, the armed forces and the judiciary.

A.107 Civil service workforces – The Minister for the Cabinet Office will review how more local, market-facing pay could be introduced in civil service departments. Secretaries of State may then choose to take forward recommendations for their departments.

Making the UK the best place in Europe to start, finance and grow a business

Regional rebalancing

A.108 Regional Growth Fund – The Government will increase the Regional Growth Fund for England by £1 billion, plus Barnett consequentials for the devolved administrations, and extend it into 2014-15 to provide ongoing support to grow the private sector in areas currently dependent on the public sector. The Regional Growth Fund has already allocated £1.4 billion to 169 projects supporting an estimated 325,000 jobs.¹⁰ (d)

A.109 Enterprise Zones: 100 per cent enhanced capital allowances – Following applications from LEPs, the Government announces 100 per cent capital allowances will be made available in the Black Country, Humber, Liverpool, North Eastern, Sheffield and Tees Valley Enterprise Zones.

A.110 Enterprise Zones: additional locations – The Government will be approving proposals from the Lancashire and Humber LEPs to form Enterprise Zones, and will consider an Enterprise Zone in Battersea linked to the redevelopment of the power station. Subject to due diligence, the Government will expand the existing Enterprise Zone in the North East to include land around the Port of Blyth, encouraging business investment in the renewables industry. Enterprise Zones are a key part of Government’s commitment to deliver TIF.

¹⁰Department for Business, Innovation and Skills estimate.

A.111 Rural broadband – The Government will support rural broadband by:

- opening the £20 million Rural Community Broadband Fund to help ensure more rural homes and businesses receive superfast broadband. If it is successful the Government will consider extending it;
- working closely with North Yorkshire County Council, one of the pilot areas for superfast broadband rollout, to ensure businesses and consumers get greatest benefit from the new service and to allow other local areas to learn from this experience; and
- considering new approaches to make the roadside telecommunications network available to enable points of access for third party services such as broadband for rural businesses.

A.112 Rural Growth Networks – The Government will provide approximately £15 million to fund up to six pilot Rural Growth Networks to demonstrate how local authorities and LEPs can use the planning regime and targeted infrastructure investment to support economic growth in rural areas. This includes £2 million over the next three years to support rural enterprises led by women, particularly in Rural Growth Networks.

A.113 Farming Regulation Task Force – The Government accepts a number of recommendations of the task force and will:

- consult on exempting organic farmers from regulations controlling the use of nitrate-based fertilisers; and
- recognise third-party certification schemes such as the Red Tractor in its inspection regime to reduce compliance burdens on agricultural businesses.

A.114 Rural Development Programme for England (RDPE) – The Government will invest £100 million from the RDPE to help small businesses improve their skills, facilities and competitiveness.

A.115 Rural tourism – The Government will commit £25 million to promote rural tourism, including a new £10 million fund within the RDPE to develop rural tourism destinations.

A.116 Food and drink – The Government will launch a food and drink export action plan in January 2012, including development of a cross-Government strategy on removing animal health trade barriers in key markets such as China and Russia; regional road-shows for prospective exporters; a food and drink business ambassador; and steps to reduce blockages to UK food exports. In addition a summit will be held in March 2012 to boost innovation in small agri-food businesses.

A.117 Rural Community Renewable Energy Fund – The Government will launch a £15 million Rural Community Renewable Energy Fund to help communities meet the upfront cost of developing renewable projects.

A.118 Rural employment – The Forestry Commission England, working with private companies, will offer 45 training opportunities for new forestry apprentices.

Mid-sized businesses

A.119 Export support – UK Trade & Investment (UKTI) will receive £10 million of additional funding to provide a tailored package of export support to an estimated additional 500 mid-sized businesses per year. UKTI and UK Export Finance will also work with businesses to promote existing trade finance support for mid-sized businesses, to raise awareness of export opportunities. Alongside this, the Government will spend £35 million to double, from 25,000 to 50,000, the number of SMEs that UKTI supports each year.¹¹

¹¹*Britain Open for Business*, UK Trade and Investment, May 2011.

A.120 Support through supply chains – The Government is working with large businesses, including Microsoft, Centrica, and Diageo, to develop new commitments to support and strengthen their supply chains.

A.121 Resource efficiency schemes – The Government will increase by up to 200 the number of mid-sized businesses benefiting from resource efficiency schemes including voluntary agreements, resource efficiency loan funds, supply chain partnerships and access to business support.

A.122 Improving management capability – The Government has established a task force of UK business schools to report by October 2012 on options for improving access to appropriate courses and promoting links between mid-sized businesses, business schools and students.

A.123 Local business networks – The Government has asked a group of eight LEPs to establish a dedicated local pathfinder project to raise the profile of mid-sized businesses, strengthen business networks and encourage peer-to-peer support on issues such as exporting and succession planning.

A.124 Raising the profile of mid-sized businesses – The Government, working with business, will launch a national campaign to showcase mid-sized business and publicise the full range of Government services available.

Public sector procurement

A.125 Visibility and certainty of the pipeline – Building on the publication of forward procurement plans for construction, wider infrastructure, information and communications technology (ICT) and facilities management, the Government will publish medium-term plans setting out its procurement needs for other sectors by April 2012 to give suppliers the confidence to invest for the future and compete on a level playing field.

A.126 Partnership with industry – The Government will make better use of pre-procurement dialogue with suppliers to ensure procurement processes are well designed and quickly carried-out, as well as identifying capability gaps in the supply chain that need to be addressed to meet future demand and taking action to remove barriers to growth.

A.127 Reducing complexity – The Government will introduce a presumption against the use of the competitive dialogue procurement process unless it can be demonstrated that it delivers value for money.

A.128 Lean sourcing – The Government will complete all but the very biggest and most complex procurement processes within 120 working days through introducing the Lean sourcing process from January 2012, and training public sector procurers in application of this new approach.

A.129 Simplifying specifications – Terry Hill (Chair of the Arup Board of Trustees) will lead an industry standards group in the infrastructure sector to examine the simplification of procurement specifications and the removal of unnecessary technical standards, to report back to the Government on initial progress by spring 2012.

A.130 Supporting SMEs – The Government will ensure that the bundling of contract and sub-contract packages in procurement offers enhanced opportunities for SMEs.

A.131 Project Bank Accounts – The Government will extend the use of Project Bank Accounts (currently being piloted on construction projects) as a means of ensuring both certainty and speed of payment to SMEs.

A.132 Simplification of EU legislation – To reduce burdens on business, the Government will negotiate in the EU for a radical simplification of the Public Procurement Directives.

Science and research

A.133 Science investment – The Government will invest an additional £200 million in science, including an £80 million investment in the Institute of Animal Health and £25 million for large-scale technology demonstrators. (e)

A.134 Technology-based SMEs – The Government will invest an additional £75 million in supporting technology-based SMEs to develop, demonstrate and commercialise new products and services. (i)

A.135 National Graphene Institute – On 3 October 2011, the Government announced £50 million of new investment to support the commercialisation of graphene. (j)

A.136 High Performance Computing – On 3 October 2011, the Government provided £145 million to invest in high performance computing to fund software, data storage and wide-bandwidth networks. (g)

Publication of data

A.137 Linking primary and secondary healthcare datasets – The Government will provide a service to link primary and secondary healthcare datasets from September 2012 to reinforce the UK's position as a global centre for research and analytics and boost UK life sciences.

A.138 Publishing prescribing data – The Government will publish further prescribing data by September 2012 and additional health and social care datasets by September 2013 to support health and social care data-based product and analytics markets.

A.139 Train and bus data – The Government will work with the transport industry to make available by April 2012 timetable and real-time train and bus information to support the development of innovative applications to improve passenger journeys.

A.140 Rail fares data – The Government will consult in early 2012, through the Fares and Ticketing Review, on providing open access to rail fares data, giving passengers and business better information and enabling them to make the most cost-effective travel choices.

A.141 Civil Aviation Authority – The Government plans to legislate to give the Civil Aviation Authority the power to publish data on the performance of aviation service providers, to enable users of air freight and passenger services to make the most cost-effective choices.

A.142 Highways and traffic data – The Government will release from March 2012 a range of highways and traffic data, including on road works, to help reduce congestion and enable business to make more predictable travel and logistics decisions.

A.143 Fit note data – The Government will consult on the content of anonymised fit note data to be published from 2012 to drive innovation in the occupational health sector and improve management of sickness absence.

A.144 Universal Credit data – The Government will design the Universal Credit ICT system so that aggregate benefits data can be published during the first year of live running of the system.

A.145 Linking welfare data – The Government will consider opportunities for linking welfare datasets to other government and commercial datasets to increase their value to industry.

A.146 Open Data Institute – The Government will provide up to £10 million over five years, with match-funding from industry and academia, to establish the world's first Open Data Institute to help business exploit the opportunities created by release of public data. (i)

A.147 Releasing reference data – The Government will establish a Data Strategy Board and a Public Data Group that will maximise the value of the data from the Met Office, Ordnance

Survey, the Land Registry and Companies House. It will make available for free a range of core reference datasets from these bodies to support the development of high-value data businesses.

A.148 Personal data – The Government will ensure all NHS patients can access their personal GP records online by the end of this Parliament. The Government will publish a new procurement arrangement for school information and learning services in spring 2012 to improve parents' and pupils' access to education data and increase competition in provision of learning services.

B

Financing

Introduction

B.1 This annex sets out details of the revisions to the Government's financing plans for 2011-12, which were previously set out on 21 April 2011. Further details of the revised financing remit for 2011-12, including progress against the remit to date, is available on the Debt Management Office's (DMO) website at www.dmo.gov.uk.

Financing arithmetic

B.2 As set out in Table 4.25 of the Office for Budget Responsibility's (OBR) November 2011 *Economic and fiscal outlook* (EFO), the revised forecast for the 2011-12 central government net cash requirement (CGNCR) is £135.0 billion, an increase of £14.6 billion from Budget 2011. The relationship between public sector net borrowing (PSNB) and the CGNCR is set out in Chapter 4 of the OBR's November 2011 EFO.

B.3 The net financing requirement (NFR) comprises the CGNCR, plus any financing required for gilt redemptions and for additional Official Reserves, less the net contribution to financing from National Savings and Investments (NS&I). The NFR for 2011-12 is projected to be £178.5 billion. This represents an increase of £13.8 billion on the NFR projected in April 2011. This increase mainly reflects:¹

- an increase in the forecast for the CGNCR in 2011-12 of £14.6 billion, which includes a net increase in financial transactions which do not score to PSNB, worth around £10 billion in total. The most significant of these is an increase of around £6 billion in net lending between central government and the rest of the public sector primarily reflecting revised assumptions about local authority financing of one-off transactions relating to Housing Revenue Account (HRA) reforms. Further detail on these financial transactions is set out in Chapter 4 of the OBR's November 2011 EFO; and
- an increase of £1.0 billion in the forecast net contribution to financing in 2011-12 from NS&I.

Quantity of gilt and Treasury bill sales

B.4 The DMO's financing remit for 2011-12 has been revised to reflect the change in the NFR. Relative to the remit set out in April 2011, gross gilt issuance is projected to rise by £11.4 billion to £178.9 billion and Treasury bill issuance is projected to increase by £2.4 billion, taking the planned end-year Treasury bill stock to £63.2 billion.

¹The revised 2011-12 NFR includes an additional £0.1 billion reflecting a revision to the 2010-11 CGNCR outturn.

B.5 Decisions on the skew of issuance in 2011-12 were set at Budget 2011 with reference to the Government's debt management objective, as set out in the *Debt and reserves management report 2011-12*.² The split of gross gilt issuance by maturity in 2011-12 will remain broadly unchanged. It is anticipated that:

- short maturity conventional gilt issuance will increase by £3.2 billion to £60.6 billion (33.9 per cent of total issuance);
- medium maturity conventional gilt issuance will increase by £5.1 billion to £39.8 billion (22.2 per cent of total issuance);
- long maturity conventional gilt issuance will increase by £2.1 billion to £39.5 billion (22.1 per cent of total issuance); and
- index-linked gilt issuance will increase by £1.0 billion to £39.0 billion (21.8 per cent of total issuance).

Gilt issuance methods

B.6 Auctions will remain the Government's primary method of gilt issuance. The Government will continue to use supplementary methods – syndications and mini-tenders – to issue gilts in the remainder of 2011-12. It is anticipated that for 2011-12 as a whole:

- £141.9 billion (79.3 per cent of total issuance) will be issued by pre-announced auctions;
- £32.7 billion (18.3 per cent of total issuance) will be issued by syndications; and
- £4.3 billion (2.4 per cent of total issuance) will be issued by mini-tenders.

CPI-linked gilts

B.7 The DMO's consultation on the case for issuing gilts linked to the Consumer Prices Index (CPI) closed on 22 September 2011. Views were expressed both for and against CPI-linked gilt issuance. Many of the respondents highlighted some of the potential benefits of CPI-linked gilts but tempered this with uncertainty over the strength and sustainability of demand and/or an appraisal of key risks and other uncertainties. After careful consideration, the Government judges that issuance of CPI-linked gilts in the near-term would be unlikely to be cost-effective and would involve a number of risks, although it is possible that this could change over time.

The Government therefore announces that it will not issue CPI-linked gilts in 2012-13 but will keep the case to issue CPI-linked gilts in the medium term under review. A formal response to the consultation has been published on the DMO's website alongside this document.

² HM Treasury, March 2011

Table B1: Revised financing arithmetic for 2011-12

£ billion	2011-12	
	April 2011 ¹	Autumn Statement
Central government net cash requirement	120.4	135.0
Gilt redemptions	49.0	49.0
Financing for the Official Reserves	6.0	6.0
Buy-backs	0.0	0.0
Planned short-term financing adjustment ²	-8.7	-8.6
Gross financing requirement	166.7	181.4
<i>less:</i>		
National Savings and Investments	2.0	3.0
Net financing requirement	164.7	178.5
Financed by:		
1. Debt issuance by the Debt Management Office (DMO)		
a) Treasury bills	-2.8	-0.4
b) Gilts	167.5	178.9
of which:		
<i>Conventional:</i>		
short	57.4	60.6
medium	34.7	39.8
long	37.4	39.5
<i>Index-linked</i>	38.0	39.0
2. Other planned changes in net short-term debt³		
Change in the Ways & Means Advance	0.0	0.0
3. Changes in net short-term cash position⁴	0.0	0.0
Total financing	164.7	178.5
Short-term debt levels at end of financial year		
Treasury bill stock ⁵	60.8	63.2
Ways and Means Advance	0.4	0.4
DMO net cash position	0.5	0.5

Figures may not sum due to rounding.

¹ Adjusted for restatement of the end 2010-11 Treasury bill stock (£63.6 billion not £64.1 billion).

² To accommodate changes to the current year's financing requirement resulting from: (i) publication of the previous year's CGNCR outturn and subsequent revision from £139.6 billion to £139.7 billion; (ii) an increase in the DMO's cash position; and/or (iii) carry over of unanticipated changes to the cash position from the previous year.

³ Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment; (ii) net Treasury bill sales; and (iii) changes to the level of the Ways and Means Advance.

⁴ The DMO's net short-term cash position at the end of a financial year will also include any impact on financing arising from other activities carried out within government (e.g. issuance of tax instruments, transfers between central government and other sectors, and foreign exchange transactions). A negative (positive) number indicates an addition to (reduction in) the financing requirement for the following financial year.

⁵ The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements.



OBR's Economic and fiscal outlook: selected tables

C.1 The Office for Budget Responsibility has published its November 2011 *Economic and fiscal outlook* alongside the Autumn Statement 2011. This Annex reproduces the OBR's key projections for the economy and public finances. Further details and explanations can be found in their report.

Table C.1: Detailed summary of OBR central economic forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2010	2011	2012	2013	2014	2015	2016
World economy							
World GDP at purchasing power parity	5.1	3.8	3.5	4.4	4.7	4.8	4.9
Euro Area GDP	1.7	1.6	0.5	1.6	1.9	1.8	1.7
World trade in goods and services	12.2	6.6	5.0	7.1	7.1	6.9	7.0
UK export markets ¹	11.5	6.1	3.7	6.8	6.3	5.8	5.9
UK economy							
Gross domestic product (GDP)	1.8	0.9	0.7	2.1	2.7	3.0	3.0
Expenditure components of GDP							
Domestic demand	2.7	-0.5	0.3	1.5	2.4	2.8	2.9
Household consumption ²	1.1	-1.1	0.2	1.2	2.2	2.7	2.9
General government consumption	1.5	2.2	-0.1	-1.6	-2.3	-3.2	-3.5
Fixed investment	2.6	-2.1	3.5	7.4	8.5	10.0	9.5
Business	0.8	-0.8	7.7	8.9	9.4	12.6	12.4
General government	2.8	-6.8	-9.4	-4.2	-0.1	-1.1	-2.3
Private dwellings ³	6.4	-1.5	2.5	9.9	10.5	9.0	7.5
Change in inventories ⁴	1.3	0.0	-0.3	0.0	0.1	0.0	0.0
Exports of goods and services	6.2	4.0	3.1	5.8	5.6	5.4	5.1
Imports of goods and services	8.5	0.1	1.8	3.8	4.4	4.6	4.7
Balance of payments current account							
£ billion	-37	-32	-36	-25	-23	-22	-22
Per cent of GDP	-2.5	-2.1	-2.3	-1.6	-1.3	-1.2	-1.1
Inflation							
CPI	3.3	4.5	2.7	2.1	2.0	2.0	2.0
RPI	4.6	5.2	3.3	2.9	3.1	3.6	3.8
Terms of trade ⁵	-0.2	-1.5	-0.6	-0.1	-0.1	-0.1	-0.2
GDP deflator at market prices	2.9	2.5	2.8	2.5	2.5	2.5	2.5
Labour market							
Employment (millions)	29.0	29.2	29.1	29.2	29.4	29.7	30.0
Wages and salaries	1.9	1.4	1.8	3.5	5.1	5.5	5.6
Average earnings ⁶	2.1	0.9	2.0	3.1	4.3	4.5	4.5
ILO unemployment (% rate)	7.9	8.1	8.7	8.6	8.0	7.2	6.2
Claimant count (millions)	1.50	1.54	1.75	1.77	1.67	1.45	1.23
Household sector							
Real household disposable income	0.1	-2.3	-0.3	0.9	2.0	2.5	2.5
Saving ratio (level, per cent)	7.5	6.7	6.5	6.2	6.1	6.0	5.7
House prices	7.2	-0.9	-0.2	1.9	4.3	4.5	4.5
Nominal indicators							
Nominal GDP	4.6	3.4	3.5	4.6	5.3	5.6	5.6
Non-oil PNFC profits ⁷	1.5	7.6	3.4	6.2	9.4	9.4	9.3

¹ Other countries' imports of goods and services weighted according to the importance of those countries in the UK's total exports

² Includes households and non-profit institutions serving households

³ Includes transfer costs of non-produced assets, which were excluded in previous forecasts

⁴ Contribution to GDP growth, percentage points

⁵ Ratio of export to import prices

⁶ Wages and salaries divided by employees

⁷ Private non-oil non-financial corporations' gross trading profits

Table C.2: Determinants of the OBR central fiscal forecast

	Percentage change on previous year unless otherwise specified						
	Outturn	Forecast					
	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
GDP and its components							
Real GDP	1.9	0.6	0.9	2.4	2.8	3.1	3.0
Nominal GDP (£ billion) ¹	1,477	1,521	1,577	1,654	1,743	1,842	1,945
Nominal GDP ¹	5.4	3.0	3.7	4.9	5.4	5.6	5.6
Nominal GDP (centred end–March)	4.1	3.4	4.3	5.2	5.5	5.6	5.6
Wages and salaries ²	1.3	1.6	2.0	4.1	5.2	5.6	5.6
Non–oil PNFC profits ^{2,3}	1.5	7.6	3.4	6.2	9.4	9.4	9.3
Consumer spending ^{2,3}	4.9	3.4	3.2	3.8	4.8	5.3	5.5
Prices and earnings							
GDP deflator	2.8	2.6	2.7	2.5	2.5	2.5	2.5
RPI (September)	4.6	5.6	3.1	2.9	3.1	3.6	3.9
CPI (September)	3.1	5.2	2.5	2.1	2.0	2.0	2.0
Whole economy earnings growth	0.6	1.7	2.1	3.5	4.4	4.5	4.5
Key fiscal determinants							
Claimant count unemployment (millions) ⁴	1.47	1.60	1.78	1.75	1.63	1.39	1.19
Employment (millions)	29.1	29.1	29.1	29.3	29.5	29.8	30.1
VAT gap (per cent)	9.7	9.8	9.8	9.7	9.8	9.8	9.8
<i>Financial and property sectors</i>							
Equity prices (FTSE All–share index)	2,885	2,850	2,904	3,047	3,211	3,392	3,582
HMRC financial sector profits ^{1,3,5}	4.0	–10.0	4.1	6.8	5.3	3.9	3.4
Residential property prices ⁶	5.3	–0.9	–0.1	2.7	4.4	4.5	4.5
Residential property transactions	–1.8	–3.0	1.5	20.7	15.6	7.4	6.2
Commercial property prices ⁷	0.1	4.7	1.1	3.6	5.4	5.9	5.4
Commercial property transactions ⁷	8.5	–4.7	3.7	3.7	5.7	6.4	6.2
Volume of share transactions	–8.8	–7.7	1.9	2.4	2.8	3.1	3.0
<i>Oil and gas</i>							
Oil prices (\$ per barrel) ³	80	111	105	101	97	94	91
Oil prices (£ per barrel) ³	52.0	68.3	64.5	61.8	59.1	57.1	55.8
Gas prices (p/therm)	43.4	59.9	60.4	61.1	60.6	58.6	57.3
Oil production (million tonnes) ^{3,8}	63.0	53.3	53.3	51.2	49.5	47.6	46.0
Gas production (billion therms) ^{3,8}	20.6	16.1	16.8	16.1	15.5	14.9	14.4
<i>Interest rates and exchange rates</i>							
Market short-term interest rates (per cent) ⁹	0.7	0.9	0.9	1.0	1.5	2.1	2.7
Market gilt rates (per cent) ¹⁰	2.8	2.3	2.6	2.9	3.2	3.4	3.6
Euro/Sterling exchange rate	1.18	1.13	1.13	1.14	1.14	1.14	1.14

¹ Not seasonally adjusted

² Nominal

³ Calendar year

⁴ UK seasonally-adjusted claimant count

⁵ HMRC Gross Case 1 trading profits

⁶ Outturn data from Communities and Local Government (CLG) property prices index

⁷ Outturn data from HMRC information on stamp duty land tax

⁸ DECC forecasts from 2012 available at www.og.decc.gov.uk

⁹ 3-month sterling interbank rate (LIBOR)

¹⁰ Weighted average interest rate on conventional gilts

Table C.3: Current receipts: OBR forecast

	£ billion						
	Outturn	Forecast					
	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Income tax (gross of tax credits) ¹	153.2	155.5	159.8	170.3	181.7	194.8	208.3
<i>of which: Pay as you earn</i>	130.5	132.1	134.5	142.8	152.7	163.9	175.9
<i>Self assessment</i>	22.1	23.8	25.8	26.7	28.3	30.4	31.7
Tax credits (negative income tax)	-5.5	-4.8	-4.2	-4.3	-4.3	-4.3	-4.2
National insurance contributions	97.7	102.4	106.2	110.6	117.0	124.5	132.4
Value added tax	86.2	97.1	100.2	104.1	108.8	113.6	118.6
Corporation tax ²	43.0	44.1	43.6	43.1	43.8	44.9	48.6
<i>of which: Onshore</i>	35.7	34.7	34.9	35.3	36.7	38.9	42.3
<i>Offshore</i>	7.3	9.4	8.7	7.8	7.2	6.0	6.3
Corporation tax credits ³	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0	-1.1
Petroleum revenue tax	1.5	1.8	1.7	1.6	1.5	1.2	1.0
Fuel duties	27.3	27.0	27.3	28.4	29.4	30.7	31.9
Business rates	23.6	24.5	26.3	28.0	29.1	29.5	31.1
Council tax	25.7	25.9	26.1	27.6	28.7	29.8	31.0
VAT refunds	13.3	14.0	14.5	14.5	14.3	13.9	13.6
Capital gains tax	3.6	4.6	4.1	4.4	5.2	6.1	7.0
Inheritance tax	2.7	2.9	2.9	3.0	3.1	3.3	3.5
Stamp duty land tax	6.0	6.0	6.4	7.5	9.0	10.2	11.4
Stamp taxes on shares	3.0	3.0	3.1	3.3	3.5	3.8	4.1
Tobacco duties	9.1	9.6	9.8	10.0	10.1	10.3	10.6
Spirits duties	2.7	2.8	2.9	3.0	3.2	3.3	3.5
Wine duties	3.1	3.3	3.6	3.9	4.2	4.5	4.9
Beer and cider duties	3.7	3.8	3.9	3.9	4.0	4.0	4.1
Air passenger duty	2.2	2.6	2.8	2.9	3.2	3.4	3.8
Insurance premium tax	2.5	2.9	2.9	3.0	3.0	3.1	3.2
Climate Change Levy	0.7	0.7	0.8	1.4	1.8	2.1	2.5
Other HMRC taxes ⁴	5.9	6.1	6.4	6.7	7.0	7.2	7.5
Vehicle excise duties	5.8	5.8	5.9	5.9	5.9	5.9	5.9
Temporary bank payroll tax	3.5	0.0	0.0	0.0	0.0	0.0	0.0
Bank levy	0.0	2.1	2.7	2.7	2.8	2.8	2.9
Licence fee receipts	3.1	3.1	3.1	3.2	3.2	3.2	3.2
Environmental levies	0.5	1.7	2.0	2.6	2.9	3.2	3.6
EU ETS Auction Receipts	0.0	0.3	0.7	1.8	1.9	1.9	2.0
Other taxes	6.0	6.4	6.8	6.9	7.4	7.4	7.4
National Accounts taxes	528.9	554.1	571.3	599.0	630.5	663.6	702.4
<i>Less own resources contribution to</i>							
EU budget	-5.3	-5.3	-5.6	-5.9	-6.2	-6.4	-6.7
Interest and dividends	2.4	3.1	4.2	5.1	6.8	9.0	11.3
Gross operating surplus	25.1	24.4	25.5	26.4	27.4	28.3	29.3
Other receipts	0.2	-0.8	-0.9	-1.0	-1.0	-1.1	-1.1
Current receipts	551.4	575.5	594.4	623.6	657.4	693.5	735.2
<i>Memo:</i>							
UK oil and gas revenues ⁵	8.8	11.1	10.5	9.4	8.7	7.2	7.3

¹ Income tax includes PAYE and Self Assessment and also includes tax on savings income and other minor components.

² National Accounts measure, gross of enhanced and payable tax credits

³ Includes enhanced company tax credits

⁴ Consists of landfill tax, aggregates levy, betting and gaming duties and customs duties and levies.

⁵ Consists of offshore corporation tax and petroleum revenue tax.

Table C.4: Total managed expenditure: OBR forecast

	£ billion						
	Outturn	Forecast					
	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Public sector current expenditure (PSCE)							
PSCE in RDEL¹	326.3	326.7	328.2	330.9	329.7	326.1	325.2
PSCE in Annually Managed Expenditure	303.2	325.7	338.5	346.8	360.5	374.8	386.7
<i>of which:</i>							
Social security benefits ²	168.5	175.0	182.8	183.6	187.6	193.1	198.3
Tax credits ²	25.2	27.0	27.8	28.4	28.8	29.6	30.3
Net public service pension payments	5.6	8.4	9.9	10.5	11.6	12.5	13.5
<i>of which: CG unfunded pension schemes</i>	<i>4.5</i>	<i>7.0</i>	<i>8.4</i>	<i>8.9</i>	<i>10.0</i>	<i>11.0</i>	<i>12.0</i>
<i> LG police and fire pension schemes</i>	<i>1.1</i>	<i>1.4</i>	<i>1.5</i>	<i>1.6</i>	<i>1.6</i>	<i>1.6</i>	<i>1.6</i>
National lottery current grants	0.8	0.9	0.9	0.9	0.9	1.0	1.1
BBC domestic services current expenditure	3.4	3.7	3.5	3.4	3.7	3.6	3.7
Fees associated with financial interventions	-2.5	-2.2	-0.7	-0.3	-0.2	0.0	0.0
Other PSCE items in departmental AME	0.3	0.6	0.8	0.6	0.4	0.5	0.5
Expenditure transfers to EU institutions	6.8	5.5	6.5	7.0	7.8	7.0	6.1
Locally-financed current expenditure	22.4	26.2	26.8	28.1	29.1	30.0	30.6
Central government gross debt interest	42.8	47.6	47.1	50.5	56.1	61.7	65.5
Depreciation	15.2	16.3	17.1	17.8	18.5	19.2	19.8
Current VAT refunds	11.2	11.7	12.3	12.6	12.4	12.0	11.8
Single use military expenditure	5.4	6.4	5.8	5.7	5.2	5.4	5.7
Environmental levies	0.6	1.0	1.4	1.8	2.2	2.6	3.3
Other National Accounts adjustments	-2.5	-2.4	-3.8	-3.7	-3.6	-3.4	-3.4
Total public sector current expenditure	629.5	652.4	666.7	677.7	690.2	701.0	711.9
Public sector gross investment (PSGI)							
PSGI in CDEL	43.9	36.7	35.7	34.0	35.6	35.8	37.3
PSGI in Annually Managed Expenditure	15.1	13.4	12.1	11.4	10.6	9.8	9.5
<i>of which:</i>							
National lottery capital grants	0.4	0.5	0.6	0.6	0.6	0.6	0.6
Other PSGI items in departmental AME	0.5	-8.3	0.0	0.4	0.4	0.4	0.4
Locally-financed capital expenditure	6.5	14.2	4.9	4.5	4.1	3.3	3.0
Public corporations capital expenditure	8.0	8.3	8.0	8.0	7.8	7.8	7.7
Other National Accounts adjustments	-0.2	-1.4	-1.4	-2.1	-2.2	-2.3	-2.3
Total public sector gross investment	59.0	50.2	47.9	45.4	46.2	45.7	46.8
<i>Less depreciation</i>	<i>-20.4</i>	<i>-21.5</i>	<i>-22.6</i>	<i>-23.5</i>	<i>-24.4</i>	<i>-25.2</i>	<i>-26.1</i>
Public sector net investment	38.6	28.6	25.2	21.9	21.8	20.4	20.7
Total managed expenditure³	688.5	702.6	714.5	723.1	736.4	746.6	758.7

¹ Implied DEL numbers for 2015–16 and 2016–17. Calculated as the difference between Resource AME and PSCE in the case of Resource DEL, and between Capital AME and PSGI in the case of capital DEL.

² For 2010–11 to 2014–15, child allowances in income support and jobseeker's allowance have been included in tax credits and excluded from social security benefits.

³ TME is equal to the sum of PSCE, PSNI and public sector depreciation, on a basis which excludes temporary effects of financial interventions.

Table C.5: OBR forecast of the components of net borrowing

	£ billion						
	Outturn	Forecast					
	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Current budget							
Current receipts	551.4	575	594	624	657	693	735
Current expenditure	629.5	652	667	678	690	701	712
Depreciation	20.4	22	23	24	24	25	26
Surplus on current budget	-98.4	-99	-95	-78	-57	-33	-3
Capital budget							
Gross investment ¹	59.0	50	48	45	46	46	47
Less Depreciation	-20.4	-22	-23	-24	-24	-25	-26
Net investment	38.6	29	25	22	22	20	21
Net borrowing	137.1	127	120	100	79	53	24

¹ Net of asset sales

Table C.6: OBR forecast of the fiscal aggregates

	Per cent of GDP						
	Outturn	Forecast					
		2010–11	2011–12	2012–13	2013–14	2014–15	2015–16
Receipts and expenditure							
Public sector current receipts (a)	37.3	37.8	37.7	37.7	37.7	37.7	37.8
Total managed expenditure (b)	46.6	46.2	45.3	43.7	42.2	40.5	39.0
of which: PSCE (c)	42.6	42.9	42.3	41.0	39.6	38.1	36.6
PSNI (d)	2.6	1.9	1.6	1.3	1.3	1.1	1.1
Depreciation (e)	1.4	1.4	1.4	1.4	1.4	1.4	1.3
Deficit							
Public sector net borrowing (b-a)	9.3	8.4	7.6	6.0	4.5	2.9	1.2
Surplus on current budget (a-c-e)	-6.7	-6.5	-6.0	-4.7	-3.3	-1.8	-0.1
Cyclically-adjusted net borrowing	7.1	6.4	5.5	4.0	2.8	1.7	0.6
Primary balance	-6.5	-5.4	-4.9	-3.2	-1.7	0.0	1.6
Fiscal mandate and supplementary target							
Cyclically-adjusted surplus on current budget	-4.5	-4.6	-3.9	-2.7	-1.6	-0.6	0.5
Public sector net debt ¹	60.5	67.5	73.3	76.6	78.0	77.7	75.8
Financing							
Central government net cash requirement	9.5	8.9	8.2	7.1	4.9	3.4	2.2
Public sector net cash requirement	9.4	8.9	8.3	7.0	5.0	3.2	2.1
Stability and Growth Pact							
Treaty deficit ³	9.5	8.4	7.6	6.1	4.6	3.0	1.3
Cyclically-adjusted Treaty deficit ²	7.3	6.4	5.5	4.0	2.9	1.8	0.7
Treaty debt ratio ³	76.5	84.2	90.1	93.1	93.9	92.6	89.7
£ billion							
Surplus on current budget	-98.4	-99	-95	-78	-57	-33	-3
Net investment	38.6	29	25	22	22	20	21
Public sector net borrowing	137.1	127	120	100	79	53	24
Central government net cash requirement	139.7	135	130	117	85	62	43
Public sector net debt	905.3	1,044	1,182	1,300	1,397	1,470	1,515
<i>Memo: Output gap (per cent of GDP)</i>	-2.8	-2.8	-3.1	-2.8	-2.3	-1.5	-0.7

¹ Debt at end March; GDP centred on end March

² General government net borrowing on a Maastricht basis

³ General government gross debt on a Maastricht basis

Table C.7: Changes to the OBR fiscal forecast

	£ billion					
	Outturn	Forecast				
	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16
Surplus on current budget						
June 2010 forecast	-110.2	-88	-65	-40	-17	0
March 2011 forecast	-104.8	-90	-73	-46	-22	-5
<i>Change</i>	6.4	-9	-22	-32	-35	-28
November 2011 forecast	-98.4	-99	-95	-78	-57	-33
Net investment						
June 2010 forecast	38.9	27	24	20	21	21
March 2011 forecast	41.1	32	28	24	24	25
<i>Change</i>	-2.4	-3	-3	-2	-2	-4
November 2011 forecast	38.6	29	25	22	22	20
Net borrowing						
June 2010 forecast	149.1	116	89	60	37	20
March 2011 forecast	145.9	122	101	70	46	29
<i>Change</i>	-8.8	5	20	30	33	24
November 2011 forecast	137.1	127	120	100	79	53
Per cent of GDP						
Net borrowing						
June 2010 forecast	10.1	7.5	5.5	3.5	2.1	1.1
March 2011 forecast	9.9	7.9	6.2	4.1	2.5	1.5
<i>Change</i>	-0.6	0.5	1.4	1.9	2.0	1.4
November 2011 forecast	9.3	8.4	7.6	6.0	4.5	2.9
Cyclically-adjusted surplus on current budget						
June 2010 forecast	-4.8	-3.2	-1.9	-0.7	0.3	0.8
March 2011 forecast	-4.6	-3.2	-2.0	-0.6	0.4	0.8
<i>Change</i>	0.1	-1.4	-1.9	-2.1	-2.0	-1.4
November 2011 forecast	-4.5	-4.6	-3.9	-2.7	-1.6	-0.6
Cyclically-adjusted net borrowing						
June 2010 forecast	7.4	5.0	3.4	1.8	0.8	0.3
March 2011 forecast	7.4	5.3	3.7	2.0	1.0	0.5
<i>Change</i>	-0.3	1.2	1.8	2.0	1.9	1.2
November 2011 forecast	7.1	6.4	5.5	4.0	2.8	1.7
Net debt¹						
June 2010 forecast	61.9	67.2	69.8	70.3	69.4	67.4
March 2011 forecast	60.3	66.1	69.7	70.9	70.5	69.1
<i>Change</i>	0.2	1.4	3.6	5.7	7.5	8.6
November 2011 forecast	60.5	67.5	73.3	76.6	78.0	77.7

¹ Debt at end March; GDP centred on end March.

Table C.8: Reconciliation of OBR forecast of PSNB and CGNCR

	£ billion						
	Outturn	Forecast					
	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
Public sector net borrowing	137.1	127	120	100	79	53	24
Financial transactions	5.9	8	11	13	13	14	15
Accruals adjustments	–4.0	1	–1	4	–5	–8	1
Public sector net cash requirement	138.9	136	130	116	86	60	40
<i>minus</i> Local authorities net cash requirement	0.8	9	–2	–3	–4	–5	–6
<i>minus</i> Public corporations net cash requirement	0.4	2	4	4	7	4	5
Central government net cash requirement own account	137.7	125	128	115	83	60	42
Net lending within the public sector	1.9	10	2	2	2	2	2
Central government net cash requirement	139.7	135	130	117	85	62	43

D

Data sources

D.1 This annex provides details of sources of data in all the tables, charts and graphs in the Autumn Statement. In addition it includes some details of sources for data included in the text where for reasons of space it has not been possible to footnote those sources.

D.2 This annex ensures that the Treasury meets the standards set out by the UK Statistics Authority to comply with the Statistics and Registration Service Act 2007. In particular, this document aims to meet two of the requirements of the UK Statistics Authority's *Code of Practice for Official Statistics*:

- to clearly distinguish between outturn data that are official statistics, and outturn estimates that are not published as official statistics.¹ Examples of estimates that are not official statistics include, for instance, economic estimates calculated by the Treasury, which are constructed using assumptions, or judgements, or results of economic analyses that have a material effect on the resulting estimates;
- for outturn data that are official statistics, to show where the source data and further information on those statistics can be found, ensuring that all the official statistics used in the Autumn Statement are robust and are published in an orderly and pre-announced manner. Where possible, sources are shown that are National Statistics.²

D.3 Full details of sources are only provided for outturn data up to 2010-11. Data for the 2011-12 year are a mixture of provisional outturn for the year to date, estimates and projections. Data for future years are forecasts. All of these projections and forecasts are outside the domain of official statistics, as are the estimates of the impacts of government measures or policy decisions, in that these are estimated, rather than measured or compiled using statistical processes.

D.4 Time series for data that are shown with Office of National Statistics (ONS) source codes can be downloaded from the ONS website at: www.statistics.gov.uk/statbase/tsdintro.asp.

¹The 'official statistics' label refers to a specified subset of the quantitative information produced by the Government and its nominated agents. Official statistics are produced and published in accordance with the provisions set out in the Statistics and Registration Service Act 2007 and in supplementary statistical legislation, and in line with the *Code of Practice for Official Statistics*.

²The 'National Statistics' label applies to a distinct subset of official statistics which have been formally certified by the UK Statistics Authority to be compliant with the professional standards set out in the code. Public bodies that produce National Statistics have a statutory duty to continue to comply with the code.

Data in table, chart or graph	ONS source code (if applicable)	Data Source	Further reference information
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Executive Summary: Summary of Autumn Statement policy decisions

Autumn Statement 2011 policy costings

These projections are calculated from economic estimates, detailed costing models, and include numerous assumptions that have a material impact, and are therefore outside the domain of official statistics.

Chapter 1, Paragraphs 1.11 and 1.12

Real GDP growth	ABMI	ONS	<i>UK Economic Accounts 2nd quarter 2011</i> , available at: http://www.ons.gov.uk/ons/rel/naa2/quarterly-national-accounts/q2-2011/stb---qna-2011-q2.html .
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Chart 1.1: Brent oil price

Brent oil price, US dollar	Ecwin codes: com20440, com20445	Ecwin	Brent crude oil averaged \$80 in 2010. If the oil price remains at its current November level for the remainder of the year, the average price of Brent oil in 2011 would be \$112. This would represent a 40 per cent increase compared with 2010.
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Paragraph 1.19

Proportion of trade with Europe	GCQ8, KTMW	UK Balance of Payments (National Statistics)	<i>UK Balance of Payments, Pink Book 2011</i> , Table 9.3, available at http://www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2011/tsd-pink-book-2011-time-series.html .
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Chart 1.2: Growth in the financial and non-financial sectors

Whole economy GVA (£m CVM, reference year 2008), Index of financial and insurance activities GVA (CVM, reference year 2008)	ABMM, L2O6	ONS	2008 weight of financial and insurance activities in total Gross Value Added (GVA) is available in Table 2.4 of the UK National Accounts Blue Book 2011.
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Chart 1.3: Trend output projections

Budget 2008, June Budget 2010 and Autumn Statement 2011 trend output derived from respective output gap assumptions.	KLS2	ONS, Office for Budget Responsibility (OBR), HM Treasury	Respective output gaps are used to derive a level of trend output relative to the latest ONS vintage of non-oil GVA, consistent with Blue Book 2011. Pre-2010 data for Autumn Statement 2011 is derived from the PCA estimates published in OBR Working Paper No.1: Estimating the UK's historical output gap.
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Table 1.1: Summary of OBR's central economic forecast

Pre-crisis decade average contribution and 2010 outturn	ABMI, NPSP, NPEL, DFEA, DKQH, NMRP, DLWF, CAFU, IKNK, IKBL	ONS	<i>UK Economic Accounts 2nd quarter 2011</i> , available at: http://www.ons.gov.uk/ons/rel/naa2/quarterly-national-accounts/q2-2011/stb---qna-2011-q2.html .
Indicators for 2011 to 2016		OBR	See OBR's November 2011 <i>Economic and fiscal outlook</i> .

Data in table, chart or graph	ONS source code (if applicable)	Data Source	Further reference information
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Chart 1.4: OBR forecast change in shares of GDP between 2010 and 2016

Outturn	YBHA, HAYE, ABJQ, NMRP, NPQS, IKBH, IKBI	ONS	<i>UK Economic Accounts 2nd quarter 2011</i> , available at: http://www.ons.gov.uk/ons/rel/naa2/quarterly-national-accounts/q2-2011/stb---qna-2011-q2.html .
Forecast		OBR	See OBR's November 2011 <i>Economic and fiscal outlook</i> .

Table 1.2: Overview of OBR central fiscal forecast

Outturn public sector net borrowing, surplus on current budget and public sector net debt	J5IJ, JW2V, HF6X	ONS	<i>ONS Statistical Bulletin: Public Sector Finances October 2011</i> , available at: http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/october-2011/index.html .
Outturn Treaty Debt and Treaty Deficit	YEQJ, YEQG/ BKTL	ONS	<i>ONS Statistical Bulletin: Government deficit and debt under the Maastricht Treaty October 2011</i> , available at: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-229604 .
Primary balance	(-J5II-JW2L-JW2M+ JW2P)/ BKTL	ONS	<i>ONS Statistical Bulletin supplementary document: Public Sector Finances October 2011</i> , available at: http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/october-2011/index.html .
Forecast data 2010-11 to 2016-17		OBR	OBR's November 2011 <i>Economic and fiscal outlook</i> .
Cyclically-adjusted net borrowing, CA surplus on current budget		Economic estimates	These figures are calculated as economic estimates, including the effects of assumptions and results from economic analyses that have a material impact, and are therefore outside the domain of official statistics.
Figures for public sector current expenditure, public sector gross investment, and total managed expenditure		OBR	OBR's November 2011 <i>Economic and fiscal outlook</i> .

Paragraph 1.41

Effect of one per cent rise in effective mortgage rates on mortgage interest payments	Bank of England: VTXK	Bank of England	<i>Loans outstanding, Mortgages – Lending secured on dwellings</i> (Table A5.3 Bankstats), available at: http://www.bankofengland.co.uk/statistics/Bankstats/current/#1 .
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Table 1.3: Impact of higher interest rates on debt interest payments

Forecast debt interest cost of higher gilt rates		HM Treasury	Gilt rate information supplied by the Debt Management Office (DMO). Financing advice from HM Treasury.
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Data in table, chart or graph	ONS source code (if applicable)	Data Source	Further reference information
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Table 1.4: Total consolidation plans over the forecast period

		Economic estimates	These figures are calculated as economic estimates, including the effects of assumptions and results from economic analyses that have a material impact, and are therefore outside the domain of official statistics.
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Chart 1.5: Spread to 10-year German government bonds

UK	GUKG10YR	Bloomberg	As at 25 November 2011.
US	USGG10YR	Bloomberg	
France	GFRN10YR	Bloomberg	
Spain	GSPG10YR	Bloomberg	
Italy	GBTPGR10YR	Bloomberg	

Chart 1.6: Relative size of banking sector and fiscal position

Structural deficit to GDP ratio		International Monetary Fund (IMF)	<i>IMF's World Economic Outlook, September 2011</i> available from: www.imf.org/external/pubs/ft/weo/2011/02/ppd/text.pdf .
Bank assets to GDP ratio		IMF	<i>IMF's Global Financial Stability report, September 2011</i> , available from: http://www.imf.org/External/Pubs/FT/GFSR/2011/02/sa/sa_table1.csv .

Chart 1.7: Receipts and expenditure

Total Managed Expenditure on an ex basis: Outturn	JW2Q- JW2Z+ JW2S	ONS	<i>ONS Statistical Bulletin supplementary document: Public Sector Finances Supplementary Tables October 2011</i> , available at: http://www.ons.gov.uk/ons/rel/psa/public-sector-finances---supplementary-table/october-2011/rft---supplementary.xls .
Total Managed Expenditure: Forecast		OBR	OBR's November 2011 <i>Economic and fiscal outlook</i> .
Public Sector Current Receipts consistent with PSNB ex (J5II)	JW2O	ONS	<i>ONS Statistical Bulletin supplementary document: Public Sector Finances October 2011</i> , available at: http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/october-2011/index.html .
Public Sector Current Receipts		OBR	OBR's November 2011 <i>Economic and fiscal outlook</i> .

Chart 1.8: Consolidation in the cyclically-adjusted current budget

Consolidation in the cyclically-adjusted current budget		Economic estimates	These figures are calculated as economic estimates, including the effects of assumptions and results from economic analyses that have a material impact, and are therefore outside the domain of official statistics.
Cyclically-adjusted surplus on current budget		Economic estimates	These figures are calculated as economic estimates, including the effects of assumptions and results from economic analyses that have a material impact, and are therefore outside the domain of official statistics.

Data in table, chart or graph	ONS source code (if applicable)	Data Source	Further reference information
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Chart 1.9: Public sector net debt

Public sector net debt outturn	HF6X	ONS	<i>ONS Statistical Bulletin: Public Sector Finances October 2011</i> , available at: http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/october-2011/index.html .
Public sector net debt forecasts	HF6X	OBR	OBR's March 2011 <i>Economic and fiscal outlook</i> , (Budget 2011 forecast) and OBR's November 2011 <i>Economic and fiscal outlook</i> .

Paragraph 1.79:

Proportion of trade with Europe	GC8Q – Exports to EU27 GCU9 – Imports from EU 27 KTMW – exports to world KTMX – imports from world	UK Balance of Payments (National Statistics)	<i>UK Balance of Payments, Pink Book 2011</i> , Table 9.3 Available at http://www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2011/tsd-pink-book-2011-time-series.html .
Number of businesses involved in trade with EU		Confederation of British Industry	Evidence provided to House of Lords Inquiry into <i>Relaunching of Single Market</i> , October 2010. Available at http://www.parliament.uk/documents/lords-committees/eu-sub-com-b/singlemarketinquiry/singlemarketwe221010.pdf .
Number of UK jobs linked directly or indirectly to trade with EU		Department for Business Innovation and Skills (BIS) calculation based on ONS data	<i>UK and the Single Market, Trade and Investment Analytical Paper</i> , BIS, February 2011. Available at: http://www.bis.gov.uk/assets/biscore/international-trade-investment-and-development/docs/u/11-719-uk-and-single-market .
Impact of Single Market on household income		BIS calculation.	As above.

Paragraph 1.80:

Services as a proportion of GDP and intra-EU trade		European Commission	<i>Steps towards a deeper economic integration: The Internal Market in the 21st Century</i> , DG ECFIN European Economy Economic Papers. European Commission, 2007. Available at: http://ec.europa.eu/economy_finance/publications/publication784_en.pdf Page 7.
Benefits of further progress in services and energy reform to GDP		European Commission	As above, Page 58.

Data in table, chart or graph	ONS source code (if applicable)	Data Source	Further reference information
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Tables 2.1, 2.3 and 2.4

		<i>Autumn Statement 2011 policy costings</i> / Network rail (Table 2.3)	These projections are calculated from economic estimates, detailed costing models, and include numerous assumptions that have a material impact, and are therefore outside the domain of official statistics. The capital values of Network Rail investments were provided by Network Rail, the Office of Rail Regulation and the wider rail industry.
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Table 2.2: Total Managed Expenditure

Figures for public sector current expenditure, public sector gross investment, and total managed expenditure		OBR	OBR's November 2011 <i>Economic and fiscal outlook</i> .
Figures for Resource DELs and Capital DELs		DEL plans are used for 2011-12 onwards	

Table B.1: Revised financing requirement in 2011-12

Central government net cash requirement	RUUW	OBR forecast	<i>Monthly ONS statistical bulletin: Public Sector Finances</i> , available at http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/october-2011/index.html .
Gilt redemptions		HM Treasury forecast	Profile of future gilt redemptions available at http://www.dmo.gov.uk/index.aspx?page=Gilts/Gilts_In_Issue .
Financing for the Official Reserves		As above	Policy decision to fund the Official Reserves by £6 billion in 2011-12 is set out in the <i>Debt and reserves management report 2011-12</i> , available at http://www.hm-treasury.gov.uk/2011budget_documents.htm .
Buy-backs		As above	
Planned short-term financing adjustment		HM Treasury calculation	Calculated from outturn DMO net cash position at 31 March 2010 less £0.5 billion.
Gross financing requirement		As above	Calculated as the sum of the five items above it.
National Savings and Investments (NS&I)		HM Treasury forecast	
Net financing requirement		HM Treasury calculation	Gross financing requirement less contribution to financing from NS&I.
Treasury bills		HM Treasury forecast	
Gilts		As above (based on 2011-12 net financing requirement projections)	Information on gilt sales available at http://www.dmo.gov.uk/index.aspx?page=About/About_Gilts .

Data in table, chart or graph	ONS source code (if applicable)	Data Source	Further reference information
Change in the Ways and Means Advance		HM Treasury forecast	
Changes in net short-term cash position		HM Treasury calculation	Total financing less net financing requirement.
Total financing		As above	Sum of financing through gilts and Treasury bills.
Treasury bill stock		As above	Treasury bill stock at end 2010-11 plus Treasury bill financing.
Ways and Means Advance		As above	Ways and Means Advance at end 2010-11 plus Change in Ways and Means Advance.
DMO net cash position		As above	DMO net cash position at end 2010-11 plus Changes in net short-term cash position.

List of abbreviations

ACAS	Advisory, Conciliation and Arbitration Service
AME	Annually Managed Expenditure
APD	Air Passenger Duty
APF	Asset Purchase Facility
ASEAN	Association of Southeast Asian Nations
BBA	British Bankers' Association
BIS	Department for Business, Innovation and Skills
CBI	Confederation of British Industry
CCL	Climate change levy
CDEL	Capital Departmental Expenditure Limit
CDFI	Community Development Finance Institution
CGT	Capital gains tax
CGNCR	Central government net cash requirement
CIL	Community Infrastructure Levy
CPI	Consumer Prices Index
DEFRA	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limit
DMO	Debt Management Office
EIS	Enterprise Investment Scheme
EU	European Union
FPC	Financial Policy Committee
G7	A group of seven major industrial nations (comprising: Canada, France, Germany, Italy, Japan, UK and US).
G20	A group of 20 finance ministers and central bank governors representing 19 countries plus the European Union.
GCSE	General Certificate of Secondary Education
GDP	Gross Domestic Product
GGNB	General government net borrowing
GNI	Gross National Income
GP	General Practitioner
GVA	Gross Value Added
HE	Higher education
HGV	Heavy goods vehicle
HMRC	Her Majesty's Revenue & Customs
HSE	Health and Safety Executive

ICB	Independent Commission on Banking
ICT	Information and communications technology
IFS	Institute for Fiscal Studies
IMF	International Monetary Fund
JSA	Jobseeker's Allowance
JESSICA	Joint Enterprise Support for Sustainable Investment in City Areas
LEP	Local Enterprise Partnership
Mbps	Megabits per second
MPC	Monetary Policy Committee
NEET	Not in education, employment or training
NHS	National Health Service
NMW	National Minimum Wage
OBR	Office for Budget Responsibility
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
ppl	Pence per litre
PRA	Prudential Regulation Authority
PSCE	Public Sector Current Expenditure
PSGI	Public Sector Gross Investment
PSNB	Public sector net borrowing
PSND	Public sector net debt
PSNI	Public Sector Net Investment
RDEL	Resource Departmental Expenditure Limit
RDPE	Rural Development Programme for England
R&D	Research and Development
RPI	Retail Prices Index
SEIS	Seed Enterprise Investment Scheme
SGP	Stability and Growth Pact
SMEs	Small and medium-sized enterprises
SRFI	Strategic Rail Freight Infrastructure
SRFN	Strategic Rail Freight Network
STEM	Science, Technology, Engineering and Mathematics
TIF	Tax increment financing
TME	Total Managed Expenditure
TUPE	Transfer of Undertakings (Protection of Employment)
UKGI	UK Green Investments

UKTI	UK Trade and Investment
VAT	Value Added Tax
VCT	Venture Capital Trust

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