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 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.

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;**

[3] The 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.