



UK Autumn Statement 2011

With commentary by

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29 NOVEMBER 2011

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COMMENTARY

The extraordinary thing about George Osborne's statement to members of Parliament today was that we had heard and read about it almost all before.

With the single exception of the announcement of further restraint on public sector pay, all of the major planks of the statement had already been leaked by the Treasury to the media.

How times have changed, since Labour's post-war Chancellor, Hugh Dalton, resigned in 1947 on a point of principle because of a single indiscreet remark made to an Evening Standard journalist as he was entering the Chamber of the House of Commons to announce his budget.

But if there was little news of substance, Osborne's statement and Ed Balls' response did illuminate rather clearly how the Conservatives and Labour plan to fight the next general election, as well as giving some clues to Liberal Democrat hopes of avoiding slaughter at the polls.

The metaphor with which George Osborne both opened and closed his statement was of the "safe haven," of a government committed to taking Britain "safely through the storm."

Gone were the earlier Coalition hopes of being able to fight the next election in a period of rising prosperity, having already delivered some tax cuts and holding out the prospect of more. The gloomy forecasts from the independent Office for Budget Responsibility – growth this year of just 0.9 percent, next year even worse at 0.7 percent and only a little better in subsequent years – have put paid to that.

Instead the Conservatives will argue that only they can be trusted to "finish the job" and that to elect Labour would be to put everything that had been achieved at risk.

Osborne was also clear about why it wasn't his fault that times were tougher than anticipated. That, he said, was down to "Europe," which got star billing with just one sentence into his statement. The Government was offering "leadership for tough times;" by contrast, he argued, had Labour's policies on the deficit been pursued, "we would now be in the centre of the sovereign debt storm."

There were, it is true, new measures designed to stimulate growth, which Osborne characterised as "an active enterprise policy for business and with lasting investment in our infrastructure and education," but every pound spent on capital investments in infrastructure, regional growth, education and help for young people to find work would be matched by a pound saved elsewhere (most notably on public sector pay). So it is still Plan A.

Ed Balls knew what he thought about that: "After eighteen months in office, the verdict is in: Plan A has failed and it has failed colossally. With prices rising and unemployment soaring, families, pensioners and businesses already know it's hurting. And with billions more in borrowing to pay for rising unemployment, today we find out the truth – it's just not working."

Shadow Ministers will be all over the airwaves in the next 24 hours repeating again and again that simple message: George Osborne's failed plan is hurting but it isn't working.

The evidence from the opinion polls is that this message will resonate, with increasing numbers of voters inclined to agree. Yet the challenge for Labour remains that it isn't trusted to do better, with poll after poll confirming that a majority of the voters still don't trust Ed Miliband and Ed Balls to do a better job on the economy than David Cameron and George Osborne.

So the Conservatives may have lost the "sunlit uplands" prospect or "the light at the end of the tunnel" argument, but still think they might yet be able to win on the basis of: "hold on to nurse, for fear of something worse."

As for the Liberal Democrats, they get squeezed out on these big Parliamentary occasions, but their election plan will be to argue that they have made this Government fairer than it otherwise would have been (and can reasonably point to several measures in today's statement in support of that contention). They can still expect to take a hammering at the next election, as minority parties in coalitions often do, but in a tight vote between Labour and the Conservatives, they might still emerge holding the balance of power.

In short, the economic news is grim and will get worse – but the parties all believe they have everything still to play for.

ECONOMY

- The Office for Budgetary Responsibility (OBR) does not predict another recession in the UK but has revised GDP growth down to 0.9 percent for this year, 0.7 percent in 2012, 2.1 percent in 2013, 2.7 percent in 2014, 3 percent in 2015 and 3 percent in 2016 respectively.
- The government gives two reasons for the downgrading of growth forecasts: global rises in energy, and commodity prices and the larger structural deficit than expected.

Public Debt

- Public-sector borrowing is expected to be £127 billion in 2011-12, £120 billion in 2012-13, £100 billion in 2013-14, £79 billion in 2014-15 and £53 billion in 2015-16.
- Borrowing is £112 billion higher over the next four years than the Chancellor's previous forecasts, but debt interest payments will be £22 billion less than expected by 2015.
- The government will not be able to do away with the structural deficit by 2015. However, it will still meet its "fiscal mandate" target of removing it within five years.
- According to the OBR, debt is expected to peak at 78 percent of GDP in 2014-15.

Public Sector

- Public-sector pay increases will be capped at 1 percent per year for two years.
- Independent Pay Review Bodies will consider how public-sector pay can be made more responsive to local labour markets, reporting by July 2012.
- The Minister for the Cabinet Office will review how more local, market-facing pay could be introduced in civil service departments.

TAX

- The government will introduce a major simplification of the tax code.
- The government intends to merge the administration of income tax and national insurance.

Income Tax

- A new Seed Enterprise Investment Scheme (SEIS) will be introduced to encourage investment in new start-up companies. From April 2012, SEIS will provide income tax relief of 50 percent 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.

- In 2012, any tax on capital gains invested in such businesses will also be waived.

Corporation Tax

- In order to create a competitive tax regime, the government is cutting the main rate of corporation tax to 26 percent, and by 2014 it will reach 23 percent.

Capital Gains Tax

- The annual exempt amount for capital gains tax will be frozen at £10,600 for 2012-13.

Council Tax

- As announced previously, 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.

Fuel Duty

- The government will defer the 3.02 pence per litre (ppl) fuel duty increase that was due to take effect in January 2012 to 1 August 2012.
- The inflation increase that was planned for 1 August 2012, currently expected to be worth 1.92ppl, will be cancelled.

Other

- The government will introduce an above-the-line tax credit in 2013 to encourage research and development (R&D) activity by larger companies

WELFARE

Benefits

- Most working age and disability benefits will be updated in line with inflation in 2012-13, an increase of 5.2 percent.
- The child element of the Child Tax Credit will be updated in line with the Consumer Prices Index in 2012-13, but other elements will not.
- The disability elements of tax credits will be updated by CPI. However, the government will not update the couple and lone parent elements of the Working Tax Credit in 2012-13.

PENSIONS

- The State Pension age will be raised to 67 between April 2026 and April 2028, saving around £60 billion between 2026 and 2036.
- 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 a total of £107.45 per week in April 2012.

- Upgrading the Pension Credit by 3.9 percent and increasing the threshold for Saving Credit to £111.10 for single pensioners and £177.20 for pensioner couples in April 2012.

BUSINESS

- The government will introduce a credit easing programme, which will underwrite up to £40 billion in low-interest loans for small and medium-sized businesses. The National Loan Guarantee scheme will use government borrowing rates to lend to businesses at low rates. These loans will be available for companies with turnover of up to £50m, and should reduce borrowing rates by 1 percent.
- The government is launching an initial £1 billion Business Finance Partnership, to be made available to smaller and mid-sized businesses in the UK through non-bank channels. This fund will be increased if successful.
- An extra £1 billion is being allocated to the Regional Growth fund in England, and almost half a billion pounds will be invested in high-tech industries.
- The government will provide a £250 million support package to energy-intensive companies affected by new carbon regulations, by helping them with the cost of the EU trading scheme carbon price floor.
- The business rate holiday relief for small firms will be extended for a further six months, from October 2012 until April 2013.
- The government will give businesses the opportunity to defer 60 percent 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.
- The government will make 100 percent capital allowances available for plant and machinery investment incurred between April 2012 and March 2017 in six assisted areas, including the Black Country, Humber, Liverpool, North Eastern, Sheffield, and Tees Valley Enterprise Zones.
- The government will consult on further labour market deregulation, with the aim of cutting health and safety rules for small firms.

FINANCIAL SERVICES

- The bank levy rate will be raised to 0.088 percent from 1 January 2012 to ensure it raises the £2.5 billion target identified when the bank levy was introduced at a slightly lower rate last year.
- The government announced it does not support an EU financial transaction tax, known as the Tobin Tax.
- The government will publish its response to the Vickers Report on UK banking reform next month.

EMPLOYMENT

- The OBR forecasts that unemployment will rise from 8.1 percent this year to 8.7 percent next year, before falling to 6.2 percent by the end of the forecast.
- The government will introduce a £1 billion "youth contract" to subsidise six-month work placements for 410,000 young people.

INFRASTRUCTURE

- The government 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.
- The announcement of the National Infrastructure Plan also commits the government to £5 billion of additional public spending on infrastructure over the next three years.
- The Department of Transport will proceed with 35 new road and rail schemes across the UK. This includes electrifying the TransPennine express between Manchester and Leeds, halving the tolls on the Humber Bridge, and, in London, supporting in the extension of the Northern Line to Battersea.
- Investment in digital infrastructure to bring superfast broadband to 90 percent of homes and businesses and extend mobile phone coverage to 99 percent of families.
- The Treasury has signed a Memorandum of Understanding with two groups of UK pension funds to support additional investment in UK infrastructure of £20 billion. The government is also working with the Association of British Insurers to set up an Insurers' Infrastructure Investment Forum.

EDUCATION

- The government announced it will double the number of children who receive free nursery care. Forty percent of two-year-olds, 260,000 children, from the most disadvantaged families, will get this support.
- The government will invest an extra £600 million to fund an additional 100 Free Schools by 2015. This includes specialist maths Free Schools for 16-18 year olds and strong university maths departments and academics.
- An additional £600 million will be provided to support local authorities with the greatest need for school places.

INTERNATIONAL AID

- The allocation of Official Development Assistance will be revised so that the government spends 0.56 percent of Gross National Income on Official Development Assistance in 2012, and 0.7 percent in 2013 and thereafter.

PLANNING REFORM

- In enshrining its commitment to reform the UK's planning laws, the government will enforce a 13-week maximum timescale for the majority of non-planning consents.
- The government will introduce legislation to ensure the Habitats and Wild Birds Directives does not lead to unnecessary costs and delays to development.
- The government will launch a £400 million Get Britain Building investment fund, to support firms in need of development finance helping to re-start building projects that have received planning permission but have stalled.

HOUSING

- In attempting to reinvigorate the Right to Buy, families in social housing will be able to buy their homes at discounts of up to 50 per cent. Moreover, 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 new mortgage guarantee scheme will be introduced to finance the building of new homes, helping up to 100,000 families and young people.

TRANSPORT

- Limit the increase to transport for London and regulated rail fares to RPI plus 1 percent for one year from January 2012.
- Continue with the extension of Air Passenger Duty (APD) to flights taken aboard business jets from 1 April 2013.

SCIENCE

- Half a billion pounds will be provided for UK based scientific projects, from supercomputing and satellite technology to a world-class animal health laboratory.