briefing

5 December 2012

Autumn Statement 2012

Introduction

On 5 December 2012, Chancellor George Osborne delivered his annual Autumn Statement. It built on his previous announcements made in the Budget (March 2012) and provided an update on the economy and future government plans for public sector spending and taxation. Full details and further information on the Autumn Statement can be found on the Treasury's website.[1]

Top issues for London Councils …

1. **Spending Review will be announced during the first half of 2013**
2. **Further two per cent cut to LG RDEL in 2014/15 amounting to £445m**
3. **Public services workers pay will rise by an average 1%**
4. **Government accepts the School Teachers' Review Body recommendation for greater freedom to set pay in line with performance**
5. **£5bn national investment in capital infrastructure includes:**
   - **£1bn loan and a guarantee to extend the Northern Line to Battersea Power Station and support a new development on a similar scale to the Olympic Park £270m for FE colleges**
   - **£1bn for 100 new academies and free schools, and to expand existing 'good schools'**
   - **£10 billion worth of guarantees for housing**
6. **Increased Small Business Rate Relief extended for a further 12 months to April 2014**
7. **Empty property relief for 18 months on newly built properties from October 2013**
8. **No new property tax**
9. **Single pot for LEPs can bid for from April 2015**
10. **£350m Regional Growth Fund, of which £100m from existing budgets**
11. **£10 million a year for capacity building within LEPs**
12. **Additional £120m flood defences investment by end SR2010 period**

Overview

Today's Autumn Statement provided an update on the government's two primary economic rules:

1. That the government balance the cyclically-adjusted current budget over the coming five years and
2. That net debt will reduce as a share of the economy by 2015-16.

The independent Office for Budget Responsibility (OBR) has concluded that the government is 'on course' to meet the first fiscal mandate. However, the OBR assess, that in their forecast, the government will not meet the second objective.

Public Sector Net Borrowing (PSNB): Borrowing to fund the deficit this year is set to come in at £108bn, £12bn below the target of £120bn for 2012/13 set in the March Budget. It is then expected to fall to £99bn next year, £88bn in 2014-15, £73bn in 2015/16 then £49bn in 2016/17 and reach £31bn by 2017/18. Public sector net debt is forecast to peak at 79.9% of GDP in 2015/16, falling to 77.3% in 2017/18, higher than forecast in March 2012.

Economic Growth: The 2012 Budget upgraded growth forecasts from the 2011 Autumn Statement, with Gross Domestic Product (GDP) expected to grow by 0.8% in 2012, to 3.0% in 2016. Today's Autumn Statement includes the latest forecasts from the independent Office for Budget Responsibility, which have downgraded growth forecasts to -0.1% in 2012, 1.2% in 2013, 2.0% in 2014, 2.3% in 2015, 2.7% in 2016 and 2.8% in 2017.

[1] http://www.hm-treasury.gov.uk/as2012_index.htm

LONDON COUNCILS

Overview of the Autumn Statement

The full Autumn Statement can be found on the Treasury's website[2]. Key extracts from the Chancellor's speech are set out below with points of particular interest for London local government in bold:

Headline figures

I can tell the House that the OBR have assessed that we are, in their words, "on course" to meet our fiscal mandate.

In other words, we have a better than 50% chance of eliminating the structural current deficit in five years' time – that part of our borrowing that doesn't recover automatically as the economy grows.

But the OBR assess in their central forecast that we do not meet the supplementary objective that aims to have debt falling by 2015-16.

The point at which debt starts to fall has been delayed by one year, to 2016-17.

In short, the tougher economic conditions mean that while our deficit is forecast to go on falling, instead of taking three years to get our debt falling, it's going to take four.

Mr Speaker, in last year's Autumn Statement, we committed the Government to maintain the same pace of consolidation for two further years beyond the end of the current spending review – into 2015-16 and 2016-17.

In this year's Autumn Statement, we extend the consolidation for one further year, into 2017-18.

The OBR projects that, as a result, the share of national income spent by the state will fall from almost 48% of GDP in 2009-10 to 39.5% by 2017-18.

The document shows total managed expenditure will continue to fall, and will now be £4.6 billion lower in 2017-18 than if it had been held flat in real terms.

I also provide further detail of the consolidation plans for 2015-16, the last year of this Parliament.

I can confirm today that the overall envelope for Total Managed Expenditure will be set at £745 billion.

We start with the working assumption that departmental resource totals will continue on the same trajectory as over the current spending review.

The detail of departmental spending plans for 2015-16 will be set at a spending review, which will be announced during the first half of next year.

Public sector pay

We are today publishing the reports we commissioned from the pay review bodies on market-facing pay. We commit to implement these reports.

This means continuing with national pay arrangements in the NHS and Prison Service, and we will not make changes to the civil service arrangements either.

But the School Teachers' Review Body does recommend much greater freedom to individual schools to set pay in line with performance.

And my RHF the Education Secretary will set out how this will be implemented.

Departmental cuts (see Appendix A)

Through the efforts of individual Government departments and the support of the Chief Secretary and my RHF the Minister for the Cabinet Office, we have already generated £12bn of efficiency savings in Whitehall.

But we believe there is room to do even more.

So today, we are reducing departmental resource budgets by 1% next year and 2% in the year after.

Local government budgets are already being held down next year to deliver the freeze in council tax, so we will not seek the

[2] http://www.hm-treasury.gov.uk/as2012_index.htm

additional 1% savings next year – but we will look for the 2% saving the year after.

The 2% cut means a reduction of £445m for the Local government RDEL in 2014/15

We made a promise as a country that we would spend 0.7% of our gross national income on international development – and I am proud to be part of the first British Government in history which will honour that commitment, and honour it as promised next year.

We will not, however, spend more than 0.7% - so as we did last year, we will adjust the DfiD budget to reflect the latest economic forecasts.

Capital infrastructure investment

In the short term, I'm switching these current savings into capital – all the money saved in the first two years will be **re-invested as part of a £5 billion capital investment in the infrastructure of our country.**

Transport

We're committing an extra billion pounds to roads, including four major new schemes to:

- upgrade key sections of the A1, bringing the route from London to Newcastle up to motorway standard.
- link the A5 with the M1.
- dual the A30 in Cornwall.
- and upgrade the M25.

We've already set out plans this autumn for a huge investment in rail, and my RHF the Transport Secretary will set out in the new year plans to take High Speed 2 to the North West and West Yorkshire.

I today confirm a billion pound loan and a guarantee to extend the Northern Line to Battersea Power Station and support a new development on a similar scale to the Olympic Park.

Housing

We're confirming funding and reforms to assist construction of up to one hundred and twenty thousand new homes and delivering on flood defence schemes in more cities.

Broadband

On top of broadband expansion for our countryside and our larger cities, we're funding ultrafast broadband in twelve smaller cities – [Brighton and Hove, Cambridge, Coventry, Derby, Oxford, Portsmouth, Salford, York, Newport, Aberdeen, Perth and Derry-Londonderry].

Science

In addition to the third of a billion pounds announced this autumn for British science, we are today announcing £600 million more for the UK's scientific research infrastructure.

Further education

And since improving our education system is the best investment in a competitive economy, I am today committing **£270 million to fund improvements in further education colleges and one £1bn to expand good schools and build 100 new free schools and academies.**

Devolved administrations

Scotland, Wales and Northern Ireland will get their Barnett share of additional capital spending put at the disposal of their devolved administrations.

Guarantees and PFI

On top of this £5 billion of new capital spending in infrastructure and support for business, we are ready to provide guarantees for up to £40 billion more – today I can announce that projects worth £10 billion have already prequalified.

We're offering £10 billion worth of guarantees for housing too.

Our country's pension funds will launch their new independent infrastructure investment platform next year as well.

And we have today published full details of the replacement for the discredited PFI.

Annual average infrastructure investment is now £33 billion.

Tax evasion

We are increasing by around 2500 the number of tax inspectors going after evaders and avoiders.

Next year, we will introduce the first ever General Anti-Abuse Rule.

And next year … we expect to receive £5 billion over the next 6 years from the undisclosed Swiss bank accounts of UK residents.

HMRC will not have its budget cut over the next two years, unlike other departments.

Instead we will spend £77 million more on fighting tax avoidance – and not just for wealthy individuals.

In total, we expect the action we announce today will increase the amount of money collected from tax evasion and avoidance by a further £2 billion a year.

Personal taxation

HMRC data reveals that in the first year of the 50% tax rate, tax revenues from the rich fell by £7 billion and the number of people declaring incomes over one million pounds fell by a half.

We've already raised stamp duty on multi-million pound homes and next week publish the legislation to stop the richest avoiding stamp duty.

But we won't introduce a new tax on property.

This would require a revaluation of hundreds of thousands of homes.

In my view it would be intrusive, expensive to levy, raise little and the temptation for future Chancellors to bring ever more homes into its net would be irresistible.

Lifetime allowance

From 2014-15, I will further reduce the lifetime allowance from £1.5 million to £1.25 million and reduce the annual allowance from £50,000 to £40,000.

This will reduce the cost of tax relief to the public purse by an extra £1 billion a year by 2016-17.

I know these tax measures will not be welcomed by all; ways to reduce the deficit never are.

That's why I will uprate next April the overall ISA limit to £11,520.

I am today announcing that the Government will raise the capped drawdown limit from 100% to 120%, giving pensioners with these arrangements the option of increasing their incomes.

Next year, thanks to our triple lock, I confirm it (basic state pension) will rise by 2.5%, higher than either earnings or inflation.

That takes the level of the full Basic State Pension to £110.15 a week.

Welfare cuts

Today we announce further measures and checks to save over £1 billion in the next four years by reducing fraud, error and debt in the tax credit system.

Next year my RHF the Work and Pensions Secretary will introduce the new Universal Credit so that it always pays to work.

Those working in the public services, who have seen their basic pay frozen, will now see it rise by an average of 1%.

A similar approach of a 1% rise should apply to those in receipt of benefits.

We will support the vulnerable.

So carer benefits and disability benefits, including disability elements of tax credits, will be increased in line with inflation and we're extending support for Mortgage Interest for 2 more years.

But most working age benefits including Job Seekers Allowance, Employment and Support Allowance and Income Support – will be uprated by 1% for the next three years.

We will also uprate elements of the Child Tax Credit and the Working Tax Credits by 1% for the next three years – although previously planned freezes will go ahead.

Local Housing Allowance rates, that are a central component of Housing Benefit, will be uprated in line with the existing policy next April and then we will cap increases at 1% in the two years after that.

For this measure, 30% of the savings will be used to exempt from the new cap those areas with the highest rent increases.

The earning disregards for Universal Credit will also be uprated by 1% for two years from April 2014.

Child benefit is currently frozen. It too will now rise by 1% for two years from April 2014.

And taken together we will save £3.7 billion in 2015-16 and deliver permanent savings each and every year from our country's welfare bill.

To bring all these decisions for many benefits over many years together, we will introduce into Parliament primary legislation – the Welfare Uprating Bill.

Tax thresholds

We will apply a similar approach to the uprating of some of our tax thresholds as we have to welfare.

The higher rate threshold will be increased by 1% in the tax years 2014-15 and 2015-16.

So the income at which people start paying the 40% rate will go up from £41,450 to £41,865 and then to £42,285.

It raises one billion pounds of revenue by 2015-16.

The capital gains tax annual exempt amount will be increased by 1% over the same period, reaching £11,100.

And inheritance tax nil-band rate, which has been frozen since 2009 at £325,000 will be increased by 1% in 2015-16 to £329,000.

Business and enterprise

We asked Michael Heseltine to report on how to make the Government work better for business and enterprise.

We will respond formally in the Spring.

We will provide new money to **support the Local Enterprise Partnerships** – and from April 2015 the Government will place more of the funding that currently goes to local transport, housing, skills and getting people back to work into **a single pot that LEPs can bid for.**

Details will be set out in the Spending Review.

I am increasing the funding for UK Trade and Investment by over 25% a year, so it can help more firms, build the capacity of British chambers overseas, and maintain our country's position as the number one destination in Europe for foreign investment and we are launching a new £1.5 billion export finance facility to support the purchase of British exports.

We're creating a new Business Bank and providing it with £1 billion of extra capital which will lever in private lending to help small and medium sized firms and bring together existing schemes.

The temporary doubling of the Small Business Rate relief scheme helps over half a million small firms, with 350,000 paying no rates at all.

Today I extend it by a further year, to April 2014.

We also confirm the tax relief for our employee shareholder scheme.

We are consulting on new tax incentives for shale gas and announcing the creation of a single Office for Unconventional Gas so that regulation is safe but simple.

We're going to help our construction industry too. The proposal from my colleagues that we create a long grace period before newly completed buildings have to pay empty property rates is a sensible one and we will introduce it next October.

Starting on 1st January and for the next two years, I am going to increase by tenfold the Annual Investment Allowance in plant and machinery.

Instead of £25,000 worth of investment being eligible for 100% relief, £250,000 worth of investment will now qualify.

I have already cut the main rate of corporation tax from 28% to 24%, and it is set to fall further to 22%. I am today cutting the main corporation tax rate again by a further 1%.

From April 2014, the corporation tax rate in Britain will stand at 21%.

We will not pass the benefit of this reduced rate onto banks, and to ensure that we meet our revenue commitments, the Bank Levy rate will be increased to 0.130% next year.

Fuel duty

There will be no 3 pence fuel tax rise this January.

That is real help with the cost of living for families as they fill up their cars across the country. And it will help businesses too.

Personal allowance

When this Coalition Government came to office, the personal tax allowance stood at just £6,475; next April it is set to rise to £9,205.

From next April, the personal allowance will rise by a further £235 – that means a total increase next year of £1,335 - the highest cash increase ever.

People will be able to earn £9,440 before paying any income tax at all.

Appendix A – Reductions to departmental resource budgets

The planned cuts to departmental expenditure limits in 2013/14 and 2014/15 are outlined below (taken from the Autumn Statement). Local government is protected in 2013/14 but sees a 2% cut (£445m) in 2014/15.

Table 2.2: Reductions to departmental resource budgets[1]

	£ million	
	2013-14	2014-15
Education	-155	-305
NHS (Health)	0	0
Transport	-50	-90
CLG Communities	-20	-25
CLG Local Government	0	-445
Business, Innovation and Skills	-150	-280
Home Office	-80	-155
Justice	-75	-140
Law Officers' Departments	-5	-10
Defence	-245	-490
Foreign and Commonwealth Office	-10	-20
Energy and Climate Change	-5	-5
Environment, Food and Rural Affairs	-20	-35
Culture, Media and Sport	-10	-20
Work and Pensions	-75	-155
Scotland	-50	-105
Wales	-20	-65
Northern Ireland	-20	-40
Chancellor's Departments	0	-5
Cabinet Office	-5	-10
Small and Independent Bodies	-5	-10
International Development[2]	-250	-430

[1] The savings are entirely within non ring-fenced Resource DEL budgets. They may not sum to the savings in table 2.1 due to rounding.

[2] The changes to the International Development budget result from the update to the GNI forecast.

Source: 2012 Autumn Statement (p.58)

Appendix B – Public spending reductions to 2017/18

The 2012 Budget gave indication of further reductions in spending across government in the two years after the Spending Review period. Today's Autumn Statement show overall Resource DEL (including depreciation) increasing by 0.3% in 2015/16 before reducing by -1.5% in 2016/17 and -2.1% in 2017/18. This is more than in any of the 4 preceding years (see Figures 1 and 2 below).

Table 2.4: Total Managed Expenditure

	£ billion					
	2012-13[1]	2013-14	2014-15	2015-16	2016-17	2017-18
CURRENT EXPENDITURE[2]						
Resource AME (forecast)	321.2	332.7	346.1	360.9	375.4	391.7
Resource DEL, excluding depreciation (plans)[3]	321.3	321.1	316.1			
Ring-fenced depreciation	18.2	18.1	19.3			
Implied Resource DEL, including depreciation				*336.5*	*331.4*	*324.5*
Public sector current expenditure	**660.7**	**671.9**	**681.5**	**697.4**	**706.9**	**716.2**
CAPITAL EXPENDITURE						
Capital AME (forecast)	-23.7	7.2	6.6	7.1	7.6	7.8
Capital DEL (plans)	37.4	40.8	42.9			
Implied Capital DEL				*40.2*	*40.7*	*41.4*
Public sector gross investment	**13.7**	**48.0**	**49.5**	**47.3**	**48.3**	**49.2**
TOTAL MANAGED EXPENDITURE	**674.3**	**719.9**	**731.0**	**744.7**	**755.1**	**765.5**
Total Managed Expenditure (%GDP)	*43.1%*	*44.4%*	*43.3%*	*42.2%*	*40.9%*	*39.5%*
Provisional spending envelope for 2015-16[4] *of which*				744.7		
Current spending envelope				*697.4*		
Capital spending envelope				*47.3*		
Memo: TME baseline for years beyond 2014-15[4]	*686.6*	*723.3*	*735.9*	*744.7*	*755.1*	*765.5*
Average annual real growth	*SR10 period*		*-0.6%*	*Beyond SR10 period*		*-0.7%*

[1] In 2012-13, TME is temporarily reduced by a £28 billion capital grant to the public sector resulting from the transfer of assets from the Royal Mail Pension Plan to the public sector. For budgeting purposes, income from this transaction is treated as Capital AME.

[2] Current expenditure is affected by switches between AME and Local Government DEL from 2013-14. For a full breakdown of these switches, see Box 4.2 of the OBR's Economic and fiscal outlook. The net transfer from Resource DEL to Resource AME is (£ billion):

	2013-14	2014-15	2015-16	2016-17	2017-18
	6.5	*7.0*	*7.3*	*7.7*	*8.6*

[3] DEL plans shown net of Allowance for Shortfall. Resource DEL excluding ring-fenced depreciation is the Treasury's primary control within resource budgets and the basis on which Spending Review 2010 settlements were agreed. The OBR shows forecast public sector current expenditure in DEL and AME, and public sector gross investment in DEL and AME. A reconciliation is published by the OBR.

[4] The baseline for TME beyond 2014-15 is set before taking into account the effect of Autumn Statement 2012 measures and excludes the OBR's forecast for Allowance for Shortfall in the Spending Review 2010 period. The average annual real rate of TME growth beyond SR10 is lower than in the SR10 period as a result of excluding Autumn Statement 2011 capital measures in 2015-16, consistent with policy set at Autumn Statement 2011.

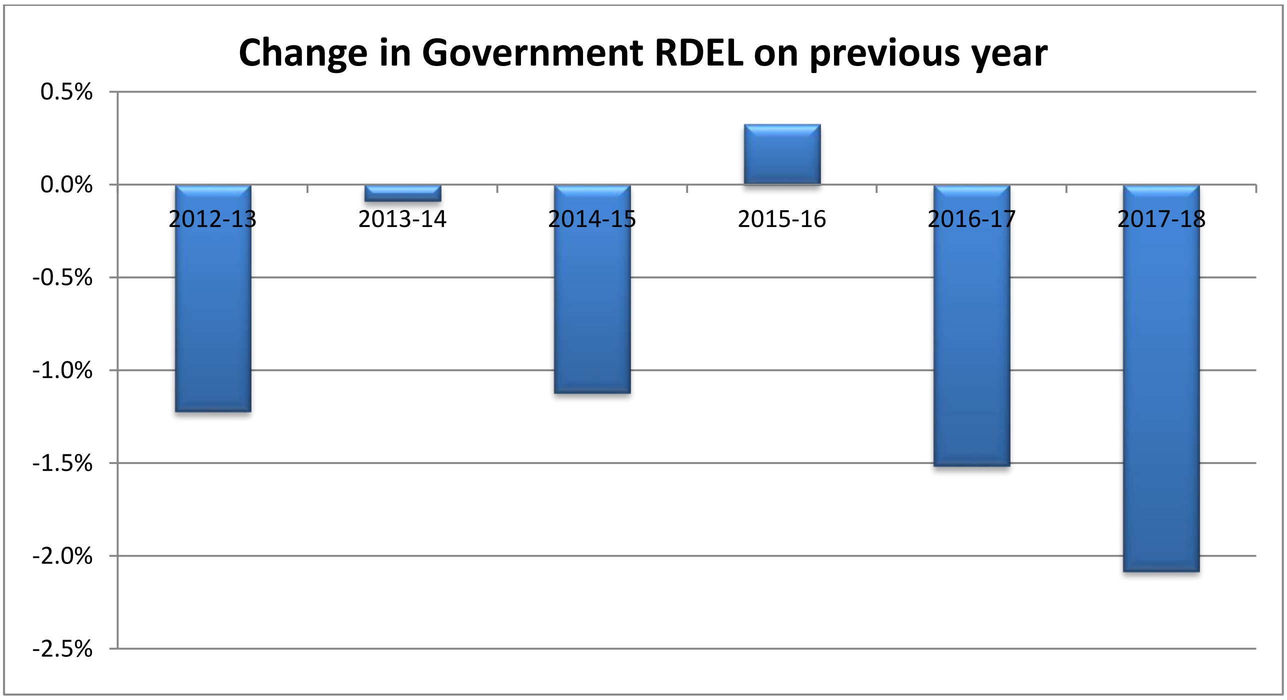
Source: 2012 Autumn Statement (Table 2.4 - p.60)

Figure 2 – Government RDEL 2012-13 to 2017-18

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
RDEL incl. depreciation	339.5	339.2	335.4	336.5	331.4	324.5
Cut in RDEL	-1.2%	-0.1%	-1.1%	0.3%	-1.5%	-2.1%

Source: 2012 Autumn Statement

Figure 3 – Percentage change in government RDEL 2012-13 to 2017-18



Source: 2012 Autumn Statement