

D2N2 Briefing: Autumn Statement 2016

1. Scene setting

- 1.1 The Chancellor said the UK economy has employment at a record high and unemployment at an 11 year low.
- 1.2 Brexit has thrown into “sharp relief” the fundamental strengths of the British economy.
- 1.3 The EU Referendum decision “makes it more urgent than ever to tackle our economy’s long term weaknesses”, like the productivity gap and housing.
- 1.4 He said the times have moved on, “and our task now is to prepare our economy to be resilient as we exit the EU.”
- 1.5 Government to maintain commitment to fiscal discipline “while recognising the need for investment to drive productivity.”
- 1.6 Key drivers for this statement are infrastructure investment and improving productivity.

2. Economic Forecasts

- 2.1 Today’s OBR forecast is for growth to be 2.1% in 2016, higher than forecast in March.
- 2.2 In 2017 the OBR forecast growth to slow to 1.4%, this is attributed to lower investment and weaker consumer demand which in turn is driven by greater uncertainty and inflation as a consequence of Brexit.
- 2.3 OBR forecast 1.7% growth in 2018, 2.1% in 2019 and 2020 and 2% in 2021.
- 2.4 OBR view on the referendum decision is that potential growth over the forecast period is likely to be 2.4 percentage points lower than would have otherwise been the case.
- 2.5 The UK Labour market is forecast to remain “robust”, this forecast suggests another 500,000 jobs will be created over the OBR forecast.
- 2.6 Over the past year, employment grew fastest in the North East, pay grew most strongly in the West Midlands, and every UK nation and region saw a record number of people in work.
In view of the uncertainty facing the economy, the government is no longer seeking a surplus in 2019/20. That will be achieved “as soon as practicable”. The Treasury has published a new draft charter for budgetary responsibility with three fiscal rules:
 - Return public finances to balance as early as possible in next Parliament.
 - Public sector net debt as a share of GDP must be falling by the end of this Parliament.
 - Welfare spending must be within a cap set by HMG and monitored by OBR.
- 2.7 Tax receipts are lower than expected this year. OBR now forecast in cash terms that borrowing is to be £68.2bn this year falling to £59bn in 2017-18, £46.5bn 2018-19, £21.9bn in 2019-20 and £20.7bn in 2020-21.
- 2.8 Public Sector borrowing as a percentage of GDP will fall from 4% last year to 3.5% this year and fall to 0.7% in 21/22.
- 2.9 Increased forecast for debt in the near term according to OBR is 84.2% of GDP this year, peaking at 90.2% of GDP in 2017/18 and falling after that.

The Chancellor said there is “an urgent need to address this fiscal challenge”. He is choosing to “prioritise additional high value investment”, namely in infrastructure and innovation, that will directly contribute to raising Britain’s productivity. “We can fund this commitment from additional borrowing.”

3. Productivity

- 3.1 The Chancellor described the current productivity gap as “shocking”.
- 3.2 It takes a German worker four days to produce what a UK worker does in five. “Raising productivity is essential for a high wage high skills economy.” The Chancellor announced a new ‘Productivity Investment Fund’ of £23bn to be spent on innovation and infrastructure. The Chancellor outlined how this will be used:

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4. Research and Innovation

- 4.1 The Chancellor confirmed additional investment in R&D (originally announced by the Prime Minister on Monday 21st November) rising to an extra £2bn per year by 2021.

5. Housing

5.1 The effect of unaffordable housing on the nation's productivity is "an urgent priority".

5.2 The Communities Secretary will bring forward a housing white paper "in due course" addressing the long term challenges.

5.3 To provide affordable housing the government will invest a further **£1.4bn to deliver 40,000 additional affordable homes.**

5.4 Government will relax the restriction on the government grant to allow providers to build a wider range of housing types.

5.5 There will be a large scale regional pilot of right to buy for housing association tenants. Over the course of this Parliament the government expects to "more than double" in real terms annual capital spending on housing.

6. Infrastructure investment

6.1 The Government will focus infrastructure investment to unlock land for housing with a new **£2.3bn housing infrastructure fund** to deliver infrastructure for up to 100,000 new homes "in areas of high demand".

6.2 The chancellor has asked the **National Infrastructure Commission** to make recommendations on future infrastructure needs of the country assuming HMG will invest 1-1.2% of GDP every year from 2020 in economic infrastructure.

6.3 Government backs NIC on interim recommendations on Oxford Cambridge Growth Corridor with £110m funding for East West Rail

6.4 Government committed to delivering Oxford to Cambridge express way.

7. Transport

7.1 Chancellor commits an additional **£1.1bn** of investment in English local transport networks.

7.2 **£220m** additionally to address traffic pinch points on strategic roads.

7.3 **£450m** to trial digital signalling on railways.

7.4 **£390m** to build on low emission vehicles and the development of "connected autonomous vehicles".

7.5 There will be a 100% first year capital allowance for electric vehicle charging infrastructure.

7.6 DoT will work with Transport for the North to develop options for the Northern Powerhouse Rail, and Transport Secretary will set out further details in coming weeks.

8. Digital Infrastructure

8.1 The UK is set to be a world leader in 5G. Government will invest over **£1bn in digital infrastructure** to boost private investment in fibre networks and support 5G trials.

8.2 From April the government will introduce 100% business rates relief for 5 year period on new fibre infrastructure.

8.3 The UK Guarantee Scheme is extended to at least 2026.

9. Chancellor announced four further measures to back business:

9.1 Doubling UK export finance capacity.

9.2 Funding Charlie Mayfield's business initiative to boost management skills across British businesses.

9.3 Injecting an initial **£400m** into venture capital funds through the British Business Bank.

9.4 Launch of a Treasury led review of barriers to accessing patient capital in the UK.

10. LEPs and English regions

10.1 The Chancellor said "we must drive up the performance of our regional cities".

10.2 The Chancellor has published a strategy for addressing productivity barriers in the **Northern Powerhouse**, and will give the go ahead for a programme of major road schemes in the North.

10.3 A similar strategy for **The Midlands Engine** will follow "shortly".

10.4 The Chancellor said they are investing in local infrastructure in all regions of England.

10.5 The Chancellor announced the allocation of **£1.8bn from the Local Growth Fund** to English regions. Overall numbers are as follows:

- **£556m** to LEPs in North of England
- **£392m** to LEPs in the midlands
- **£151m** to LEPs in the East of England

- **£492m** to London and the South East
- **£191m** to LEPs in the South West.

10.6 The Chancellor announced that a detailed breakdown will be announced to individual LEPs “shortly”.

11. Devolution

11.1 Government will grant new borrowing powers to support new mayoral combined authorities in England.

11.2 London will receive **£3.15bn** as its share of national affordable housing funding.

11.3 Government will devolve to London the adult education budget and a greater control of delivery of employment support services.

Departmental Spending Plans set out in SR 2015 to remain in place.

12. Taxation

12.1 Corporation tax falls to 17%.

12.2 Tax on insurance goes up to 12% from next June.

12.3 Small businesses in rural areas are given a tax break worth up to £2,900 per year by increasing the Rural Rate Relief.

12.4 Communities Secretary Rt Hon Sajid Javid MP will announce business rates relief for other companies later today (23rd November).

12.5 Fuel duty rise is frozen.

12.6 National Living Wage will increase from £7.20 to £7.50 in April 2017.