

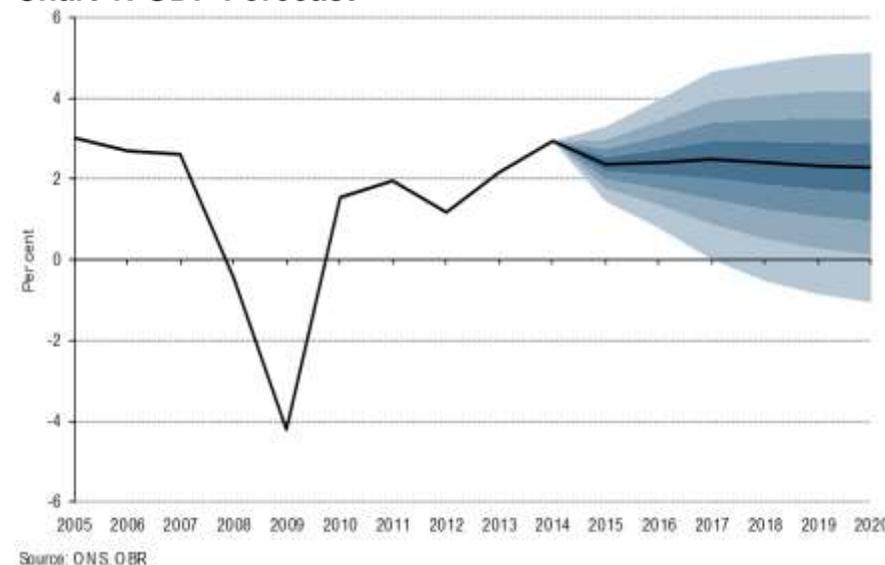
Update on the Economy and Autumn Statement 2015

1. An excessive level of Government debt, exacerbated by the international financial crisis led the Coalition Government to embark on a four year deficit reduction programme as part of the Government's Comprehensive Spending Review 2010. As a result of slower growth in the economy and higher borrowing than initially forecast the deficit reduction programme was extended to 2018-19. However, in July 2015, as part of the Chancellor's Summer Budget, it was announced that the Government plans to achieve a surplus on its budget by 2019-20.
2. The Office for Budget Responsibility (OBR) published its economic and fiscal outlook in November 2015. The report sets out forecasts for the economy and the public finances and an assessment of whether the Government is likely to achieve its fiscal mandate and supplementary target.
3. The latest central forecast shows a surplus of £10.1bn or 0.5% of GDP in that year, which means the Government is more likely than not to meet its new target on existing policy. Around half the change in Public sector net borrowing (PSNB) as a share of GDP over the next four years is accounted for by cutting day-to-day spending on public services, with the majority of that focused on 'unprotected' departments.
4. PSNB is forecast to fall to 3.9% of GDP in 2015-16 and then to fall each year for the remainder of the forecast period. The OBR forecasts that the public finances will

return a surplus of £10.1 bn in 2019-20 and £14.7 bn in 2020-21. Public sector net debt (PSND) is forecast to fall each year reaching 71.3% of GDP in 2020-21.

5. The November forecast for GDP produced by the OBR is shown in **Chart 1**.

Chart 1: GDP Forecast



6. The ONS has revised real GDP growth down from 1.9% to 1.5% in 2010, but then up by between 0.3% and 0.5% in each of 2011, 2012 and 2013. GDP growth in the year to the second quarter was 0.1% lower than forecast in July.
7. CPI inflation at November 2015 was 0.1%, which is below the Bank of England's 2% target and has been for 23

months. CPI is forecast to rise to the target by 2019. The downward trend reflects lower food and petrol prices, and the effects of past sterling appreciation. CPI is expected to reach 1.8 per cent by the second half of 2017.

Chart 2 illustrates the CPI forecast.

Chart 2: CPI Forecast

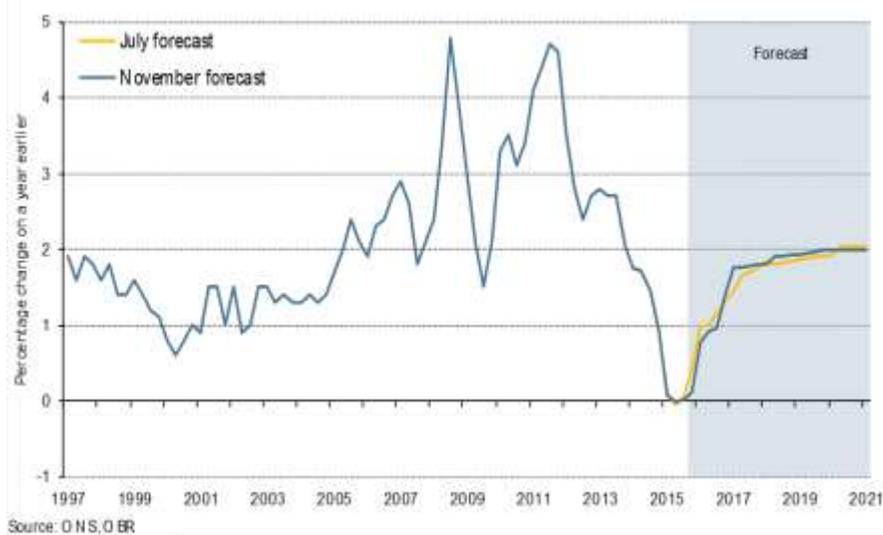
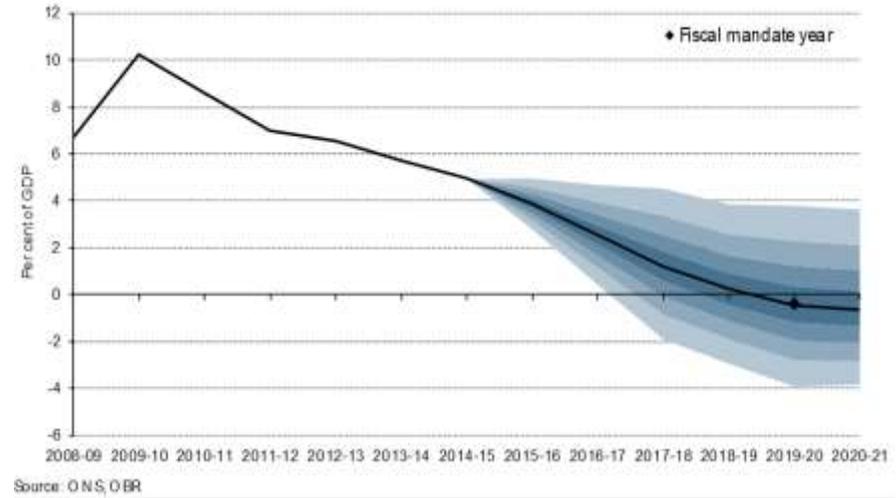


Chart 3 below shows the forecast for public sector net borrowing (PSNB).

Chart 3: Public Sector Net Borrowing Forecast



8. The Governments fiscal mandate requires a surplus on public sector net borrowing by the end of 2019-20 and in each subsequent year. It is supplemented by a target for public sector net debt (PSND) to fall as a percentage of GDP in each year to 2019-20. The new supplementary target requires PSND as a percentage of GDP to be falling in each year rather than a previously fixed date in 2016-17.
9. Public sector net borrowing peaked at 10.2 per cent of GDP (£153.5 bn) in 2009-10 as the late 2000s recession and financial crisis dealt the public finances a significant blow. Fiscal consolidation and economic recovery then reduced the deficit to 4.9% of GDP (£90.1 bn) by 2014-15 (excluding the impact of the housing association reclassification).

10. The table below shows how the GDP forecast has changed since July and how the deficit is expected to fall as a share of GDP over the coming years.

	Percentage change on a year earlier						
	2014	2015	2016	2017	2018	2019	2020
Current GDP							
Growth Forecast	2.9	2.4	2.4	2.5	2.4	2.3	2.3
Change from July Forecast	-0.1	-0.1	0.1	0.1	0.0	0.0	-0.1
Public Sector Net Borrowing (PSNB) as % of GDP	5.2	3.9	2.5	1.2	0.2	-0.5	-0.6
Change from July Forecast of PSNB as % of GDP	0.9	-0.5	-2.9	-7.9	-8.0	-3.8	-4.4

Key Points from the Comprehensive Spending Review and Autumn Statement 2015

11. The Spending Review and Autumn Statement set out how the government will cut the forecast deficit by three quarters by 2016-17 from its peak, eliminate it altogether by 2019-20 and deliver a £10.1 bn surplus.
12. Public sector net borrowing is forecast to fall to 3.9% of GDP in 2015-16 and then to fall each year for the remainder of the forecast period. Public sector net debt is forecast to fall each year reaching 71.3% of GDP in 2020-21.
13. Total managed expenditure is forecast to decline by 3.2% of GDP, from 39.7% in 2015-16 to 36.5% in 2019-20.
14. The UK labour market has performed well compared to other major advanced economies. Since Q1 2010 the UK employment rate grew more than in any other G7 country and employment has increased by more in the UK than the rest of the European Union (EU) combined.
15. The Summer Budget announced a new mandatory National Living Wage from April 2016 at £7.20, for workers aged 25 and above. The introduction will lead to a £900 cash increase in earnings for a full-time worker on the current National Minimum Wage (NMW) next year.
16. Core schools budgets will be protected, in real terms, enabling the per pupil rate for the Dedicated Schools Grant to be protected in cash terms, including £390 million of additional funding given to the least fairly funded areas in 2015-16.
17. An apprenticeship levy will be introduced from April 2017 as announced in the summer budget. It will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 as an offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million and that less than 2% of UK employers will pay it.
18. By 2020 local government will retain 100% of business rate revenues to fund local services, giving them control of £13 billion of additional local tax revenues, and £26 billion in total business rate revenues. However this will be accompanied by further devolved responsibilities (to be

determined) and used to replace existing funding streams e.g. Public Health Grant.

19. The doubling of the Small Business Rate Relief (SBRR) will be extended for a further year from 1 April 2016.
20. The government will deliver its commitment to £12bn to Local Enterprise Partnerships (LEPs) between 2015 and 2021 for the Local Growth Fund announced in the spending round 2013. The Great Yarmouth and Lowestoft Enterprise Zone was approved for expansion at the CSR and Autumn Statement which will attract new business and create jobs.
21. The Spending Review created a social care precept to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on adult social care. The precept will work by giving local authorities the flexibility to raise council tax in their area by up to 2% above the existing threshold.
22. The government will continue the Better Care Fund, maintaining the NHS's mandated contribution in real terms over the Parliament. From 2017 the government will make funding available to local government, worth £1.5 billion in 2019-20, to be included in the Better Care Fund.
23. The NHS will receive £10bn more in real terms by 2020-21 than in 2014-15, with £6bn available by the first year of the Spending Review so that the government fully funds the NHS's own Five Year Forward View.
24. Free childcare entitlement will double from 15 hours to 30 hours a week for working families with three and four year olds from September 2017, worth up to £5,000 per child.
25. Investment in roads will see the Government provide £250 million over the next 5 years to tackle the potholes that blight our local roads, on top of nearly £5 billion of funding for roads maintenance.
26. The state pension will rise to £119.30 per week in April 2016, and sets the rate of the new single tier pension at £155.65 per week.
27. The personal allowance will be increased to £12,000 by the end of the parliament, with an increase to £11,000 in April 2016. The higher rate threshold will increase from £42,385 in 2015-16 to £43,000 in April 2016.