Update on the Economy and Autumn Statement 2016

1. In July 2015, as part of the Chancellor's Summer Budget, it was announced that the Government planned to achieve a surplus on its budget by 2019-20. The Autumn Statement 2016 stated the Government is no longer on course to balance the budget during the current Parliament and has formally dropped this ambition in a significant loosening of its fiscal targets.

2. Continuing to reduce the deficit is still vital for a strong and stable economy. However, given the weaker growth outlook and with any likely Brexit outcome leading to lower trade flows, lower investment and lower net inward migration than we would otherwise have seen, the government will no longer seek to reach a fiscal surplus in this Parliament but at the earliest possible date.

3. The Office for Budget Responsibility (OBR) published its economic and fiscal outlook in November 2016. 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.

4. In August 2016 the Monetary Policy Committee (MPC) announced a monetary stimulus package to support economic growth and achieve a sustainable return of inflation to target by:
    a. Cutting the Bank Rate from 0.5% to 0.25%
    b. Extending the quantitative easing programme. The Bank of England will purchase UK government bonds and corporate bonds.
    c. Introduced a new Term Funding Scheme to enable banks to pass on the new Bank Rate cut to businesses and households.

5. The Autumn Statement forecasts a budget deficit of £20.7bn by 2020-21, compared to a £11bn surplus previously forecast in March.

6. The Statement set out three proposed targets for borrowing, debt and welfare spending:
    a. The structural deficit to be below 2% of GDP in 2020-21.
    b. Public sector net debt to fall as a percentage of GDP, but only by 2020-21 rather than in every year from now.
    c. A sub-set of welfare spending to be below a new welfare cap that has been set for 2021-22 only.

7. In 2016-17, public sector income is estimated to amount to £710.6bn, equivalent to 36% of national income. The majority of the income is generated from income tax and national insurance contributions. In the same period the public sector is expected to spend £778.8bn, therefore creating a budget deficit, known as 'public sector net borrowing' (PSNB) and the Government will borrow to fund the deficit. In future years' income is expected to rise faster than spend reducing the budget deficit over the Parliament.

8. Public Sector Net Borrowing is also higher than forecast from Budget 2016 reflecting primarily the impact of lower growth on tax revenues. It is now forecast as £68.2bn for

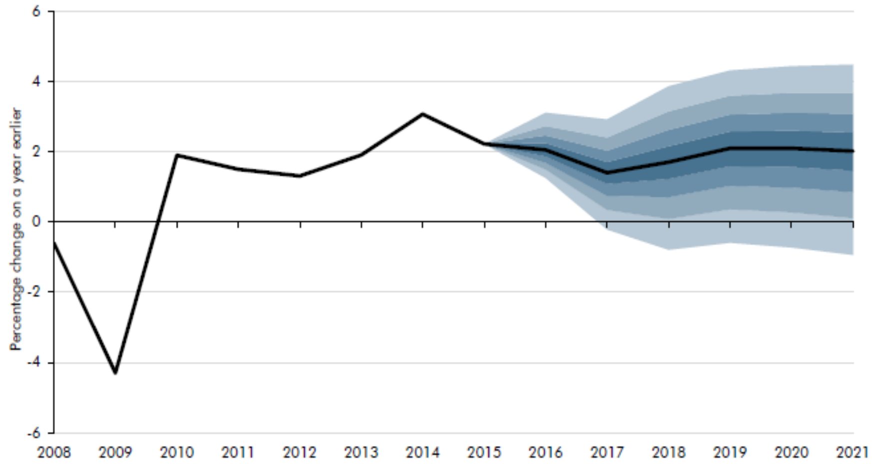
2016-17 and will fall to £20.7bn at 2020-21 (Budget 2016 forecast was £55.5bn to surplus £11.0bn over the same period). The deterioration is partly driven by lower receipts (income tax and national insurance contributions), higher spending on the Universal Credit roll out, the decision not to go with the Personal Independence Payment proposed at Budget 2016 and higher interest payments on debt (as debt increases).

9. The Government runs a deficit much more often than a surplus therefore a level of debt is outstanding. The measure of debt is the 'public sector net debt' (PSND). The debt is also higher than forecast at Budget 2016, in every year, and peaks at 90.2% of GDP in 2017-18. This is partly due to higher government borrowing and due to the liabilities created by the MPC as mentioned in paragraph 4.

10. Taking all this into account, the economy will grow more slowly than expected in March, with GDP growth in 2017 revised down from 2.2% to 1.4% and cumulative growth over the whole forecast period revised down by 1.4%. A weaker outlook for investment and therefore productivity growth being the main cause. Inflation is forecast to peak at 2.6% and unemployment to rise modestly to 5.5% during 2018. Subdued earnings growth and higher inflation mean that real income growth stalls in 2017.

11. The forecast for GDP produced by the OBR is shown in Chart 1. The chart presents the central forecast with a fan that represents the probability of different outcomes. The black line shows the median forecast and the fan representing 20% probability bands.

Chart 1: GDP Forecast

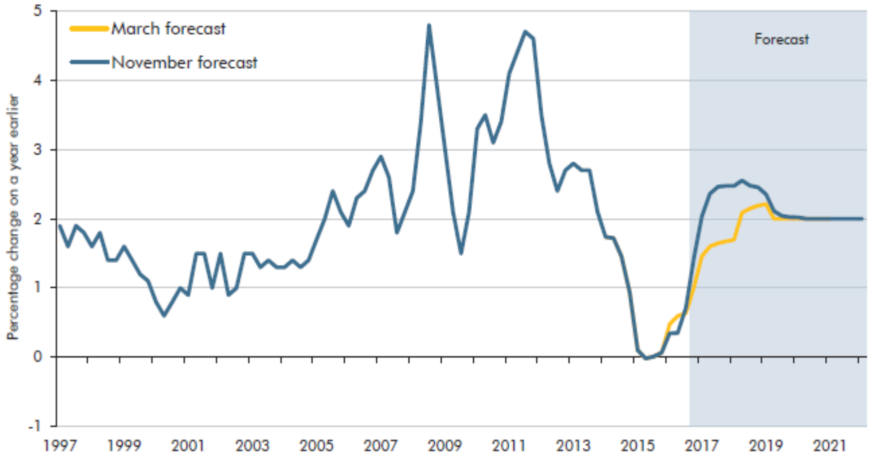


Source: ONS, OBR

12. CPI inflation has slowed in recent years falling from a peak of 5.2% in September 2011. Fuel prices have started to increase internationally therefore inflation has started to rise in recent months and now stands at 1.2% in November 2016. CPI is assumed to return slowly to target over the following two years.

Chart 2 illustrates the CPI forecast.

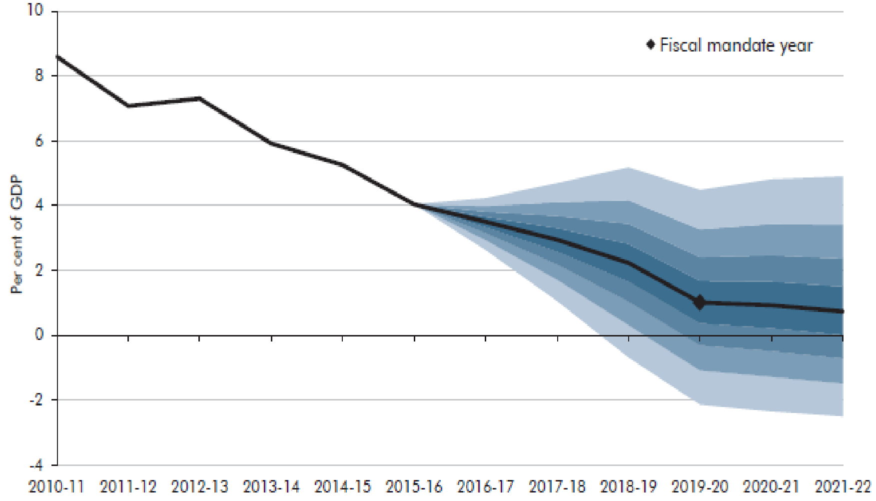
Chart 2: CPI Forecast



Source: ONS, OBR

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

Chart 3: Public Sector Net Borrowing Forecast



Source: ONS, OBR

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

	Percentage change on a year earlier					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Current GDP Growth Forecast	2.2	2.1	1.4	1.7	2.1	2.1
Change from March Forecast	- 0.0	0.1	- 0.8	- 0.4	0.0	- 0.0
Public Sector Net Borrowing (PSNB) as % of GDP	4.0	3.5	2.9	2.2	1.0	0.9
Public Sector Net Debt (PSND) as % of GDP	84.2	87.3	90.2	89.7	88.0	84.8

Key Points from the Autumn Statement 2016

14. The Autumn Statement reiterated how the government has taken steps to improve growth prospects and reduce the deficit since 2010. The OBR judges that there will now be a period of economic uncertainty as the UK negotiates its departure from the EU.

15. The new fiscal framework provides the space for additional investment in the productive capacity of the UK economy through the National Productivity Investment Fund (NPIF). The fund will target fours areas; transport, digital communications, research & development and housing. Productivity determines living standards in the long term and improving it is key to increasing wages.

16. The NPIF will provide an additional £1.1bn by 2020-21 in new funding to relieve congestion and deliver much needed upgrades on local roads and transport networks. It will also provide £0.7bn over the same period to support the market roll out of full fibre connections and future 5G communications.

17. A new 100% business rates relief for new fibre infrastructure for a 5 year period from 1 April 2017, designed to support roll out to more homes and businesses.

18. The NPIF also confirms funding of £1.4bn for 40,000 new home starts by 2020-21. Along with a Housing Infrastructure Fund of £2.3bn by 2020-21 for local government to bid for, to provide infrastructure to unlock new private house building.

19. Business case funding of £1m awarded from the Local Majors Fund (Department of Transport) for the Suffolk Energy Gateway new road.

20. The government is committed to the overall departmental resource spending plans set out at Spending Review 2015 and delivering the £3.5bn of additional savings in 2019-20 announced at Budget 2016.

21. Local Enterprise Partnerships were awarded £1.8bn through the third round of Growth Deals, an award of £151m for the East of England which New Anglia LEP is part of. The Government will also consult on lending local authorities up to £1bn at a new local infrastructure rate of gilts +60 basis points for three years to support infrastructure projects that are high value for money.

22. The 2015 Summer Budget announced a new mandatory National Living Wage from April 2016 at £7.20, for workers aged 25 and above. The level will rise to £7.50 from April 2017, with a target to increase it to £9 by 2020.

23. An apprenticeship levy will be introduced from April 2017 as announced in the 2015 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.

24. Rural Business rate relief will increase from 50% to 100% from 1 April 2017 providing a benefit for businesses of up to £2,600. Relief is applied in a rural area with a population of less than 3,000. The business needs to be:

    a. the only village shop or post office and have a rateable value of less than £8,500.
    b. The only pub or petrol station and have a rateable value of less than £12,500.

25. Corporation tax has reduced from 2010 from 28% to 20% and will be further reduced to 17% by 2020.

26. The standard rate of Insurance Premium Tax will rise to 12% from 1 June 2017.

27. The personal allowance will be increased to £12,500 and the higher rate threshold to £50,000 by the end of the parliament. From April 2017 the personal allowance will rise to £11,500 and the higher rate threshold to £45,000.