



The Chancellor's Autumn Statement

November 2011

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The Chancellor presented his Autumn Statement on 29th November 2011, which was originally intended to be a lower key affair than his predecessor's 'pre Budget' speeches.

This year's Statement came against a backdrop of the Eurozone Sovereign Debt crisis (which is having a significant impact on global economies and stock markets), rising youth unemployment and slowing economic growth.

The focus remains on reducing the deficit and improving prospects for growth. The measures announced were broken down into three areas, protecting the economy, building a stronger economy for the future, and fairness. The main points are set out below.

Protecting the economy

The Office for Budget Responsibility (OBR) has updated its forecasts for economic growth. As a consequence of the financial and economic background they are expecting slower growth and higher borrowing in the UK than originally predicted.

Amongst its plans to ensure that fiscal targets are met, the Government intends to:

- Set plans for public spending in 2015-16 and 2016-17 in line with spending reductions over the 2010 Spending Review period
- Set public sector pay awards at an average of 1% for each of the two years (2013-15) after the current pay freeze comes to an end. Departmental budgets will be adjusted in line with the policy, with the exception of the health and schools budgets, where savings made will be redirected
- Adjust the allocation of Official Development Assistance in line with the OBR's revised growth forecast, meeting the 0.7% of Gross National Income target in 2013
- Raise the State Pension age to 67 between April 2026 and April 2028
- Not increase the child element of the Child Tax Credit by more than inflation, and not up-rate the couple and lone parent elements of the Working Tax Credit by inflation next year

The Chancellor also committed to help ease the flow of credit for smaller and medium sized businesses, including:

- Making available up to £20 billion through the National Loan Guarantee Scheme to lower the cost of bank loans for smaller businesses
- Providing an initial £1 billion Business Finance Partnership, which will lend to mid-sized businesses and SMEs in the UK through non-bank channels

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Building a stronger economy for the future

The measures announced focus on investing in infrastructure and supporting enterprise. These comprise of additional infrastructure spending over the Spending Review period, of which £1.3 billion was announced earlier in the Autumn.

- Investing over £1 billion to tackle areas of congestion and improve the national road network
- Committing £170 million of extra funding to allow more local transport projects to go ahead
- Investing £100 million to create 'super-connected' cities across the UK, with 80-100 megabits per second broadband and city-wide high-speed mobile connectivity
- Increasing the Regional Growth Fund by £1 billion
- £600 million of funding for an estimated 100 additional free schools, alongside an extra £600 million for Local Authorities in England with the greatest pressure on school places
- Around £1 billion of new private sector investment in regulated industries supported by a Government guarantee
- Commitments to £5 billion of capital projects in the next Spending Review as part of the National Infrastructure Plan
- Targeting up to £20 billion of private sector investment in infrastructure through a Memorandum of Understanding with two groups of UK pension funds and establishing the Infrastructure Investors Forum with the Association of British Insurers
- A new Seed Enterprise Investment Scheme (SEIS) from April 2012
- 100 per cent capital allowances in Sheffield, the Black Country, Liverpool, Tees Valley, North Eastern and Humber Enterprise Zones
- A new build indemnity scheme for builders and lenders to stimulate the construction of new homes

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The Chancellor committed greater support for families and businesses as a result of the current economic climate, high inflation and youth unemployment. The Government will:

- Defer the 3.02 pence per litre fuel duty increase due to take effect on 1 January 2012 to 1 August 2012; the second increase planned for 1 August 2012 will be cancelled
- Increase the bank levy to 0.088% from 1 January 2012 (an increase of 10%), consistent with the Government's intention that it raises at least £2.5 billion each year
- Ensure employers making asset-backed pension contributions do not receive unintended excess tax relief. A consultation document and draft legislation has been issued on this subject
- Proceed with the extension of Air Passenger Duty (APD) to flights aboard business jets, effective from April 2013 – details will be set out in the Government's response to the APD consultation on 6 December 2011
- Introduce a Youth Contract worth a total of £940 million over the Spending Review period to provide wage incentives for small firms to take on young apprentices and employees
- Provide extra support for 18-24 year olds through Jobcentre Plus, and an offer of work experience or a sector based work academy for those on Jobseeker's Allowance for over three months
- Fund a new £50 million a year programme to encourage disadvantaged 16-17 year olds into education, provide an Apprenticeship or a job with training
- Invest a further £380 million a year by 2014-15 to support 130,000 more disadvantaged two year olds with the offer of 15 hours free education and care a week

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The UK Stock Market reacted positively to the Chancellor's Statement with the FTSE 100 index closing on a seven day high, well above the 5,300 mark and the FTSE 250 closing above 10,000.

Unsurprisingly, with the bank levy announcement, the banking sector held some of the biggest fallers with Lloyds Banking Group the largest fall of the day, down by 2.6%.

Whilst the Chancellor's Statement boosted UK market sentiment, focus continues to be on the Eurozone situation and that its leaders will be able to overcome the prevailing Sovereign Debt Crisis and help the struggling economies.

In terms of the Office for Budget Responsibility forecasts there were no major surprises as many of the measures were either predicted or leaked in advance. Though the Office for Budget Responsibility has not forecasted recession for the UK, the ongoing problems in the Eurozone economies could still drag the UK back into that position if they are not resolved, with a recession already likely in much of Europe.

The measures to lower the cost of bank loans for small businesses are welcomed as another positive step to boost this vital sector of the UK economy. With an estimated 13.8m people in the UK working for a SME (almost 60% of private sector employment) it is imperative that this sector of the economy continues to receive support to drive growth.

However, plans to delay pension scheme auto enrolment for firms employing 49 or fewer staff are not as warmly welcomed as this delay presents risk to the retirement prospects of a large number of people and presents another unwelcome reason for people to delay their pension saving for yet another year.

We would counsel every employer to bring forward their pension scheme enrolment plans or aim to meet or exceed the original implementation date.

The boost to sophisticated private investors, with the announcement of a new Enterprise Investment Scheme alongside the removal of the £1m cap on companies which Venture Capital Trusts can invest in, will be seen as advantageous by some. At all levels of the income spectrum the combination of the cancellation of the January fuel price increases, the extension of free nursery places and the plans to get the young jobless into work will be welcomed.

The information in this summary is based upon Origen Financial Services' understanding of the Chancellor's Autumn Statement. It is not intended to be read as financial advice.

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