HM TREASURY

Autumn Forecast Statement: Chancellor of the Exchequer, Rt Hon George Osborne MP

Check against delivery

Mr Speaker.

Let me start by placing squarely before the House of Commons and the British public the economic situation facing our country.

Much of Europe now appears to be heading into a recession caused by a chronic lack of confidence in the ability of countries to deal with their debts.

We will do whatever it takes to protect Britain from this debt storm, while doing all we can to build the foundations of future growth.

Today we set out how we will do that:

By demonstrating that this country has the will to live within its means and keep interest rates low;
By acting to stimulate the supply of money and credit, to make sure those low interest rates are passed on to families and businesses;
By matching our determination on the deficit with an active enterprise policy for business and with lasting investment in our infrastructure and education, so that Britain can pay its way in the future.
And at every opportunity helping families with the cost of living.

The central forecast we publish today from the independent Office for Budget Responsibility does not predict a recession here in Britain.

But they have, unsurprisingly, revised down their short term growth prospects for our country, for Europe and for the world.

They expect GDP in Britain to grow this year by 0.9% - and by 0.7% next year.

They then forecast 2.1% growth in 2013; 2.7% in 2014.

Followed by 3% in 2015 and 3% again in 2016.

The OBR are clear that this central forecast assumes - in their words - "the euro area finds a way through the current crisis and that policymakers eventually find a solution that delivers sovereign debt sustainability".

If they do not, then they warn that there could be a "much worse outcome" for Britain.

I believe they are right. We hope this can be averted.

But if the rest of Europe heads into recession, it may prove hard to avoid one here in the UK. We are now undertaking extensive contingency planning to deal with all potential outcomes of the euro crisis.

Like the Bank of England and the OECD yesterday, the OBR cites the chilling effect of the current instability as one of the central reasons for the reduction in their growth forecast.

And I want to thank Robert Chote, and his fellow Committee members Steve Nickell and Graham Parker, and their team for the rigorous work they have done.

Their forecast today demonstrates beyond any doubt that their independence is unquestioned.

But if we accept their numbers we must also pay heed to their analysis.

And in addition to the Eurozone crisis, the OBR give two further reasons for the weaker forecasts.

First, what they call the "external inflation shock", "the result of unexpected rises in energy prices and global agricultural commodity prices".

Their analysis is that this explains the slowdown in growth in Britain over the past 18 months.

Second, the OBR show new evidence that an even bigger component of the growth that preceded the financial crisis was an unsustainable boom.

And that the bust was deeper and had an even greater impact on our economy than previously thought.

The result is that the OBR have significantly reduced their assumptions about the spare capacity in the economy - and the trend rate of growth.

And this increases their estimate of the proportion of the deficit that is structural - in other words, the part of the deficit that doesn't disappear even when the economy recovers.

So our debt challenge is even greater than we thought because the boom was even bigger, the bust even deeper, and the effects will last even longer.

Britain has had the highest structural budget deficit of any major economy in the world - and the highest deficit in the entire history of our country outside of war.

This OBR analysis feeds directly through to borrowing numbers that are falling but not at the rate that had been forecast.

In 2009-10 borrowing was £156 billion a year.

Last year that fell to £137 billion.

This year the OBR expect it to fall again to £127 billion.

Then £120 billion next year;

Followed by £100 billion in 2013-14;

£79 billion in 2014-15.

Then £53 billion in 2015-16;

And £24 billion a year by 2016-17.

However, I can report that because of the lower market interest rates we have secured for Britain, debt interest payments over the Parliament are forecast to be £22 billion less than predicted.

The House might also like to know - given the economic events described by the Office for Budget Responsibility - what would have happened to borrowing without the action this Government has taken.

The Treasury today estimates that borrowing by 2014-15 would have been running at well over one hundred billion a year - and Britain would have borrowed an additional hundred billion pounds in total over the period.

If we had pursued that path, we would now be in the centre of the sovereign debt storm.

The crisis we see unfolding in Europe has not undermined the case for the difficult decisions we've taken, it has made it stronger.

We held our deficit reduction budget on our own terms last year - not on the market's terms this year.

In that Budget we set out a tough fiscal mandate - that we would eliminate the current structural deficit over the five year forecast horizon.

We supplemented the mandate with a fixed debt target - that we would get national debt as a proportion of national income falling by the year 2015-16.

To be cautious, I set plans to meet both these budget rules one year early.

That headroom has now disappeared.

But I am clear that our rules must be adhered to.

And I am taking action to ensure that they are.

As a result, the OBR's central projection is that we will meet both the fiscal mandate and the debt target.

The current structural deficit is forecast to fall from 4.6% of GDP this year to a current structural surplus of 0.5% in five years time.

And the debt to GDP ratio - which is forecast to stand at 67% this year - is now set to peak at 78% in 2014-15 and be falling by the end of the Parliament.

So borrowing is falling and debt will come down.

It is not happening as quickly as we had wished because of the damage done to our economy by the ongoing financial crisis.

But we are set to meet our budget rules.

And we are going to see Britain through the debt storm.

Mr Speaker.

There is a suggestion from some that if you spend more, you will borrow less.

This is something-for-nothing economics.

And the House should know the risks that we would be running.

Last April, the absence of a credible deficit plan meant our country's credit rating was on negative outlook and our market interest rates were higher than Italy's.

Eighteen months later and we are the only major western country which has had its credit rating improve.

Italy's interest rates are now 7.2%.

And what are ours?

They are less than 2.5%.

Yesterday, we were even borrowing money more cheaply than Germany.

Those who would put all that at risk by deliberately adding to our deficit must explain this.

Just a one per cent rise in our market interest rates would add £10 billion to mortgage bills every year.

One per cent would mean the average family with a mortgage would have to pay £1,000 more.

One per cent would increase the cost of business loans by £7 billion.

One per cent would force taxpayers to find an extra £21 billion in debt interest payments, much of it going to our foreign creditors.

In other words, one per cent dwarfs any extra government spending or tax cut funded by borrowing that people propose today.

And that's the cost of just a one per cent rise.

Italy's rates have gone up by almost 3% in the last year alone.

We will not take this risk with the solvency of the British economy and the security of British families.

The current environment requires we take further action on debt to ensure Britain continues to live within its means.

This is what we propose to do.

First, there is no need to adjust the overall totals set out in the Spending Review.

Taken all together, the measures I will set out today require no extra borrowing and provide no extra savings across the whole Spending Review period.

Second, I am announcing significant savings in current spending to make the fiscal position more sustainable in the medium and long term.

But in the short term - over the next three years - we will use these savings to fund capital investments in infrastructure, regional growth and education as well as help for young people to find work.

Every pound spent in this way will be paid for by a pound saved permanently.

This includes savings from further restraint on public sector pay.

For some workforces, the two year pay freeze will be coming to an end next spring, for most during 2013.

In the current circumstance the country cannot afford the two per cent rise assumed by some government departments thereafter.

So instead, we will set public sector pay awards at an average of 1% for each of the two years after the pay freeze ends.

Many are helped by pay progression - the annual increases in salary grades that many people are entitled to, even when pay is frozen.

It is one of the reasons why public sector pay has risen at twice the rate of private sector pay over the last four years.

So while I accept that a 1% average rise is tough; it is also fair to those who work to pay the taxes that will fund it.

I can also announce that we are asking the independent Pay Review Bodies to consider how public sector pay can be made more responsive to local labour markets - and we will ask them to report back by July next year.

This is a significant step towards creating a more balanced economy in the regions of our country that does not squeeze out the private sector.

Departmental budgets will be adjusted in line with the pay rises I have announced, with the exception of the NHS and the school budgets - where the money saved will be retained in order to protect those budgets in real terms.

This policy will save over £1 billion in current spending by 2014-15.

The deal we offer on public sector pensions is also fair to both taxpayers and public servants.

The reforms are based on the independent report of John Hutton, a former Pensions Secretary, and he says "it hard to imagine a better deal than this".

I would once again ask the unions why they are damaging our economy at a time like this - and putting jobs at risk.

Call off the strikes tomorrow, come back to the table, complete the negotiations - and let's agree generous pensions that are affordable to the taxpayer.

Let me turn to other areas of public spending, starting with overseas aid.

This Government will stick by the commitments it has made to the poorest people in the world by increasing our international development budget - and the whole House should be proud of the help our country is providing to eradicate disease, save lives and educate children.

But the spending plans of the Department for International Development meant that the UK was on course to exceed 0.7% of national income in 2013.

That I don't think can be justified and so we are adjusting those plans so we don't overshoot the target.

Turning to welfare payments.

The annual increase in the basic state pension is protected by the triple lock introduced by this Government.

This guarantees a rise either in line with earnings, prices or 2.5% - whichever is greater.

It means that the basic state pension will next April rise by £5.30 to £107.45 - the largest ever cash rise in the basic state pension and a commitment of fairness to those who have worked hard all their lives.

I wanted to make sure that poorer pensioners did not see a smaller rise in their income.

So I can confirm today that we will also uprate the pension credit by £5.35 - and pay for this with an increase in the threshold for the Savings Credit.

I also want to protect those who are not able to work because of their disabilities and those, who through no fault of their own, have lost jobs and are trying to find work.

So I can confirm that we will uprate working age benefits in line with September's CPI inflation number of 5.2%.

This will be a significant boost to the incomes of the poorest, especially when inflation is forecast to be considerably less than that by next April.

We will also uprate with prices the disability elements of tax credits, and increase the child element of the Child Tax Credit by £135 in line with inflation too.

But we will not uprate the other elements of the Working Tax Credit this coming year.

And given the size of the uprating this year, we will no longer go ahead with the additional £110 rise in the child element, over and above inflation, that was planned.

By April 2012, the Child Tax Credit will have increased by £390 since last May.

The best way to support low income working people is to take them out of tax altogether - and our increases in the income tax personal allowance this year and next will do that for over one million people.

Let me turn to future public spending.

Today I am setting expenditure totals for the two years following the end of the Spending Review period: 2015-16 and 2016-17.

Total Managed Expenditure will fall during that period by 0.9% a year in real terms - the same rate as set out for the existing period of the Spending Review, with a baseline that excludes the additional investments in infrastructure also announced today.

These are large savings and we will set out in future how resources will be allocated between different areas of government.

I am also announcing a measure to control spending is not for today or for next year or even for the next decade.

But it directly addresses the long term challenge Britain and so many other countries face with an ageing population.

Our generation has been warned that the costs of providing decent state pensions are going to become more and more unaffordable unless we take further action.

Let's not leave it to our children to take emergency action to rescue the public finances; let's think ahead and take responsible, sensible steps now.

So starting in the year 2026, we will increase the State Pension Age from 66 to 67 - so we can go on paying a decent pension to people who are living longer.

Australia, America, and Germany have all taken similar steps.

This will not affect anyone within 14 years of receiving their state pension today.

And by saving a staggering £59 billion it will mean a long term future for the basic state pension.

We are showing a world sceptical that democratic western governments can take tough decisions that Britain will pay its way in the world.

That is the first thing government can do in the current environment - keep our interest rates low and protect our country from the worst of the debt storm.

But we need to make sure that those low interest rates are available to families and to businesses.

It is monetary and credit policy which is - in a debt crisis - the principal and most powerful tool for stimulating demand.

Last month the Bank of England's Monetary Policy Committee decided to undertake further quantitative easing, and I have authorised an increase in the ceiling on their asset purchases to £275 billion.

This will support demand across the economy, but we must do more to help those small businesses who can't get access to credit at an affordable price.

We have already extended the last government's Enterprise Finance Guarantee scheme - and we are today expanding it to include businesses with annual turnovers of up to £44 million and accrediting new lenders like Metro Bank.

But this scheme is by itself not nearly ambitious enough - and never will be within the constraints of state aid rules.

So the Government is launching a major programme of credit easing to help small business.

We have set a ceiling of £40 billion.

At the same time, I have agreed with Mervyn King that we will reduce by £40 billion the Asset Purchase Facility the previous government gave the Bank to buy business loans.

Only a small proportion of the facility was ever used.

I am publishing my exchange of letters with the Governor today.

So we are launching our National Loan Guarantee Scheme.

It will work on the simple principle that we use the hard-won low interest rates that the Government can borrow at, to reduce the interest rates that small businesses can borrow at.

We're using the credibility we've earned in the international markets to help our domestic economy.

New loans and overdrafts to businesses with a turnover of less than £50 million will be eligible for the scheme - so it stays focussed on smaller companies.

We expect it will lead to reductions of 1 percentage point in the rate of interest being charged to these companies.

So a business facing a 7% interest rate to get a £5 million loan could instead see their rate reduced to 6% and their interest costs fall by up to £50,000.

We have developed with the Bank of England a mechanism to allocate funding to different banks based on how much they increase both net and gross lending to firms.

And there will be a clear audit trail to ensure the banks comply - for we will use the experience of the European Investment Bank's Loans for SMEs programme here in the UK to ensure it works.

We are getting state aid approval so that the National Loan Guarantee Scheme will be up and running in the next few months.

Initially £20 billion of these guarantees will be available over the next two years.

Alongside it we are also launching a £1 billion Business Finance Partnership.

This is aimed at Britain's mid-sized companies - a crucial part of our economy, neglected for too long and now identified by the CBI Director General and others as a future source of growth.

The Government will invest in funds that lend directly to these businesses, in partnership with other investors like pension funds and insurance companies.

It will give these mid-cap companies a new source of investment outside the traditional banks.

If the Business Finance Partnership takes off, I stand ready to increase its size.

And we will develop further partnerships ideas and ideas for new bond issuance to help Britain's small and medium sized firms.

No government has attempted anything as ambitious as this before.

We will not get every detail perfect first time round - but we don't want to make the best the enemy of the good.

With the strain on the financial system increasing, the important thing is to get credit flowing to Britain's small businesses.

The Government can use the low interest rates we've secured to help young families too, who want to buy a home but can't afford the very large deposits that banks are now demanding.

We will use mortgage indemnities to help 100,000 such families buy newly built homes.

We will also help construction firms that can't get bank finance with a £400 million fund that will kick-start projects which already have planning permission.

And we are going to reinvigorate the Right to Buy.

This was one of the greatest social policies of all time. It brought home ownership within the reach of millions of aspiring families.

It was slowly and stealthily strangled, as discounts were cut and cut again.

We will bring it back to life.

Families in social housing will be able to buy their own homes at a discount of up to 50%.

And we will use the receipts to build, for every home purchased, a new additional affordable home.

So new homes for families that need them.

New home ownership for families who aspire to it.

New jobs in the construction industry so we get Britain building.

That's what our new Right to Buy will bring.

Mr Speaker, in the years leading up to the crash, our economy became dangerously over-dependent on the success of a poorly regulated City of London.

Meanwhile employment by businesses in a region like the West Midlands actually fell.

So by 2007 the government was relying on finance for one in every eight pounds raised in taxes.

That left Britain completely exposed when the banks failed - and I can confirm that next month we will publish our response to the report we commissioned from John Vickers to protect taxpayers better.

And it is this Government's policy to ensure we remain the home of global banks and that London is the world's pre-eminent financial centre.

That is why we will not agree to the introduction of an EU Financial Transaction Tax.

It is not a tax on bankers; it is a tax on people's pensions.

Instead we've introduced a permanent bank levy to make sure the banks pay their fair share.

I have always said that we wished to raise £2.5 billion each and every year from this levy.

To ensure we do that I need to raise the rate of the levy to 0.088 per cent. This will be effective from 1st January next year.

We will also take action to stop some large firms using complex asset-backed pension funding arrangements to claim double the amount of tax relief that was intended.

This will save the Exchequer almost half a billion pounds a year.

Mr Speaker, financial services will always be a very important industry for the UK.

But we have to help other parts of the private sectors in other parts of the country grow.

That means uncongested roads and railways for businesses to move products, that cannot be reduced to a screen on a City trading floor.

It means providing secure power sources at reasonable prices.

It means creating new superfast digital networks for companies across our country.

These do not exist today.

See what countries like China or Brazil are building, and you'll also see why we risk falling behind the rest of the world.

So we are publishing the National Infrastructure Plan.

For the first time we are identifying over 500 infrastructure projects we want to see built over the next decade and beyond. Roads, railways, airport capacity, power stations, waste facilities, broadband networks.

And we are mobilising the finance needed to deliver them too.

The savings I've announced in the current budget have enabled me today to fund, pound for pound, £5 billion of additional public spending on infrastructure over the next three years.

New spending by Network Rail, guaranteed by the Government, will bring a billion pounds more.

And we are committing a further £5 billion to future projects in the next spending period, so the planning can start now.

This is public money.

And by exploring guarantees and letting city mayors borrow against future tax receipts we are looking for new ways to deploy it.

But we need to put to work the many billions of pounds that British people save, in British pension funds, and get those savings invested in British projects.

You could call it - British savings for British jobs.

The Government has negotiated an agreement with two groups of British pension funds, to unlock an additional £20 billion of private investment in modern infrastructure.

We can today give the go ahead around the country to 35 new road and rail schemes that support economic development.

In the North West.

We will electrify the transpennine express between Manchester and Leeds, build the Manchester Airport and Crewe link roads and work with Merseyside to turn the vision of the Atlantic Gateway into reality.

In Yorkshire and the Humber, there will be new stations and new tram capacity - and we will halve the tolls on the Humber Bridge.

I want to pay tribute to my HFs the Members for Beverley and for Brigg and Goole for campaigning with other local MPs over many years to make this happen. Under this Government it has.

In the North East we will bring forward investment on the Tyne and Wear Metro.

In the Midlands, the A45, the A43, the A453 link, the Kettering Bypass, and the M1 and M6 will all be improved.

In the South West, the Bristol link road and the A380 bypass will go ahead.

And for families across that region facing the highest water charges in Britain, the Government will cut the household bills of all South West Water customers by £50 a year.

In the East of England, we will make immediate improvements to the A14.

In the South East, we will build a new railway link between Oxford, Milton Keynes and Bedford that will create an estimated 12,000 new jobs.

Start working on a new crossing of the Lower Thames.

And we will explore all the options for maintaining the UK's aviation hub status, with the exception of a third runway at Heathrow.

Right here in London we will work with the Mayor on options for other new river crossings, for example at Silvertown.

And we will support the extension of the Northern Line to Battersea in partnership with the private sector. This could bring 25,000 new jobs to the area.

Devolved administrations in Scotland, Wales and Northern Ireland will get their Barnett share - and we're working with them to improve the links between our nations, such as the M4 in South Wales and the overnight rail service to north of the border.

This all amounts to a huge commitment to overhauling the physical transport infrastructure of our nation.

We will match it by overhauling the digital infrastructure too.

The Government is funding plans to bring superfast broadband to 90% of homes and businesses across the country, and extend mobile phone coverage to 99% of families.

This will help create a living, economically vibrant countryside.

Our great cities are at the heart of our regional economies.

And we will help bring world leading, superfast broadband and wifi connections to ten of them - including the capitals of all four nations.

We will go ahead with the 22 Enterprise Zones already announced - plus two further zones in Humber and Lancashire confirmed today.

And I can also confirm that capital allowances of 100% will be available to encourage manufacturing and other industries into the zones in Liverpool, Sheffield, the Tees Valley, Humber and the Black Country.

Those allowances will also be available to the North Eastern enterprise zone - and we will consider extending to the Port of Blyth to create new private sector jobs there.

This Government's new Regional Growth Fund for England has already allocated £1.4 billion to 169 projects around the country.

For every one pound we're putting in, we're attracting six pounds of private sector money alongside it.

I am today putting a further £1 billion over this Parliament into the Regional Growth Fund, with support as well for the devolved administrations.

For if we don't get the private sector to take a greater share of economic activity in the regions, then our country will become more and more unbalanced - as it did over the last ten years.

Government should not assume that this will happen by itself.

We must help businesses to grow and succeed.

We can do that at a national level too.

With our commitment to British science.

At a time of difficult choices, we made ours last year when we committed to protect the science budget.

Today we're confirming almost half a billion pounds for scientific projects, from supercomputing and satellite technology to a world-beating animal health laboratory.

And government can encourage many more of our small firms to export overseas for the first time.

So we're doubling to 50,000 the number of SME we help and extending support to British mid-caps who can sometimes lack the overseas ambition of their German equivalents.

We will make it easier for UK-based firms to compete for government procurement contracts and make new applications out of government data.

We will provide funds for smaller technology firms in Britain who find it difficult to turn their innovations into commercial success.

We have listened to the ideas from business groups about encouraging innovation in larger companies, and we will introduce a new 'above the line' research and development tax credit in 2013 that will increase its visibility and generosity.

And we will give particular help to our energy intensive industries.

I have not shied away from supporting sensible steps to reduce this country's dependency on volatile oil prices and reduce our carbon emissions.

I am the Chancellor who funded the first ever Green Investment Bank and introduced a Carbon Floor Price.

Our Green Deal will help people insulate their homes and cut their heating bills.

But I am worried about the combined impact of the green policies adopted not just in Britain, but also by the European Union, on some of our heavy, energy-intensive industries.

We are not going to save the planet by shutting down our steel mills, aluminium smelters and paper manufacturers.

All we will be doing is exporting valuable jobs out of Britain.

So we will help them with the costs of the EU Trading Scheme and the carbon price floor, increase their climate change levy relief and reduce the impact of the Electricity Market Reforms on these businesses too.

This amounts to £250 million package over the Parliament.

And it will keep industry and jobs here in Britain.

It is a reminder to us all that we shouldn't price British business out of the world economy.

If we burden them with endless social and environmental goals - however worthy in their own right - then not only will we not achieve those goals, but the businesses will fail, jobs will be lost, and our country will be poorer.

Our planning reforms strike the right balance between protecting our countryside while permitting economic development that creates jobs.

But we need to go further to remove the lengthy delays and high costs of the current system, with new time limits on applications and new responsibilities for statutory consultees.

And we will make sure that gold plating of EU rules on things like Habitats aren't placing ridiculous costs on British businesses.

Planning laws need reform. So too do employment rules.

We know many firms are afraid to hire new staff because of their fear about the costs involved if it doesn't work out.

We're already doubling the period before an employee can bring an unfair dismissal claim and introducing fees for tribunals.

Now we will call for evidence on further reforms to make it easier to hire people, including:

Changing the TUPE regulations;
Reducing delay and uncertainty in the collective redundancy process;
And introducing the idea of compensated no fault dismissal for businesses with fewer than ten employees.
We will cut the burden of health and safety rules on small firms - because we have a regard for the health and safety of the British economy too.

This Government has introduced flexible working practices and we are committed to fair rights for employees.

But what about the right to get a job in the first place?

Or the right to work all hours running a small business and not be sued out of existence by the costs of an employment tribunal?

It's no good endlessly comparing ourselves with other European countries.

The entire continent is pricing itself out of the world economy.

The same is true of taxes on business.

If we tax firms out of existence, or out of the country, then there won't be any tax revenues for anyone.

We've set as our ambition the goal of giving this country the most competitive tax regime in the G20.

Our corporate tax rate has already fallen from 28% to 26%, and I can confirm that it will fall again next April to 25%.

We're undertaking major simplification of the tax code for businesses and individuals, including this autumn consulting on ideas to merge the administration of income tax and national insurance.

We're publishing next week rules on the taxation of foreign profits, so that multinationals stop leaving Britain and instead start coming here.

And we will end low value consignment relief for goods from the Channel Islands - which has been used by large companies to undercut shops on our high streets.

We've supported enterprise by increasing the generosity on the Enterprise Investment Scheme.

Today, we are extending this Scheme specifically to help new start-up businesses get the seed investment they need.

Even at the best of times they can struggle to get the finance they need - and in the current credit conditions that struggle too often ends in failure.

So from April 2012, anyone investing up to £100,000 in a qualifying new start up business will be eligible for income tax relief of 50% - regardless of the rate at which they pay tax.

And to get people investing in Start Up Britain in 2012 - for one year only, we will also waive any tax on capital gains invested through the new scheme.

We can afford this with a freeze on the general capital gains tax threshold for next year.

I also want to help existing small businesses who find the current economic conditions tough.

Business rates are a disproportionately large part of their fixed costs.

In the Budget, I provided a holiday on business rates for small firms until October next year.

I am today extending that rate relief holiday until April 2013.

Over half a million small firms - including one third of all shops - will have either reduced or no rate bills, for the whole of this year and for the whole of next financial year too.

And to help all businesses, including larger ones, with next year's rise in business rates, I will allow them to defer 60% of the increase in their bills to the two following years.

I also want them to help any business seeking to employ a young person who is out of work.

The OBR forecasts that unemployment will rise from 8.1% this year to 8.7% next year, before falling to 6.2% by the end of the forecast.

Youth unemployment has been rising for seven years and is now unacceptably high.

It's little comfort that this problem is affecting all western nations today.

The problem is - of course - primarily a lack of jobs.

But it is made worse by a lack of skills.

Too many children are leaving school after eleven years of compulsory education without the basics they need for the world of work.

Our new Youth Contract addresses both problems.

With the offer of private sector work experience for every young person unemployed for three months.

After five months there will be weekly signing on.

After nine months, we will help pay for a job or an apprenticeship in a private business.

Some 200,000 people will be helped in this way.

But as the Deputy Prime Minister has said - this is a contract.

Young people who don't engage with this offer will be considered for Mandatory Work Activity, and those that drop out without good reason will lose their benefits.

But if we're really going to change the economic performance of this country and tackle Britain decades long problems with productivity, then we have to transform our school system too - so that children leave school prepared for the world of work.

My RHF the Secretary of State for Education is doing more to make that happen than anyone who has ever done his job before him.

The last government took six years to create 200 academies. He's created 1,200 academies in just 18 months.

Supporting his education reform is a central plank of my economic policy.

So today, with the savings we've made, I am providing an extra £1.2 billion - as part of the additional investment in infrastructure - to spend on our schools.

Half of this will go to help Local Authorities with the greatest basic need for school places.

The other £600 million will go to support my RHF's reforms - and will fund 100 additional free schools.

These schools will include new Maths Free Schools for 16-18 year olds.

This will give our most talented young mathematicians the chance to flourish.

Like the new university technical colleges, these Maths Free Schools are exactly what Britain needs to match our competitors - and produce more of the engineering and science graduates so important for our longer term economic success.

And to ensure that children born into the poorest families have a real chance to become one of those graduates, we will take further steps to improve early education.

Last year, it was this Government that not only expanded free nursery education for all three and four year olds - but also gave children from the poorest fifth of families a new right to 15 hours of free nursery care a week at the age of two years old.

I can tell the House today that we can double the number of children who will receive this free nursery care.

40% of two year olds, 260,000 children, from the most disadvantaged families, will get this support in their early years.

Education. Early years learning. That is how you change the life chances of our least well off - and genuinely lift children out of poverty.

That is how you build an economy ready to compete in the world.

It will take time. The damage we have to repair is great.

People know how difficult things are - how little money there is.

But where we can help with the rising cost of living, we will.

I have already offered councils the resources for another year's freeze in the Council Tax.

That will help millions of families.

I want to do more.

Commuters often travel long distances to go to work and bring an income home.

Train fares are expensive - and they're set to go up well above inflation to pay for the much needed investment in new rail and new trains.

But RPI plus 3% is too much.

The Government will fund a reduction in the increase to RPI plus 1%.

This will apply across National Rail regulated fares, across the London Tube and on London Buses.

It will help the millions of people who use our trains.

But millions more use their cars to go to work, and pick up the children from school.

It is not a luxury for most people - it is a necessity.

In the Budget I cut fuel duty by one penny.

The plan was for fuel duty to be 3 pence higher in January and 5 pence higher by August next year.

That would be tough for working families at a time like this.

So despite all the constraints that are upon us, we are able to cancel the duty increase planned for January and for fuel duty from August to be only 3 pence higher than it is now.

Taxes on petrol will be a full 10 pence lower than it would have been without our action in the Budget and this autumn.

Families will save £144 on filling up the average family car by the end of next year.

In these tough times, we are helping where we can.

Mr Speaker, all that we are doing today.

Sticking to our deficit plan to keep interest rates as low as possible.

Increasing the supply of credit and money to pass those low rates on to families and businesses.

Rebalancing our economy with an active enterprise policy and new infrastructure.

Help with the cost of living on fuel duty and rail fares.

All this takes Britain in the right direction.

It cannot transform our economic situation overnight.

People in this country understand the problems Britain faces.

They can watch the news any night of the week and see for themselves the crisis in the Eurozone and the scale of the debt burden we carry.

And people know that promises of quick fixes and more spending this country can't afford, at times like this, are like the promises of a quack doctor selling a miracle cure.

We do not offer that today.

What we offer is a Government that has a plan to deal with our nation's debts to keep rates low;

A Government determined to support businesses and support jobs;

A Government committed to take Britain safely through the storm.

Leadership for tough times - that's what we offer.

And I commend this statement to the House.

Ends