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BUDGET 2013

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March 2013

BUDGET 2013

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Greg Clark
Her Majesty's Treasury
20 March 2013

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The Budget Report is presented pursuant to section 2 of the Budget Responsibility and National Audit Act 2011 and in accordance with the Charter for Budget Responsibility. The Budget Report, combined with the Office for Budget Responsibility's *Economic and fiscal outlook*, constitutes the Government's assessment under section 5 of the European Communities (Amendment) Act 1993 that will form the basis of the Government's submissions to the European Commission under 121 TFEU (ex Articles 99/103 TEU) and Article 126 TFEU (ex Article 104/104c TEU) after the assessment is approved by Parliament.

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Executive Summary

The Government's objective is to equip the UK to succeed in the global race, build a stronger economy and a fairer society and to support aspiration. This Budget will help those who aspire to work hard and get on, care for their families, buy a home, start or grow a business and save for retirement.

The UK economy is recovering from the biggest financial crisis in generations, one of the deepest recessions of any major economy and a decade of growth built on unsustainable levels of debt. The Government's plan for the economy, first set out in June Budget 2010, is based on:

- fiscal responsibility to deal with our debts with a credible deficit reduction plan;
- monetary activism to support demand and keep interest rates low; and
- supply-side reform to help businesses create jobs and deliver lasting prosperity.

Where resources allow, the Government is committed to keeping costs down for families to help with the cost of living.

This Budget builds on the progress that has been made in challenging circumstances, with further action on each element of the Government's plan:

- the deficit as a share of GDP is forecast to fall by a third over the three years from 2009-10 and interest rates are near record lows. **Budget 2013 announces further detail on the Government's deficit reduction plans, new steps to ensure active monetary policy continues to play a full role in supporting the economy with an updated remit for the Monetary Policy Committee (MPC), and further measures to ease the long-term pressure on the public finances;**
- employment is at record levels, exceeding the pre-crisis peak, and the UK is now eighth in the World Economic Forum Global Competitiveness Report. **Budget 2013 sets out further reforms to help businesses create jobs, help people buy their own home and give Britain the lowest corporation tax rate in the G20;** and
- the Government's reforms to the personal tax system will have lifted 2.4 million low income workers out of tax altogether by April 2013. **Budget 2013 announces further actions to ease the cost of living, help people plan for retirement and deliver on the Government's ambition to make the first £10,000 of income free from income tax.**

This Budget sets out these and other reforms under the themes of: the economy and public finances, growth and fairness.

The economy and public finances

Three key factors, first set out in the Office for Budget Responsibility's (OBR) November 2011 *Economic and fiscal outlook*, have resulted in a more subdued and uneven recovery than expected:

- evidence has accumulated that suggests the impact of the financial crisis on GDP and underlying productivity has been greater than expected;
- the euro area sovereign debt crisis and global uncertainty have damaged confidence and reduced external demand; and
- commodity price driven inflation since 2011 has reduced real incomes and raised business costs.

As a result of the ongoing effect of these factors, the OBR's forecast revises down growth in 2013 and 2014. However, the forecast for UK employment from 2013 has been revised up.

Economic forecast

GDP growth in 2012 was slightly stronger than expected at Autumn Statement 2012. However, reflecting the lower than expected momentum in the final quarter of 2012 and smaller contributions to growth from net trade and consumption, **the OBR has revised its forecast for GDP growth in 2013 from 1.2 per cent to 0.6 per cent and from 2.0 per cent to 1.8 per cent for 2014.** The OBR's forecast for GDP growth from 2015 onwards is unchanged from its forecast at Autumn Statement 2012.

The OBR expects employment to rise in every year of the forecast period reaching 30.5 million by 2017. Total market sector employment is expected to rise by around 2.6 million between the start of 2011 and the start of 2018. The OBR has revised down its unemployment forecast by 0.3 percentage points to 7.9 per cent in 2013 and by 0.2 percentage points in 2017 to 6.9 per cent.

The OBR has revised its inflation forecast up slightly. The OBR attributes this to higher oil prices and higher import prices but expects it to return to target by early 2016.

Fiscal forecast

Public sector net borrowing is forecast to fall by a third over the three years from 2009-10, from its post-war peak of 11.2 per cent of GDP, to 7.4 per cent of GDP in 2012-13.[1] It is then forecast to continue to fall to 5.0 per cent of GDP in 2015-16 and 2.2 per cent of GDP in 2017-18.

Public sector net debt as a share of GDP is forecast to peak at 85.6 per cent of GDP in 2016-17, before falling to 84.8 per cent of GDP in 2017-18.

The Government's response

Monetary policy has a critical role to play in supporting the economy as the Government delivers on its commitment to necessary fiscal consolidation. To ensure that it can continue to play that role fully, **the Government has reviewed the monetary policy framework in international and historical context and the *Review of the monetary policy framework* is published alongside this Budget. As a result, the Government has: retained a flexible inflation targeting framework and reaffirmed the 2 per cent inflation target, which applies at all times; updated the remit to clarify the trade-offs that are involved in setting monetary policy to meet a forward-looking inflation target; and has requested that the MPC provides in its August 2013 *Inflation Report* an assessment of the merits of using intermediate thresholds in the operation and communication of monetary policy.**

[1] This excludes the effect on public sector net investment in 2012-13 of transferring assets from the Royal Mail Pension Plan to the public sector.

Public spending control is central to the Government's commitment to reduce the deficit. Departments have consistently underspent against plans, by an average of £4.0 billion over the last three years. Faster progress in delivering savings, combined with improvements to spending control, mean that departmental underspends in 2012-13 are higher than usual at £11.5 billion. Building on this lower level of spending, **Budget 2013 announces a reduction in resource Departmental Expenditure Limits (DEL) by £1.1 billion in 2013-14 and £1.2 billion in 2014-15.** In the short term, these funds will be used to help support housing. The schools and health budgets remain unchanged.

In addition this Budget:

- **fixes the envelope for Total Managed Expenditure (TME) for 2015-16.** Individual departmental budgets will be published in a Spending Round on 26 June 2013. **Health, schools and Official Development Assistance will be protected;**
- announces that **public sector pay awards in 2015-16 will be limited to an average of up to 1 per cent;**
- **confirms the path of future fiscal consolidation, expressed as an assumption that TME in 2016-17 and 2017-18 will continue to fall at the same rate as over the Spending Review 2010 period;** and
- **announces that the Government will strengthen the public spending framework by introducing a firm limit on a significant proportion of Annually Managed Expenditure (AME), including areas of welfare expenditure.** This will be designed in a way that allows the automatic stabilisers to operate to support the economy.

Including all measures set out in this Budget, **the OBR's March 2013 *Economic and fiscal outlook* concludes that the Government remains on course to meet the fiscal mandate a year early.** The OBR has forecast that **public sector net debt as a percentage of GDP will be falling in 2017-18, two years later than set out in the supplementary debt target.**

The Government's judgement is that significant changes to the path of consolidation in the short term would constrain the automatic stabilisers, limiting their ability to support the economy. **Budget 2013 is therefore fiscally neutral and reinforces the Government's commitment to deficit reduction.**

The first section of Chapter 1 sets out the Government's economic and fiscal plans in more detail.

Growth

The Government is delivering an ambitious programme of supply-side reform to equip the UK to succeed in the global race and to support aspiration. Budget 2013 sets out further action the Government will take to help UK businesses create jobs and to help people buy their own home.

The Government will:

- make the UK tax system the most competitive in the G20 by **reducing the main rate of corporation tax by an additional 1 percentage point in April 2015, so it reaches 20 per cent,** the joint lowest level in the G20;
- **from April 2014, give businesses and charities an entitlement to a £2,000 Employment Allowance per year towards their employer National Insurance contributions (NICs) bill.** This will particularly help small businesses who want to hire their first employee or expand their workforce;

- **increase capital spending plans by £3 billion a year from 2015-16, to lock in recent increases in capital spending over the Spending Review 2010 period, funded through reductions in current spending.** As a result, public investment as a share of GDP will be higher on average over this Parliament and the next Parliament collectively than it was under the previous government. The Government will also set out long-term plans to 2020-21 for the most economically valuable areas of capital expenditure in the 2015-16 Spending Round;
- **provide £1.6 billion of funding to support strategies in 11 key sectors as part of its industrial strategy. From this fund the Government, in partnership with industry, will create an Aerospace Technology Institute, which will provide a total of £2.1 billion of research and development support over seven years, with the Government and industry contributing equal shares;**
- **take forward Lord Heseltine's recommendation on the creation of a Single Local Growth Fund, devolved to the local level through new Local Growth Deals.** The Fund will be operational by April 2015; and
- introduce a package of support for the UK shale gas industry including **introducing a new shale gas field allowance and extending the ring fence expenditure supplement from six to ten years for shale gas projects,** to promote investment in the industry at an early stage of its development.

This Budget also announces major reforms, including over £5.4 billion of financial support, to tackle long-term problems in the housing market and to support those who want to get on or move up the housing ladder. The Government will:

- introduce a major new housing scheme, Help to Buy, with two key elements. First, **from April 2013, the Government will extend First Buy to all those who aspire to own a new build home. The Government will provide an equity loan worth up to 20 per cent of the value of a new build home, repayable once the home is sold, and significantly widen the eligibility criteria to ensure as many people as possible are able to benefit, including increasing the maximum home value to £600,000 and removing the income cap constraint. Second, the Government will create a mortgage guarantee for lenders who offer mortgages to people with a deposit of between 5 per cent and 20 per cent on homes with a value of up to £600,000.** This will increase the availability of mortgages on new or existing properties for those with small deposits;
- give more social tenants the opportunity of home ownership by **reducing the qualifying period for Right to Buy from five years to three years and raising the maximum discount cash cap in London to £100,000;** and
- invest in new affordable homes by **doubling the existing affordable homes guarantee programme, providing up to an additional £225 million to support a further 15,000 affordable homes in England by 2015.**

The second section of Chapter 1 sets out further detail on these and other announcements.

Fairness

The Government's economic and fiscal strategy is underpinned by its commitment to fairness and its desire to support those who want to work hard and get on. Budget 2013 announces policies to make the tax and welfare system fairer, to support aspiration and to keep costs down for households and businesses.

The Government will:

- **meet its commitment to make the first £10,000 of income free from income tax a year ahead of schedule: the personal allowance will be increased by £560 to £10,000 in 2014-15.** By April 2014, 2.7 million low income individuals under 65 will have been lifted out of income tax altogether and from April 2014 the typical basic rate taxpayer will pay £705 less income tax a year in cash terms as a result of this Government's actions;
- **cancel the fuel duty increase that was planned for 1 September 2013 to support households and businesses.** This will mean that fuel duty will have been frozen for nearly three and a half years, the longest duty freeze for over 20 years. From April 2013, pump prices will be 13 pence per litre lower than under the previous government's plans;
- **introduce a new Tax-Free Childcare Scheme. The Government will support working families with 20 per cent of their childcare costs up to £1,200 per child per year.** This new system will be phased in from autumn 2015, over time replacing the existing system of Employer Supported Childcare (ESC). At the point the new offer is introduced, existing members of ESC can choose to remain in that scheme. In addition, **the Government will increase childcare support within Universal Credit,** to improve work incentives and ensure that it is worthwhile to work up to full-time hours for low and middle income parents;
- **introduce the single-tier State Pension in 2016-17** to provide clarity and confidence to those saving for their retirement. This will end contracting out of the State Second Pension, so that everyone will pay the same rate of NICs and build up access to the same single-tier State Pension;
- **implement the £72,000 cap on reasonable social care costs, drawing on the Dilnot Commission's recommendations, and extend the means test to give more people access to financial support for their residential care costs from April 2016.** This will provide peace of mind to those who want to plan for their old age and leave savings to their children; and
- **reduce general beer duty by 2 per cent from 25 March 2013, worth 1 penny on a pint of beer, cancel the escalator for beer duty next year and instead increase it by inflation thereafter,** to support community pubs.

In addition, **this Budget announces a significant crackdown on tax avoidance and evasion, which in total raises over £4.6 billion in new revenue over the next five years.** As part of this, **the Isle of Man, Guernsey and Jersey** have agreed to enter tax information exchange agreements with the UK that will significantly increase the amount of information automatically exchanged on potentially taxable income, in order to identify and tackle evasion. In addition, **the Government will remove the presumption of self-employment for limited liability partnership (LLP) partners, to tackle the disguising of employment relationships through LLPs and counter the artificial allocation of profits to partners (in both LLPs and other partnerships) to achieve a tax advantage.**

The third section of Chapter 1 sets out further information on these and other announcements. Further information on the estimated distributional impact of this Budget is available in *Impact on households: distributional analysis to accompany Budget 2013.*[2]

Chapter 2 provides more information on the fiscal impact of this Budget and sets out all new Budget announcements in full.

Annex A presents financing information.

Annex B presents selected tables from the OBR's March 2013 *Economic and fiscal outlook*.

[2] Available on the HM Treasury website at www.hm-treasury.gov.uk.

Budget decisions and government spending and revenue

A summary of Budget policy decisions is set out in the table below.

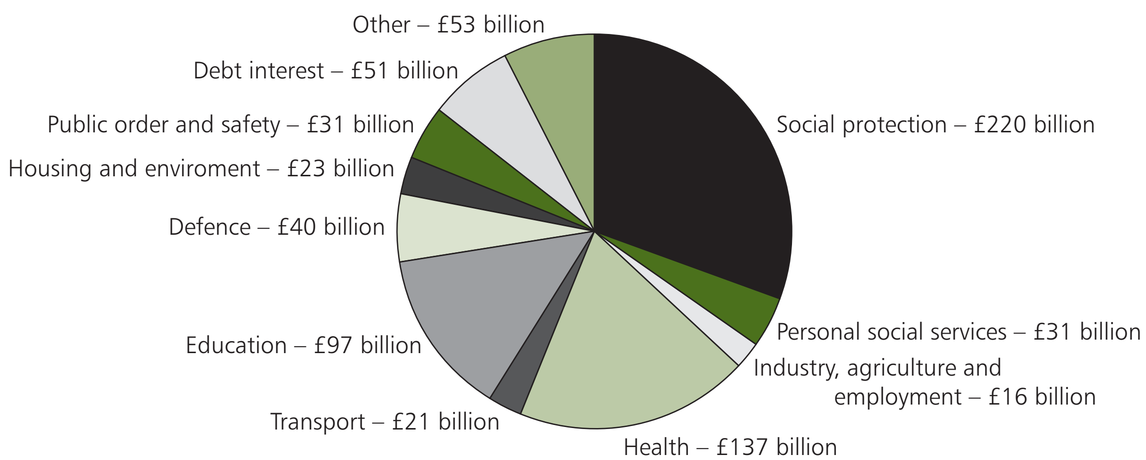
Table 1: Summary of Budget policy decisions[1]

	£ million				
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Total tax policy decisions	-290	-2,705	-2,850	+1,740	+1,305
Total tax policy decisions excluding impact on government departments	-290	-2,705	-2,850	-1,585	-1,980
Total spending policy decisions	+1,605	+1,055	0	0	0
TOTAL POLICY DECISIONS	**+1,315**	**-1,650**	**-2,850**	**+1,740**	**+1,305**

[1] *Costings reflect the OBR's latest economic and fiscal determinants.*

Chart 1 presents public spending by main function. TME in 2013-14 is expected to be around £720 billion. TME is divided into DEL and AME.

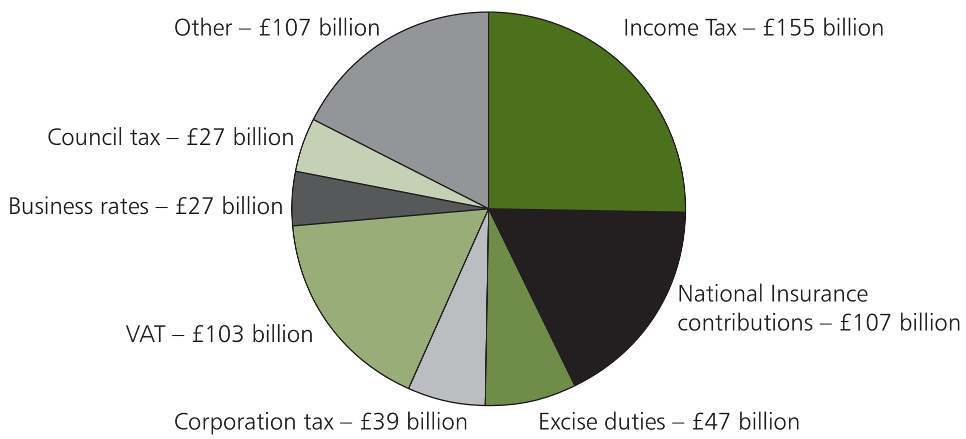
Chart 1: Government spending 2013-14



Source: Office for Budget Responsibility, 2013-14 estimates. Allocations to functions are based on HM Treasury analyses.

Chart 2 shows the different sources of government revenue. Public sector current receipts are expected to be around £612 billion in 2013-14.

Chart 2: Government receipts 2013-14



Source: Office for Budget Responsibility, 2013-14 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum due to rounding.

Budget Report

1 Budget Report

The economy and public finances

1.1 The UK economy is recovering from the most damaging financial crisis in generations after a decade of growth built on unsustainable levels of debt. The Government inherited the largest deficit since the Second World War and the UK experienced one of the deepest recessions of any major economy. Across the world, recovery over the past four years has been slower than forecast and the euro area is now in recession.

1.2 The Government's economic strategy set out in the June Budget 2010 is designed to protect the economy through the recent period of global uncertainty and provide the foundations for recovery. This strategy is restoring the public finances to a sustainable path and the deficit has been reduced by a third over the three years from 2009-10. The UK is seen as a relative safe haven, with low market interest rates helping to keep interest payments lower for families, businesses and the taxpayer. This strategy has helped the Government to equip the UK to compete in the global race to build a stronger economy and a fairer society. The UK has the fourth lowest corporation tax rate in the G20 and will reduce the rate by an additional 1 percentage point in April 2015 to 20 per cent, the joint lowest in the G20; it has risen to eighth in the 2012 World Economic Forum Global Competitiveness Report; and the 2012 KPMG Annual Survey of Tax Competitiveness looked at six key competitor economies and found that out of these the UK was the most commonly cited as being in the top three.[1]

The UK economy since 2010

1.3 Three key factors, first set out in the Office for Budget Responsibility's (OBR) November 2011 *Economic and fiscal outlook*, have resulted in a more subdued and uneven recovery than expected and continued to weigh on the UK economy through 2012:

- evidence has accumulated that suggests the impact of the financial crisis on GDP and underlying productivity has been greater than expected;
- the euro area sovereign debt crisis and global uncertainty have damaged confidence and reduced external demand; and
- commodity price driven inflation since 2011 has reduced real incomes and raised business costs.

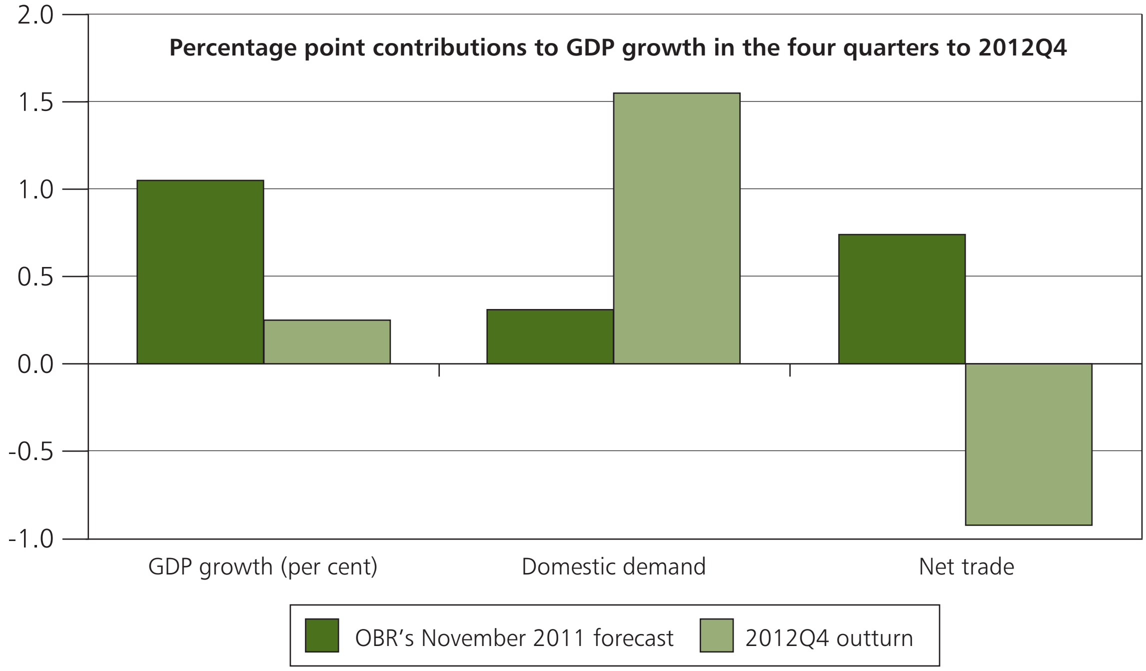
1.4 Economic recovery continues to be more uneven than originally expected. While UK GDP grew by 0.3 per cent in the year to the fourth quarter of 2012, slightly higher than forecast at Autumn Statement 2012, it was choppy through the year and fell 0.3 per cent in the fourth quarter.[2] Nominal GDP growth in the year to the fourth quarter of 2012 was only 1.3 per cent. Recovery has also been uneven in other countries. Euro area GDP fell by 0.9 per cent in the year to the fourth quarter of 2012, falling by 0.6 per cent in the fourth quarter alone. GDP growth for the US and Japan was also weak in the fourth quarter.[3] The OBR's Budget 2013 forecast revises down UK GDP growth slightly in 2013 and 2014, reflecting this reduced momentum

[1] *The Global Competitiveness Report 2012-13,* World Economic Forum, 2012. *KPMG Annual Survey of Tax Competitiveness*, KPMG, February 2013.
[2] All UK economy data from the Office for National Statistics (ONS) unless otherwise stated.
[3] *Main Economic Indicators*, Organisation for Economic Co-operation and Development (OECD).

in the UK and globally, and smaller contributions to growth from net trade and consumption. By the end of the forecast horizon, the level of GDP is 0.6 per cent below the level forecast at Autumn Statement 2012. The OBR assumes around two thirds of the reduction in real GDP growth to be cyclical rather than structural.

1.5 The UK economy's performance through 2012 included relative strength in domestic demand but relative weakness in external sources of growth. Compared with the OBR forecast in the November 2011 *Economic and fiscal outlook*, GDP growth in the year to the fourth quarter of 2012 under-performed by 0.8 percentage points. The contribution of domestic demand out-performed that forecast by 1.2 percentage points and net trade under-performed by 1.7 percentage points, as shown in Chart 1.1. Indeed, given the relative strength of domestic demand, GDP could have grown by 2.1 per cent in the year to the fourth quarter had exports grown by the 5.7 per cent forecast in November 2011, and adjusting for the likely import content of those additional exports. Over that period, goods export volumes to the European Union (EU) fell by 2.5 per cent, while goods export volumes outside the EU grew by 1.2 per cent.

Chart 1.1: Outturn compared with the OBR's November 2011 forecast[1]



[1] The difference between the sum of the components and the total is accounted for by differences in the statistical discrepancy in the forecast and the latest estimate of GDP.
Source: Office for Budget Responsibility and Office for National Statistics.

1.6 UK inflation has fallen by almost half from its peak of 5.2 per cent in September 2011 to 2.8 per cent in February 2013. Pressure from commodity price rises in 2011 has eased, though commodity prices remain high.

1.7 The OBR's October 2012 *Forecast evaluation report* showed that the shortfall in growth compared with its June Budget 2010 forecast could largely be explained by private consumption, investment and net trade, in roughly equal measure, reflecting shocks from commodity prices, financial conditions and confidence. The *Forecast evaluation report* noted that nominal consumer spending had been broadly in line with forecast, with unexpected inflation explaining the weakness of real private consumption relative to forecast. Table 1.1 shows a broadly similar breakdown across the private sector by the third quarter of 2012 using the same approach with the latest data. The direct contribution of government consumption and investment subtracted less from GDP growth than forecast at the June Budget 2010, largely due to lower than expected inflation in the government sector with nominal spending lower than forecast but real spending higher than forecast with higher public sector productivity.

1.8 Fiscal multipliers estimate the impact of different elements of tax and spending consolidation on GDP. The OBR's October 2012 *Forecast evaluation report* did not see evidence to suggest that multipliers were significantly different than estimated in the June Budget 2010 forecast. The OBR has not altered the estimated fiscal multipliers being used in its latest forecast.

Table 1.1: Contributions to real GDP growth from 2010Q1 to 2012Q3

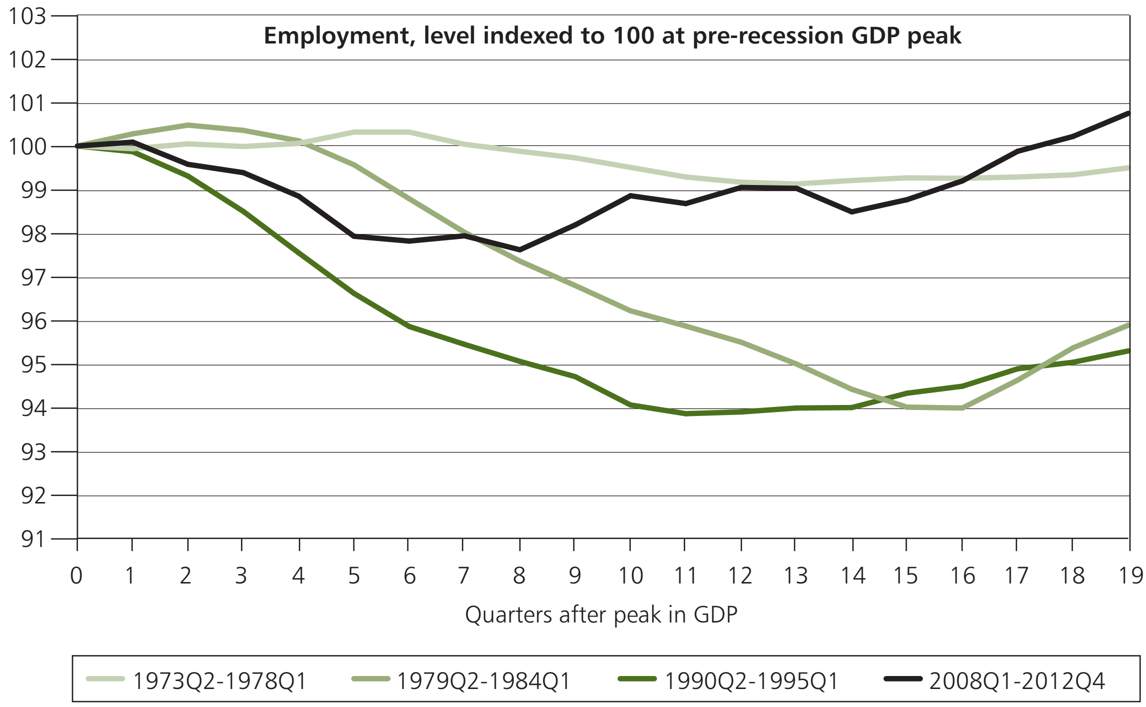
	Percentage points					
	Private consumption	Private investment	Total government	Net trade	Stocks	GDP
June 2010 forecast	2.3	2.9	-1.6	2.1	0.8	6.5
Latest data	0.6	0.7	-0.5	0.6	0.9	2.3
Difference[1]	-1.7	-2.2	1.1	-1.5	0.1	-4.2

[1] *Difference in unrounded numbers, rounded to one decimal place.*

Source: Office for Budget Responsibility and HM Treasury.

1.9 The UK labour market has continued to perform more strongly than forecast despite the headwinds to GDP growth, with a net increase of over one million jobs in the private sector since the first quarter of 2010.[4] Comparing the fourth quarter of 2012 to a year earlier, employment rose by 584,000, the fastest growth since 1989, with participation in the labour market rising by 428,000 and unemployment falling by 156,000. At the end of 2012, employment levels were the highest recorded and above the pre-crisis peak. Unemployment in the three months to December 2012 stood at 7.8 per cent in the UK, lower than in the euro area and lower than that following previous UK recessions. Employment performance in the UK compares favourably with post-war experience, as shown in Chart 1.2, and internationally, as discussed later in this chapter. The OBR expects employment to continue to rise over the forecast period.

Chart 1.2: Employment levels through recessions and recoveries



Source: Office for National Statistics and HM Treasury.

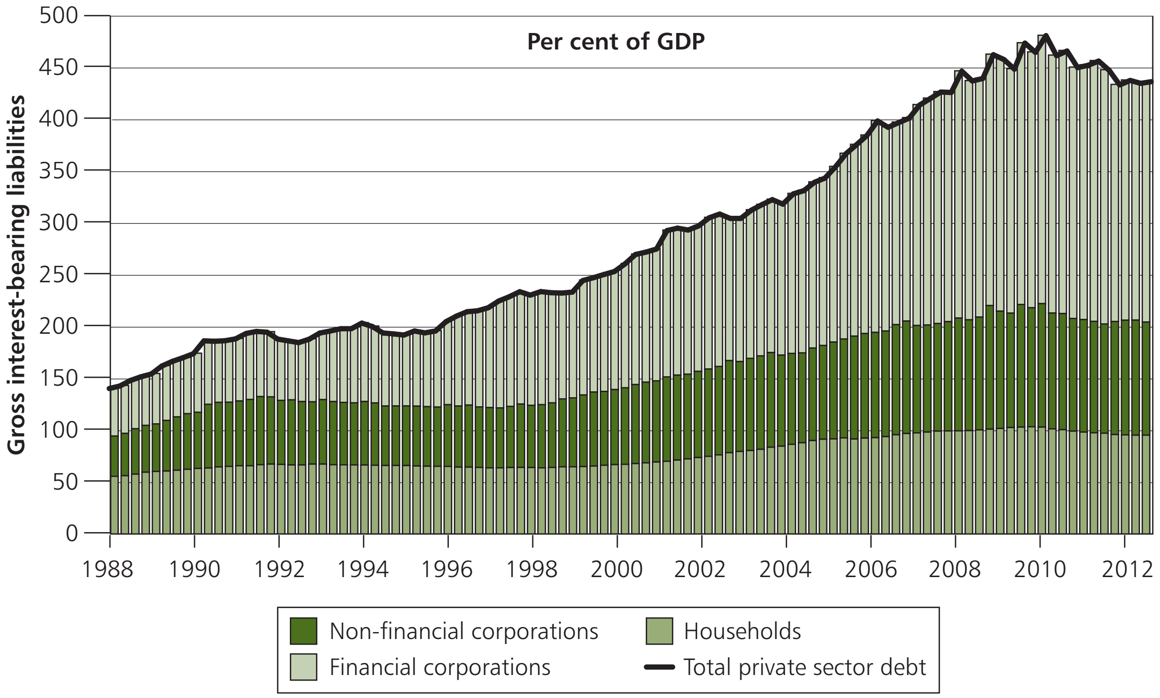
[4] *Labour Market Statistics*, ONS, January 2013. These figures exclude the impact of the reclassification from June 2012 of 196,000 employees in some educational bodies from the public to the private sector.

1.10 The persistent effects of the financial crisis continue to weigh on the UK recovery. The Bank of England's November 2012 *Inflation Report* and the OBR's December 2012 *Economic and fiscal outlook* set out the channels along which productivity might have been held back due to these persistent effects.[5] For example: the higher cost and availability of credit; the pace at which credit is reallocated to more efficient uses; and a lower risk appetite among lenders.

UK imbalances and relative economic performance

1.11 It has been estimated that by 2008, as the crisis hit, the UK private sector had become the most indebted in the world.[6] Deleveraging has since weighed on UK growth. Some progress has been made, with private sector debt falling by over 40 percentage points of GDP since its peak in the first quarter of 2010, as Chart 1.3 shows.

Chart 1.3: Private sector debt in the UK



Source: Office for National Statistics.

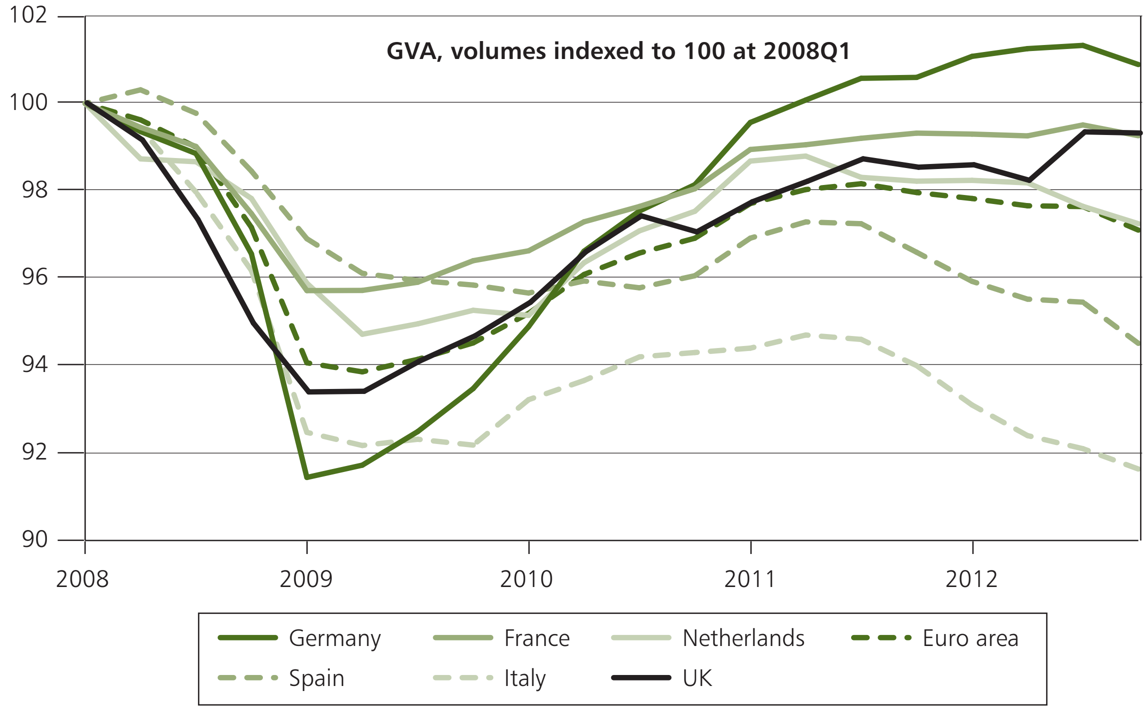
1.12 Autumn Statement 2012 illustrated the impact of the financial crisis and post-crisis deleveraging on the financial sector, which has contracted 13 per cent in real terms since the economy's pre-crisis peak. Output of the North Sea oil and gas sector, which has continued a long-term decline related to maturing fields, has fallen 47 per cent since the economy's pre-crisis peak. The rest of the economy, accounting for nearly 90 per cent of Gross Value Added (GVA), has performed more strongly.

1.13 Outside the energy and financial sectors, the UK economy has performed better than the euro area and similarly to France, as Chart 1.4 shows.[7]

1.14 Chart 1.5 shows employment in the UK has performed relatively strongly in international context. By comparison with the first quarter of 2008, UK employment is higher than all major advanced economies except Germany. UK employment growth was stronger than all G7 economies except the US between the third quarter of 2012 and a year earlier.

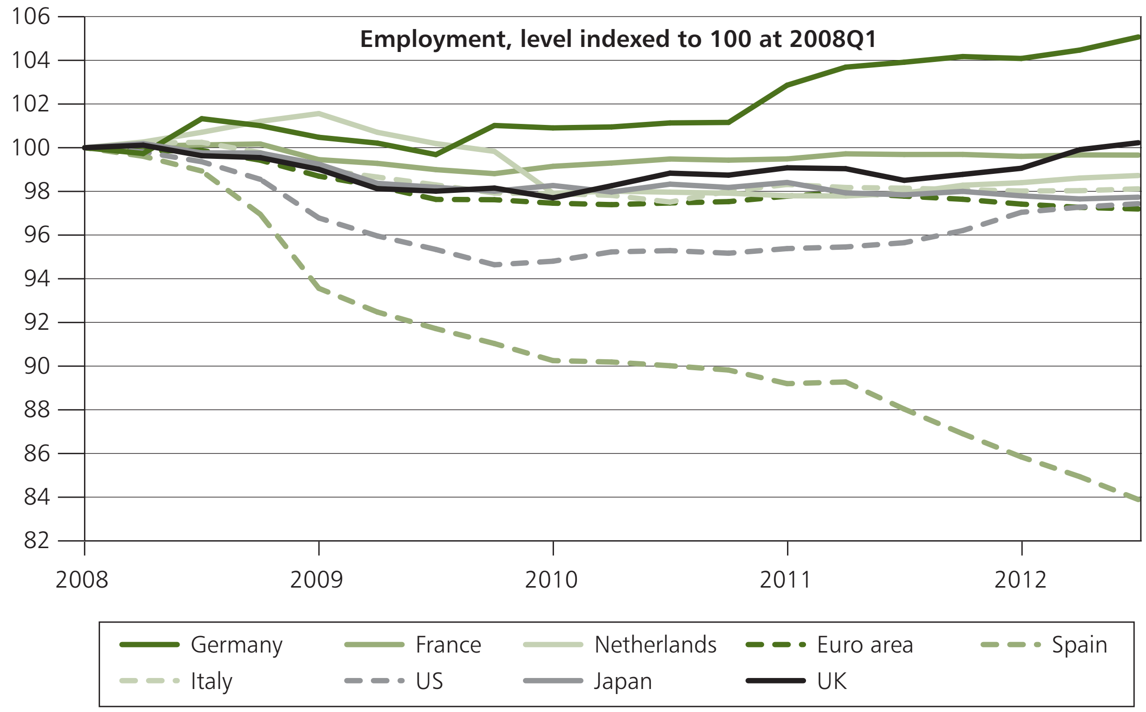
[5] *Inflation Report*, Bank of England, November 2012. *Economic and fiscal outlook*, OBR, December 2012.
[6] *Debt and deleveraging: The global credit bubble and its economic consequences,* McKinsey Global Institute, January 2010.
[7] Chart 1.4 uses OECD data and energy sector refers to the energy extraction and usage category. This is comprised of 'mining and quarrying (including oil and gas extraction)', 'electricity, gas, stream and air' and 'water supply and sewerage'.

Chart 1.4: GVA excluding energy and financial services in the largest EU economies



Source: OECD and HM Treasury.

Chart 1.5: International comparison of employment since the crisis



Source: OECD and HM Treasury.

Euro area crisis and global developments

1.15 Autumn Statement 2012 highlighted three key global risks to the UK economy: the euro area sovereign debt crisis, the US 'fiscal cliff' and slowing growth in emerging economies. These risks have started to ease in recent months and there are signs of confidence returning to financial markets, but this is yet to feed through to the performance of the wider economy.

1.16 The euro area is the key market for UK exporters, accounting for 42 per cent of UK exports in 2011. As a consequence, the euro area sovereign debt crisis and subsequent recession have weighed heavily on the UK recovery. Action by European policy makers in 2012 helped ease the crisis and there are signs of investor confidence improving, but as the situation in Cyprus demonstrates the challenges facing the euro area are not fully resolved. Output has been weaker than anticipated, and the OBR has revised down its forecast for 2013 GDP growth in the euro area to -0.5 per cent and does not expect it to start recovering until the second half of 2013.

1.17 The US was the destination for around 16 per cent of UK exports in 2011. The American Taxpayer Relief Act enacted on 2 January 2013 averted over half of the sharp fiscal tightening that was possible for 2013, the 'fiscal cliff'.[8] The US Congressional Budget Office expects the US fiscal consolidation to reduce US GDP growth by around 1½ percentage points in 2013, leaving growth for the year at around 1½ per cent.[9] However, with further US fiscal negotiations outstanding, there may be further changes to the US fiscal outlook in coming months.

1.18 Brazil, Russia, India and China taken together were the destination for 6.5 per cent of UK exports in 2011. Growth has stabilised in China and the International Monetary Fund (IMF) has forecast China's GDP will grow by 8.2 per cent in 2013 compared with 7.8 per cent in 2012. The IMF forecast for 2013 GDP growth in emerging economies as a whole is 5.5 per cent. Emerging markets and developing economies remain an important driver of global growth. In 2011 they accounted for 36 per cent of world GDP, up from 28 per cent in 2007 before the global crisis hit.[10] From a low base, UK exporters continue to take advantage of this trend through trade with emerging economies. Between 2009 and 2012 UK goods exports to Brazil increased by 49 per cent, to Russia by 133 per cent, to India by 59 per cent and to China by 96 per cent.[11]

1.19 The easing of risks has been reflected in global stock markets. Between Autumn Statement 2012 and Budget 2013 the UK's FTSE 100 index has risen 10 per cent, the US's S&P 500 index 11 per cent and the euro area's Euro Stoxx 50 index 5 per cent. Over the same period global stock market values have risen by more than $3 trillion.[12]

[8] The US 2013 financial year runs from October 2012 to September 2013.
[9] *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, US Congressional Budget Office, February 2013.
[10] *World Economic Outlook*, IMF, October 2012.
[11] *UK Trade – January 2013,* ONS, March 2013.
[12] Bloomberg. Closing price 5 December 2012 and 15 March 2013.

Economic forecast

Table 1.2: Summary of the OBR's central economic forecast[1]

	Percentage change on a year earlier, unless otherwise stated						
		Forecast					
	2011	2012	2013	2014	2015	2016	2017
GDP growth	**0.9**	**0.2**	**0.6**	**1.8**	**2.3**	**2.7**	**2.8**
Main components of GDP							
Household consumption[2]	-1.0	1.0	0.5	1.2	1.7	2.4	2.8
General government consumption	-0.1	2.6	0.4	-0.7	-0.4	-1.0	-1.8
Fixed investment	-2.9	1.4	2.2	6.7	8.1	7.7	7.8
Business	3.1	4.9	1.9	6.1	8.6	8.6	8.6
General government	-26.2	2.7	2.6	5.0	1.8	-1.5	-1.2
Private dwellings	2.3	-5.4	2.0	8.9	10.0	10.0	9.7
Change in inventories[3]	0.3	-0.2	-0.2	0.0	0.0	0.0	0.0
Net trade[3]	1.2	-0.8	0.1	0.1	0.1	0.1	0.1
CPI inflation	**4.5**	**2.8**	**2.8**	**2.4**	**2.1**	**2.0**	**2.0**
Employment (millions)	**29.2**	**29.5**	**29.8**	**29.9**	**30.1**	**30.3**	**30.5**

[1] All figures in this table are rounded to the nearest decimal place. This is not intended to convey a degree of unwarranted accuracy. Components may not sum to total due to rounding, omission of transfer costs of land and existing buildings, and the statistical discrepancy.

[2] Includes households and non-profit institutions serving households.

[3] Contribution to GDP growth, percentage points.

Source: Office for Budget Responsibility.

1.20 GDP growth in 2012 was slightly stronger than expected at Autumn Statement 2012. However, reflecting the lower-than-expected momentum in the final quarter of 2012, the OBR has revised its forecast for GDP growth in 2013 from 1.2 per cent to 0.6 per cent. The OBR has revised its forecast for GDP growth in 2014 from 2.0 per cent to 1.8 per cent. These revisions reflect smaller contributions to growth from net trade and consumption. The OBR forecast for GDP growth from 2015 onwards is unchanged from its forecast at Autumn Statement 2012. By the end of the forecast horizon, the level of GDP is 0.6 per cent below the level forecast at Autumn Statement 2012. The OBR assumes around two thirds of the reduction in real GDP growth to be cyclical rather than structural.

1.21 Risks to UK growth have become more balanced. Global risks have started to ease. As the Funding for Lending Scheme (FLS) begins to gain traction, UK credit conditions have improved. Interest rates have fallen, in particular mortgage rates, and credit availability for businesses has increased. House prices increased by 2.2 per cent in the year to January 2013 and property transactions have risen.[13] As credit conditions continue to ease, the property market is expected to pick up and growth in transactions to continue. While growth remains subdued, the Governor of the Bank of England has said *"there are good reasons to suppose that a gentle recovery is underway"*.[14] The IMF forecasts UK GDP per person to grow faster than the rest of the G7 between 2012 and 2017, with the exception of the US.[15]

1.22 The OBR has revised up its forecast for UK employment from 2013. It has revised down its unemployment forecast by 0.3 percentage points to 7.9 per cent in 2013 and by 0.2 percentage points in 2017 to 6.9 per cent. It expects employment to rise in every year of the forecast period, reaching 30.5 million by 2017. The OBR expects total market sector employment to rise by around 2.6 million between the start of 2011 and the start of 2018, more than offsetting the total reduction in general government employment of around 1.2 million.

[13] *House Price Index, January 2013*, ONS, March 2013. *Monthly Property Transactions, January 2013,* HM Revenue and Customs, February 2013.
[14] Mervyn King, speech, the Confederation of British Industry (CBI), Northern Ireland Mid-Winter Dinner, Belfast, 22 January 2013.
[15] *World Economic Outlook*, IMF, October 2012.

1.23 The OBR has revised its inflation forecast up, broadly in line with the Bank of England's February 2013 *Inflation Report* forecast. The OBR attributes this to higher oil prices and higher import prices as a result of recent exchange rate movements. This upward pressure is partially offset in 2013 and 2014 by cancellation of the fuel duty rise that was planned for 1 September 2013. The OBR forecasts inflation to return to target by early 2016 and remain close to target thereafter. The OBR's forecast for the GDP deflator, a broader measure of inflation in the economy, has been revised down. This, combined with the revisions to real GDP, leaves the level of nominal GDP 2.5 per cent lower in 2017 than was forecast at Autumn Statement 2012. Real GDP accounts for around 0.6 percentage points of this revision, with the remainder reflecting a lower GDP deflator.

1.24 The OBR forecast shows the UK economy rebalancing over the forecast period. Having grown by almost 5 per cent in 2012, business investment is forecast to pick up again in 2014 and make an increasing contribution to GDP growth thereafter, rising to nearly 1 percentage point by 2017. After falling in 2012, UK exports are also expected to pick up and net trade is forecast to make a small positive contribution to growth from 2013. Household consumption is forecast to grow more slowly than GDP on average, with the saving ratio declining but remaining at 5 per cent or above throughout.

The Government's strategy

1.25 The Government's strategy is designed to protect the economy through this period of global uncertainty, to maintain market confidence in the UK and to lay the foundations for a stronger, more balanced economy in the future. The Government is taking decisive action through:

- monetary activism and credit easing, stimulating demand, maintaining price stability and supporting the flow of credit in the economy;
- deficit reduction, returning the public finances to a sustainable position and ensuring that fiscal credibility underpins low long-term interest rates;
- reform of the financial system, improving the regulatory framework to reduce risks to the taxpayer and build the resilience of the system; and
- a comprehensive package of structural reforms, rebalancing and strengthening the economy for the future, including an ambitious housing package and programme of infrastructure investment.

Monetary activism

Monetary policy

1.26 Monetary policy has a critical role to play in supporting the economy as the Government delivers on its commitment to necessary fiscal consolidation. To ensure that it can continue to play that role fully, **the Government has reviewed the monetary policy framework in international and historical context. This *Review of the monetary policy framework* is published alongside this Budget.**[16] As a result, the Government has:

- **retained a flexible inflation targeting framework and reaffirmed the 2 per cent inflation target, which applies at all times;**
- **updated the remit to clarify the trade-offs that are involved in setting monetary policy to meet a forward-looking inflation target;** and
- **requested that the Monetary Policy Committee (MPC) provides in its August 2013 *Inflation Report* an assessment of the merits of using intermediate thresholds in the operation and communication of monetary policy.**

[16] Available on the HM Treasury website at www.hm-treasury.gov.uk.

1.27 The Government has concluded that a flexible inflation targeting framework has served, and will continue to serve, the UK well, and that the credible commitment to medium-term price stability provided by the 2 per cent inflation target must remain at the core of the framework. Price stability is an essential pre-requisite for economic prosperity. **In this Budget, the Government reaffirms the operational target for the MPC remains an inflation rate of 2 per cent, measured by the 12-month increase in the Consumer Prices Index (CPI). The target applies at all times.**

1.28 The remit continues to recognise that the actual inflation rate may depart from its target as a result of shocks and disturbances, and that the MPC may therefore wish to allow inflation to deviate from the target temporarily in order not to cause undesirable volatility in output. It clarifies the consideration that, in some circumstances, may be given to financial imbalances and requires that the MPC should have regard to the policy actions of the Financial Policy Committee (FPC). The remit goes further by clarifying that in exceptional circumstances, where shocks are particularly large and with persistent effects, the MPC is likely to be faced with more significant trade-offs between the speed with which it aims to bring inflation back to target and the consideration that should be placed on the variability of output. **The remit requires that in forming and communicating its judgements the MPC should promote understanding of the trade-offs inherent in setting monetary policy to meet a forward-looking inflation target while giving due consideration to output volatility.**

1.29 The remit also continues to require an exchange of open letters between the Governor of the Bank of England and the Chancellor of the Exchequer if inflation moves away from the target by more than 1 percentage point in either direction. The Government believes the open letter system, required in the remits for the MPC since 1997, provides a formal mechanism of transparency and accountability. **The remit now requires that the open letter from the Governor should be sent alongside the minutes of the MPC meeting that followed the publication of the CPI data, referring as necessary to the Bank's latest *Inflation Report* and forecasts and covering the MPC's judgements on the trade-offs inherent in setting monetary policy.** The reason for publishing this letter alongside the minutes is to allow the MPC time to form and communicate its strategy towards returning inflation to the target after consideration of the trade-offs. The Government believes that any future open letters will therefore result in a more meaningful exchange about the MPC's strategy than has been possible before now.

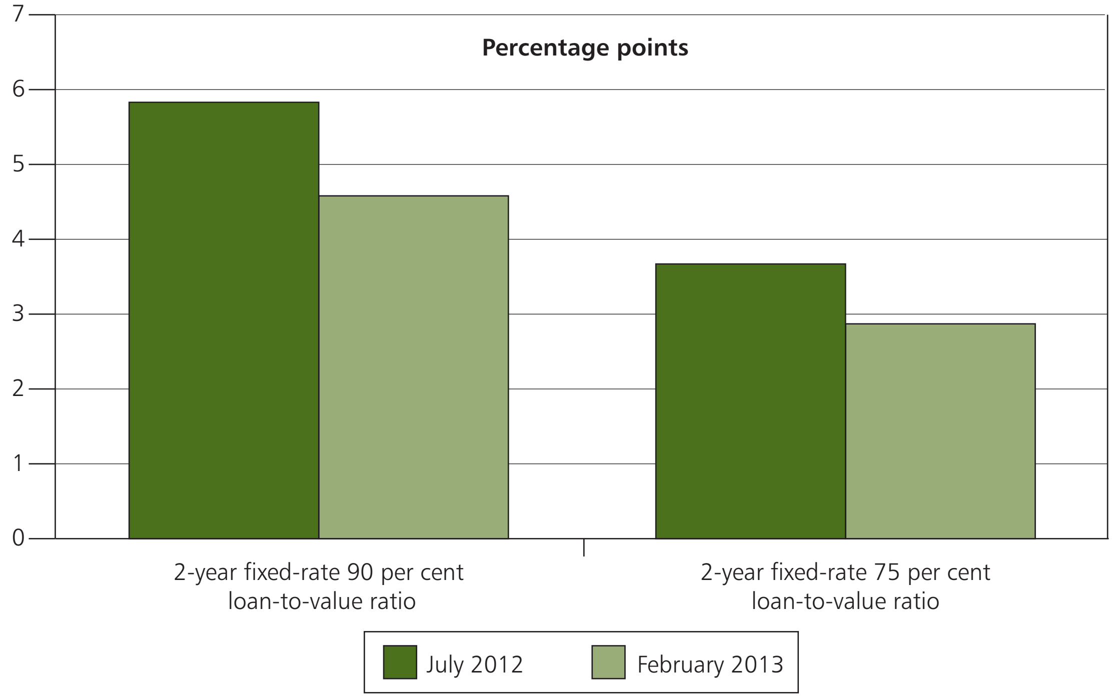
1.30 As with many central banks in advanced economies since the global financial crisis hit, the Bank of England has deployed a range of unconventional instruments in order to deliver the support it judged necessary. Alongside holding Bank Rate at a record low, the Bank of England, with the Treasury, has launched the FLS, discussed below, and the MPC's programme of asset purchases financed by the issuance of central bank reserves reached a stock of £375 billion in November 2012. **The Government confirms in Budget 2013 that the Asset Purchase Facility will remain in place for the financial year 2013-14.**

1.31 With the UK continuing to face exceptional economic challenges, the remit recognises that the MPC may judge it necessary to use other unconventional instruments in order to support the economy in the context of price stability. Where those instruments have implications for credit risk or credit allocation, the remit ensures that appropriate governance arrangements are in place to ensure accountability. The MPC may also judge it to be appropriate to deploy explicit forward guidance including intermediate thresholds – policy commitments conditional on future economic developments – in order to influence expectations and thereby meet its objectives more effectively. **The remit requests that the MPC provides in its August 2013 *Inflation Report* an assessment of the merits of using intermediate thresholds.**

Credit easing

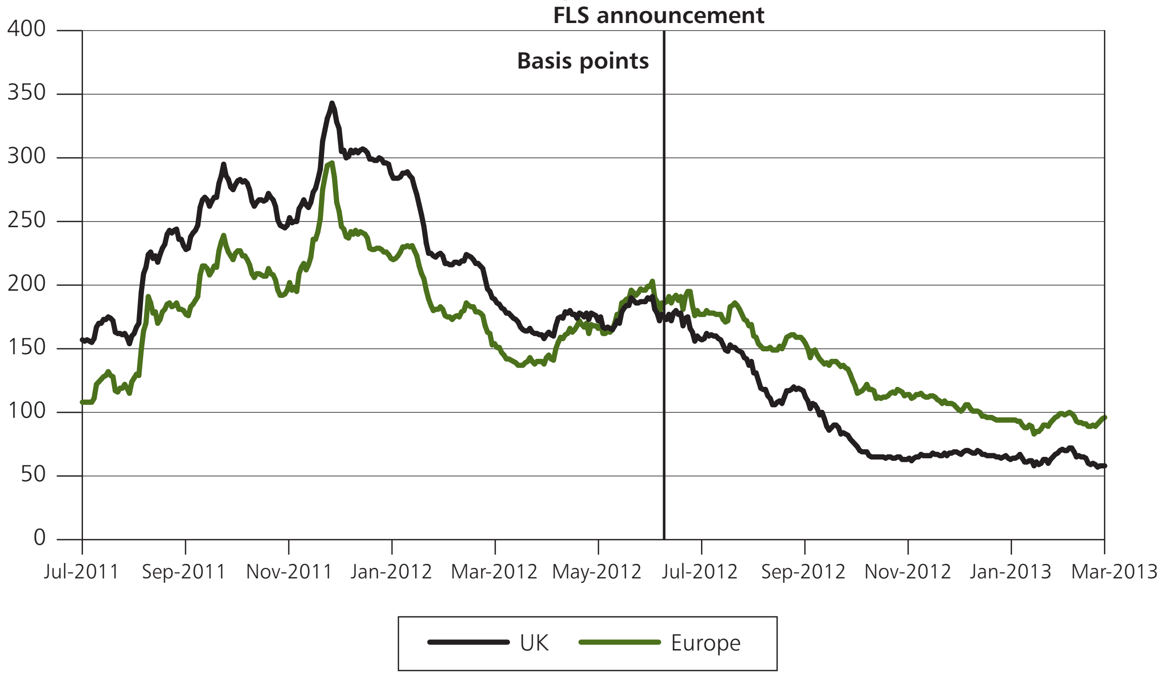
1.32 The FLS complements the Bank of England's asset purchase programme by delivering support to the economy through the banking system. The FLS reduces bank funding costs and provides strong incentives for banks to increase their lending to households and non-financial businesses in the UK. There are currently 39 banks and building societies participating in the Scheme, who make up over 80 per cent of the stock of loans.

Chart 1.6: Average quoted interest rates on mortgages



Source: Bank of England.

Chart 1.7: Indicative senior unsecured bond spreads[1]



[1]The data show an unweighted average of the spread between euro-denominated senior unsecured bonds and equivalent-maturity swap rates for a selected bond issued by each of a selection of large banks in the region. The selected bonds have residual maturities of up to six years.
Source: Bank of England.

1.33 The FLS is improving credit conditions in the UK. Wholesale bank funding costs have declined significantly as a result of the FLS and wider international developments and are now at very low levels. This is feeding through to the wider economy. The number of high loan-to-value mortgage products available in the market has increased by about 30 per cent and mortgage approvals are increasing. Between July 2012 and January 2013, the average quoted rate for 2-year fixed-rate mortgages with 90 per cent loan-to-value ratio fell by more than one percentage point, as shown in Chart 1.6. Chart 1.7 shows that, together with a general improvement in financial markets, the FLS has led to reductions in bank funding costs.

1.34 Credit availability for businesses has also improved and is expected to improve further in the coming months. Several banks participating in the FLS have introduced discounted loans for small and medium-sized enterprises.

1.35 The FLS has been a clear success, with strong signs that lower bank funding costs are now being reflected in lower lending rates and increased credit availability. Banks expect to expand their lending to the real economy and their use of the Scheme throughout the year. HM Treasury and the Bank of England are now actively considering whether there are potential extensions to the scheme that will boost lending further.

1.36 Building on the FLS, the Government wants to go further in order to deliver on its commitment to make the aspiration of home ownership a reality for as many households as possible. **Budget 2013 therefore announces Help to Buy, a package of measures that will increase the supply of low-deposit mortgages for credit-worthy households, increase the supply of new housing and contribute to economic growth.** Details of the Help to Buy package are set out in the next section.

Deficit reduction

Fiscal strategy

1.37 The Government inherited the largest deficit in post-war history due to the financial crisis of 2008 and 2009 and unsustainable pre-crisis increases in public spending. The historically high level of borrowing risked undermining fairness, growth and economic stability in the UK. In 2010 the Government set out clear, credible and specific medium-term fiscal consolidation plans to return the public finances to a sustainable path.

1.38 The Government's fiscal strategy has been effective in providing protection against a challenging backdrop of global uncertainty and fiscal vulnerabilities. This has restored fiscal credibility, allowing activist monetary policy and the automatic stabilisers to support the economy, and is consistent with the approach recommended by international organisations. As stated by the Organisation for Economic Co-operation and Development (OECD), *"monetary policy and the operation of the automatic stabilisers should support the economy in the short term"*.[17] Uncertainty in the global outlook further reinforces the case for stability in the Government's consolidation plans.

1.39 In line with the Government's fiscal strategy, Budget 2013 sets out:

- **a fiscally neutral Budget that reinforces the Government's commitment to deficit reduction,** primarily through spending consolidation;
- **a reduction in Resource Departmental Expenditure Limits (RDEL) of £1.1 billion in 2013-14 and £1.2 billion in 2014-15,** helping to support the housing package in the short term and contributing to the overall savings required from current spending in 2015-16;

[17] *OECD Economic Survey: United Kingdom 2013*, OECD, February 2013.

- **an envelope for current spending in 2015-16 of £694.2 billion, enabling the Government to increase capital spending plans by £3 billion a year** and ensuring consolidation is underpinned by clear, credible and specific medium-term plans for delivery; and
- **a sustained decline in the structural deficit as headwinds to growth ease,** with cyclically-adjusted net borrowing falling by an annual average of around 1 per cent of GDP over the forecast period.

Implementing fiscal consolidation

1.40 The Government remains committed to reducing the deficit and addressing the permanent structural deterioration in the public finances caused by the lasting impact of the financial crisis. Implementation of the fiscal consolidation plans is well underway:

- by the end of 2012-13, around 70 per cent of the annual fiscal consolidation planned for the Spending Review 2010 period will have been achieved, with around 65 per cent of the spending and around 90 per cent of the tax consolidation in place. As set out in Table 1.4, 80 per cent of the total consolidation in 2015-16 will be delivered by lower spending;
- by the end of April 2013, the Government will have implemented measures to deliver over 90 per cent of the total savings expected from reforms to the welfare system; and
- the majority of tax consolidation measures announced before Budget 2013 will have been legislated by 6 April 2013.[18]

1.41 As a result, the Government has made significant progress in reversing the unprecedented rise in borrowing between 2007-08 and 2009-10:

- public sector net borrowing is forecast to fall by a third over the three years from 2009-10, from 11.2 per cent of GDP in 2009-10 to 7.4 per cent of GDP in 2012-13 (as shown in Table 1.5);
- cyclically-adjusted general government net borrowing – a measure of the deficit that excludes the effects of the cycle, and so illustrates the structural fiscal position – is forecast by the IMF to fall by 4.3 percentage points of GDP between 2009 and 2012, which is a larger reduction than any other country in the G7;
- Total Managed Expenditure (TME) is planned to be £10.2 billion lower in 2012-13 than forecast at Budget 2012, ensuring the deficit continues to fall; and
- cumulative debt interest payments from 2010-11 to 2015-16 are forecast to be £31 billion lower than expected at the June Budget 2010.[19]

Reducing risks

1.42 The UK's fiscal vulnerabilities argue strongly in favour of maintaining a credible path of deficit reduction. Despite significant progress since 2010, the UK is forecast to have the largest deficit in the EU in 2013.[20] Among the G7, only the US and Japan are forecast to have larger deficits in 2013.[21] Uncertainty in the global outlook reinforces the case for stability in the Government's plans for fiscal consolidation.

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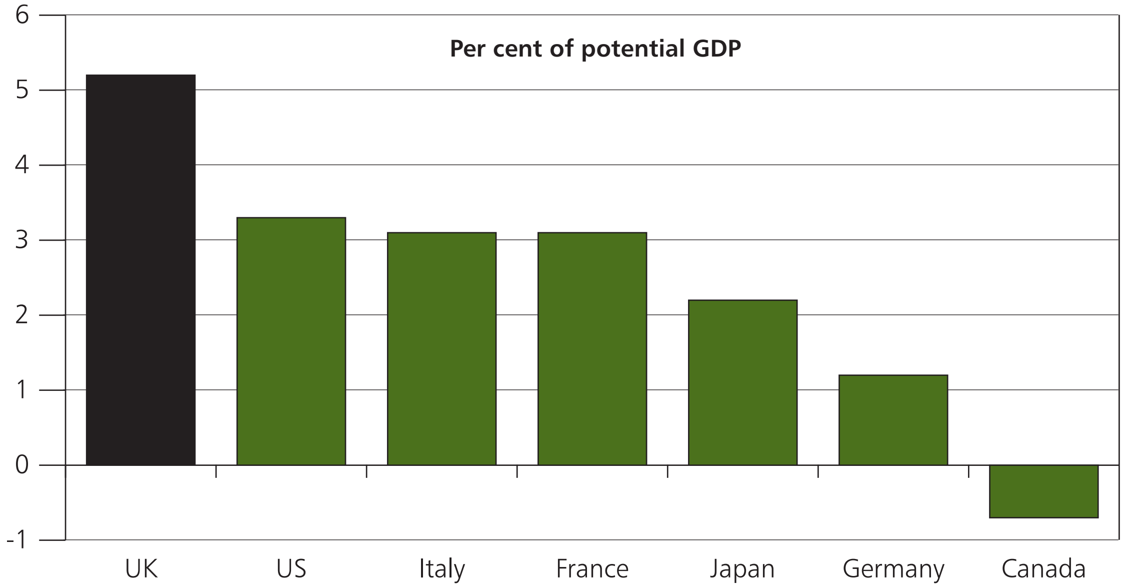
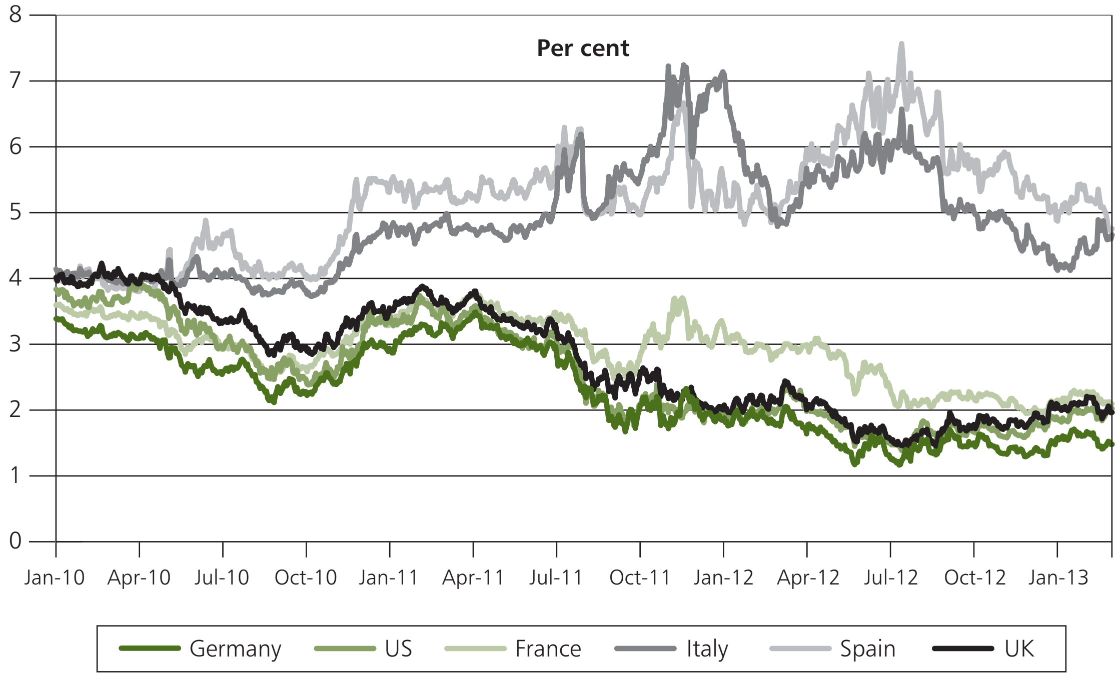
[18] Based on net savings in 2014-15. This estimate is consistent with Table 1.4.
[19] *Fiscal Monitor*, IMF, October 2012.
[20] *European Economic Forecast Winter 2013*, European Commission, February 2013.
[21] *Fiscal Monitor*, IMF, October 2012.

Chart 1.8: General government cyclically-adjusted deficit in 2007



Source: International Monetary Fund.

Chart 1.9: 10-year government bond yields



Source: Bloomberg.

1.43 In February Moody's downgraded the UK sovereign credit rating from Aaa to Aa1 with stable outlook, reflecting *"the anticipated slow growth of the global economy and the drag on the UK economy from the ongoing public and private sector deleveraging process"*. Moody's highlighted a number of factors that could lead them to downgrading the UK further, including *"reduced political commitment to fiscal consolidation"* and *"additional material deterioration in the country's economic prospects"*.[22] Among the G7, only Canada and Germany are now rated AAA by all three major credit rating agencies; Canada and Germany had the lowest pre-crisis structural deficits in 2007, while Chart 1.8 shows that the UK had the largest pre-crisis structural deficit in 2007.[23]

1.44 The credit rating is one of many important benchmarks, but near historic low gilt yields continue to reflect the market-tested credibility earned by the Government's economic strategy. As Chart 1.9 shows, UK long-term interest rates were around the same level as those of Italy and Spain in May 2010. Italy and Spain now face long-term interest rates of around 5 per cent, compared with near record lows of around 2 per cent for the UK.

1.45 Clear and credible consolidation plans remain essential for reducing the risk of a costly loss of market confidence in the UK. As noted by the OECD, *"global developments have shown that the consequences of losing market confidence can be sudden and severe and a sharp rise in interest rates would be particularly damaging to an economy with the United Kingdom's level of indebtedness"*.[24] Table 1.3 shows that a 1 percentage point increase in government bond yields would add around £8.1 billion to annual debt interest payments by 2017-18. A 1 percentage point rise in effective mortgage rates would add £12 billion a year to households' mortgage interest payments.

Table 1.3: Impact of higher interest rates on debt interest payments

	£ billion					
	Annual increase in debt interest payments					
	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Increase in interest rates[1]						
1 percentage point	0.8	2.6	4.4	6.2	8.1	**22.1**
2 percentage points	1.6	5.1	8.8	12.6	16.4	**44.6**
3 percentage points	2.5	7.7	13.3	19.0	25.0	**67.5**
4 percentage points	3.3	10.3	17.9	25.6	33.8	**90.8**
5 percentage points	4.1	12.9	22.4	32.4	42.8	**114.6**

[1] Above market gilt rates, consistent with the OBR's March 2013 Economic and fiscal outlook. Increases are applied to each gilt maturity from 2013Q2 and are assumed to continue throughout the forecast period.

Source: HM Treasury.

1.46 Fiscal consolidation also reduces the risk of adverse feedback between weak public finances and a strained financial sector. This feedback can be very damaging, as evidenced by recent events in the euro area. Globally, the UK has one of the largest financial systems relative to the size of its economy, meaning that any loss of investor confidence in the UK's fiscal position would not only affect the UK, but also the global economy. As the IMF has stated, *"the UK financial system thus serves as a global public good"*.[25] It is the IMF's view that the UK's economic and financial sector policies have a systemic impact on the global economy.

[22] *Press notice: Moody's downgrades UK's government bond rating to Aa1 from Aaa; outlook is now stable*, Moody's, 22 February 2013.
[23] *Fiscal Monitor*, IMF, October 2012.
[24] *OECD Economic Survey: United Kingdom 2013*, OECD, February 2013.
[25] *2012 Spillover Report*, IMF, July 2012.

Spending consolidation

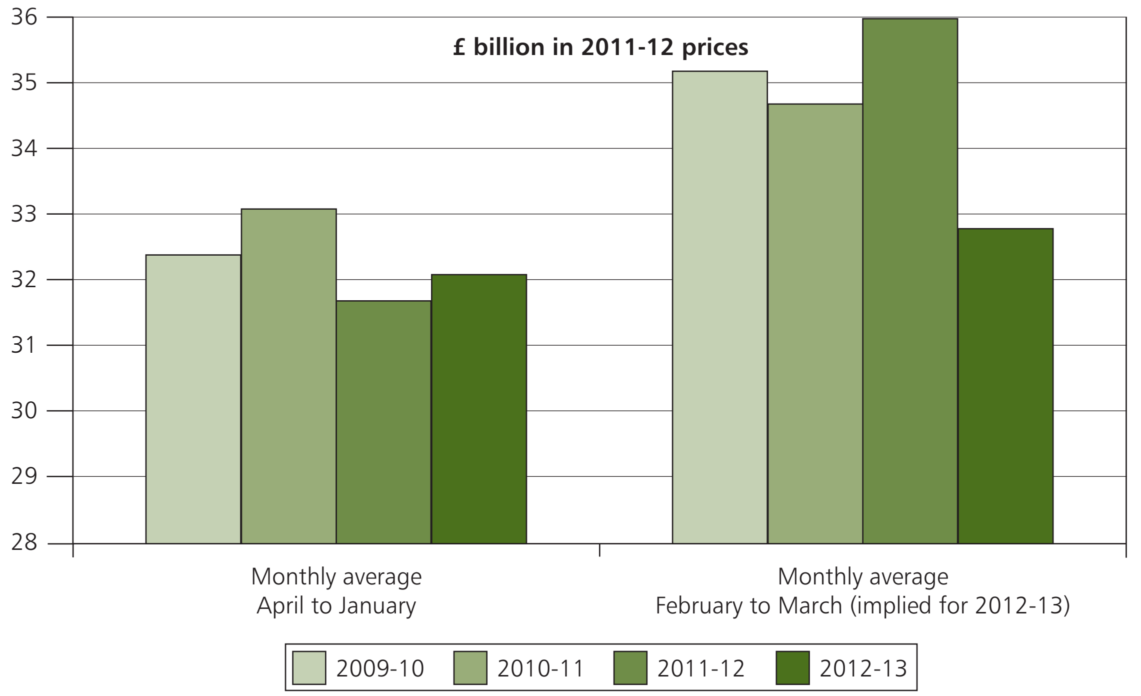
Spending control

1.47 Public spending control is central to the Government's commitment to reduce the deficit. Since 2010 the Government has taken firm action to ensure good financial management in departments and to improve spending control by:

- delivering £6.2 billion of in-year efficiency savings in 2010-11;
- establishing the Cabinet Office Efficiency and Reform Group in 2010 and introducing tighter spending controls over areas of corporate spending including procurement, property and information communications technology;
- taking a zero-based approach to capital spending at Spending Review 2010 to prioritise those projects with the highest economic value;
- tightening in-year spending control by departments, including through the guidance published in *Improving Spending Control*; and
- as a result of the Government's successful negotiation, agreeing the new Multi-annual Financial Framework at the February European Council, which reduces the UK's contributions to the EU by £3.5 billion over the forecast period to 2017-18.[26]

1.48 Action to improve financial management and spending control has continued this year. Analysis of spending patterns has demonstrated that there is a longstanding trend of departmental spending rising in the final few months of the year, partly because departments seek to avoid losing access to funds. This year there has been a strengthened cross-government effort to scrutinise end-of-year spending to address this trend and ensure that value-for-money criteria around departmental spending are upheld. In addition increased focus has been placed on departments making payments at the appropriate time.

Chart 1.10: Current spending on public services in real terms



Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

[26] Available on the Treasury website at www.hm-treasury.gov.uk.

1.49 Over the last three years departments have underspent against plans by an average of £4.0 billion across total Departmental Expenditure Limits (DEL). This has been spread across a number of departments. For example, the forecast underspend for the Department of Health is £2.2 billion in 2012-13 compared to an average of £2.1 billion against original provision over the last Parliament.[27] Faster progress in delivering savings, combined with the improvements to spending control set out above, mean that departmental underspends in 2012-13 are higher than usual and above the £7.5 billion included in the OBR December 2012 forecast. Departments are collectively expected to spend £11.5 billion less in total DEL in 2012-13 than in the plans set out at Budget 2012. Details of this are set out in Table 2.5.

1.50 Departments are ahead of their consolidation targets. As set out in Table 1.4, by the end of 2012-13 around 65 per cent of the £80 billion of spending reductions planned by 2014-15 will have been delivered, compared to around 50 per cent at the time of the 2010 Spending Review. To reflect this, and in line with the Government's commitment to ensuring that borrowing continues to fall, **Budget 2013 announces a reduction in RDEL by £1.1 billion in 2013-14 and £1.2 billion in 2014-15.** This is equivalent to a 1 per cent reduction for most departments. The schools and health budgets remain unchanged. Local Government and police allocations that have been set out for 2013-14 will not be changed. HM Revenue and Customs (HMRC) will be excluded, to ensure that they are able to focus on delivering the additional revenue target set out at Autumn Statement 2012. **The budget of the Department for International Development will be reduced by £135 million in 2013-14 and £165 million in 2014-15 to reflect the downward revisions to nominal Gross National Income set out in the OBR forecast.** There is also a reprofiling of funding for broadband programmes, to support local delivery. These savings will be used to help support housing in the short term and contribute to the overall savings required from current spending in 2015-16.

The 2015-16 Spending Round

1.51 This Budget sets out the next steps in the UK's fiscal consolidation by fixing an envelope for TME for 2015-16. The Government has set this envelope in line with the assumption that total spending will continue to fall in 2015-16 at the same rate as over the Spending Review 2010 period. The Government will make savings from current spending of £11.5 billion in 2015-16. As set out in Table 2.3, **the envelope for current spending in 2015-16 is therefore set at £694.2 billion.** Individual departmental budgets will be published in the 2015-16 Spending Round to be announced on 26 June 2013. Health, schools and Official Development Assistance (ODA) will be protected.

1.52 As a result of these savings, **Budget 2013 announces that the Government will increase capital spending plans by £3 billion a year from 2015-16 onwards,** maintaining the temporary increases to capital announced at Autumn Statement 2011 and Autumn Statement 2012. The capital envelope for 2015-16 will be £50.4 billion. As the IMF has stated, *"Deeper budget-neutral reallocations could also support recovery. Such reallocations within the current overall fiscal stance could include greater investment spending".*[28] As a result of this increase, public investment as a percentage of GDP will now be higher on average over this Parliament and the next Parliament collectively than it was under the previous government. **The Government will take a long-term approach to capital as part of the 2015-16 Spending Round, setting plans out to 2020-21 for the most economically valuable areas of capital expenditure.**

1.53 Public sector pay restraint has been a key part of the fiscal consolidation so far. **Budget 2013 announces that public sector pay awards in 2015-16 will be limited to an average of up to 1 per cent.** It will be for departments and Pay Review Bodies to determine the level of award based on affordability and individual recruitment and retention needs.

[27] All underspends are in 2011-12 prices.
[28] *United Kingdom: Staff Report for the 2012 Article IV Consultation*, IMF, July 2012.

1.54 Although the majority of the public sector has been subject to pay restraint, some have continued to receive annual pay increases of 7 per cent or more due to progression pay arrangements. In some workforces reforms are already under way. **The Government will seek significant further savings through reforms to progression pay in the Spending Round.** The Armed Forces will be excluded due to the unique nature of their careers.

1.55 The Government's themes for the 2015-16 Spending Round will be growth, efficiency and public service reform, including localism and fairness. The increase to capital spending plans and long-term approach to capital planning set out above will strengthen UK infrastructure and support growth in the economy. The Spending Round will require a continued focus on delivering higher-quality services and better outcomes at lower cost. This will be achieved both through further operational efficiencies in central government and the wider public sector, and ongoing reform of public services – including strengthened joint working at a local level and across services. The Government is committed to ensuring that decisions on public spending are as transparent, accountable and fair as possible, and will again publish analysis of the distributional impact of the Spending Round.

1.56 The 2015-16 Spending Round will extend the efficiency programme into 2015-16, with the expectation of generating a further £5 billion of savings. Departments saved £5.5 billion in 2011-12, supported by the Efficiency and Reform Group, through efficiencies and reducing wasteful expenditure.[29] Departments are expected to deliver comparable additional efficiency savings in each of the succeeding years including 2015-16. Moving transactional services online will save £1.2 billion in this Parliament and the Government's programme for improving back-office shared services across departments and Arm's Length Bodies will deliver savings of around £250 million in 2015-16.[30] Further savings will come from the review of projects announced at the Autumn Statement 2012, further centralisation of the procurement of common goods and services, and reducing the cost of information technology.[31]

1.57 In the wider public sector, the Department for Education will conduct a review of the level of efficiency in the schools system to report alongside the 2015-16 Spending Round, and the Government will publish an action plan in May with measures to improve the efficiency and effectiveness of the Criminal Justice System. Her Majesty's Inspectorate of Constabulary (HMIC) data suggests that one-sixth of policing will be delivered collaboratively across forces by 2014-15, but there is further to go to maximise savings whilst protecting the service to the public.[32]

1.58 Ongoing reform of public services will also be required. The four areas that participated in the recent Whole Place Community Budget pilots estimate that they can save £800 million over five years by implementing their plans.[33] To support the local adoption of similar approaches, **the Government is establishing a new multi-agency network and will announce plans to extend the benefits of this approach across the country at the 2015-16 Spending Round.**

Spending beyond 2015-16

1.59 Budget 2013 updates the fiscal assumption for 2016-17 and 2017-18. **In line with previous policy, this Budget sets a fiscal assumption that TME in 2016-17 and 2017-18 will continue to fall in real terms at the same rate as over the Spending Review 2010 period.**[34] Fiscal consolidation for 2016-17 and 2017-18 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead.

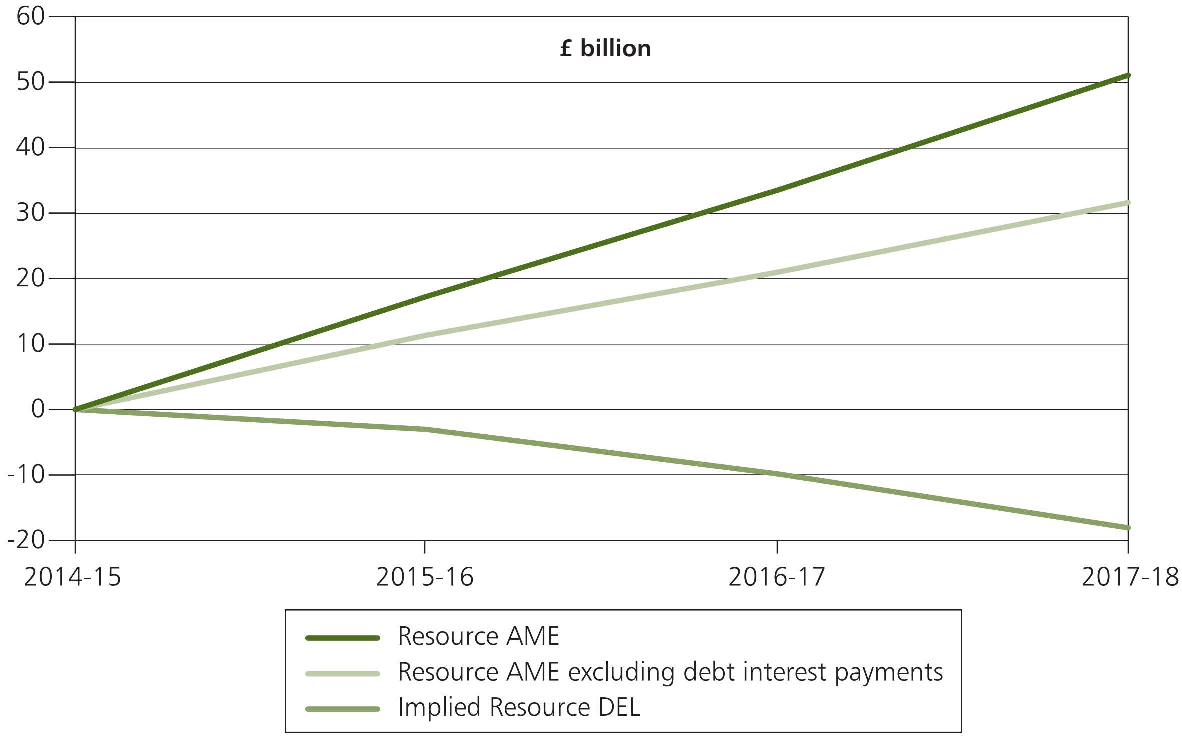
[29] Available on the Government website at www.gov.uk.
[30] Available on the Cabinet Office and Government websites at www.cabinetoffice.gov.uk and www.gov.uk.
[31] Available on the Government website at www.gov.uk.
[32] *Increasing efficiency in the Police Service: the role of collaboration*, HMIC, July 2012.
[33] *Cabinet Office and HM Treasury – Integration across Government*, National Audit Office, March 2013.
[34] The Government's fiscal assumption excludes the effect of measures announced at Budget 2013 and Autumn Statement 2012, all capital measures announced at Autumn Statement 2011, and the OBR's underspends forecast.

Reform of the spending framework

1.60 Annually Managed Expenditure (AME) typically consists of large, demand-led programmes. Under the current public spending framework, AME accounts for around half (some £350 billion) of total public expenditure, the largest component of which is welfare spending. However, AME is not subject to fixed spending controls.

1.61 The Government has already taken action to manage AME spending pressures, including through the delivery of significant welfare reforms. As a result, working-age welfare expenditure is projected to fall in real terms over the current spending review period. Despite this, as shown by Chart 1.11, rapid growth in AME spending is reducing the resources available for other key public services. These pressures are set to persist over the longer term.

Chart 1.11: Cumulative changes to Resource AME and implied Resource DEL



Source: HM Treasury and Office for Budget Responsibility.

1.62 It is important that the Government can manage increases in spending and make trade-offs across different areas of expenditure, ensuring that limited resources are directed toward public spending priorities. To deliver this, a more robust public spending framework is required. **Budget 2013 announces that the Government will strengthen the spending framework by introducing a firm limit on a significant proportion of AME, including areas of welfare expenditure. This will be designed in a way that allows the automatic stabilisers to operate to support the economy.** Action to improve control over AME spending will support the delivery of fiscal consolidation. An update will be provided at the Spending Round.

1.63 As set out in Autumn Statement 2012, the Government is also developing a framework for managing liabilities that do not appear in the fiscal aggregates and a control total for the commitments arising from off-balance sheet Private Finance Two (PF2) contracts signed. The Government will provide further details in the 2015-16 Spending Round.

Composition of consolidation

1.64 As a result of the plans set out in Budget 2013, public spending is projected by the OBR to fall from 47.4 per cent of GDP in 2009-10 to 40.5 per cent of GDP by 2017-18, around the same level as 2004-05 and close to its long-run average. Public sector current receipts are projected to rise from around 36.2 per cent of GDP in 2009-10 to around 38.3 per cent of GDP by 2017-18.

1.65 As set out in Table 1.4, 80 per cent of the total consolidation in 2015-16 will be delivered by lower spending. This is consistent with OECD and IMF research, which suggests that fiscal consolidation efforts that are focused on spending are more likely to be successful.[35]

Table 1.4: Total consolidation plans over this Parliament

	£ billion				
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Policy inherited by the Government	**25**	**40**	**54**	**68**	
Spending[1,2]	14	25	37	48	
Tax[2]	11	15	17	20	
Spending share of consolidation (per cent)	*57*	*62*	*69*	*71*	
Total discretionary consolidation	**41**	**74**	**84**	**103**	**130**
Spending[1,2,3,4]	23	53	58	80	105
Tax[2,3]	18	21	25	23	25
Spending share of consolidation (per cent)	*56*	*72*	*70*	*77*	*80*

[1] Spending consolidation is attributable to three factors: (a) reductions in DEL are calculated by assessing nominal DEL totals against a counterfactual of growing DEL from 2010-11 in line with general inflation in the economy, as set out in Table 4.8 of the OBR's pre-Budget forecast (June 2010); (b) reductions in AME due to the net effect of policy changes announced since the June Budget 2010; and (c) estimated debt interest savings, updated for market interest rates consistent with the OBR's March 2013 Economic and fiscal outlook.

[2] This takes account of the latest costings.

[3] Where costings do not go out to 2015-16, they have been grown in line with general inflation in the economy.

[4] The Government will set DEL budgets for 2015-16 at the Spending Round. Figures shown for 2015-16 are based on overall Resource and Capital DEL envelopes, as set out in Table 2.3.

Source: Office for Budget Responsibility and HM Treasury.

Fiscal forecast

1.66 The establishment of the OBR has placed the UK at the forefront of institutional reform internationally. It has significantly enhanced the credibility of the UK's fiscal framework by ensuring that the Government's fiscal policy decisions are based on independent forecasts for the economy and public finances.

1.67 The deficit forecasts in Budget 2013 are presented excluding the effect of the transfer of assets from the Royal Mail Pension Plan to the public sector, except where otherwise indicated. On this basis, public sector net borrowing is forecast to continue to fall from its post-war peak of 11.2 per cent of GDP in 2009-10 to:

- 5.0 per cent of GDP in 2015-16, the end of this Parliament; and
- 2.2 per cent of GDP in 2017-18.

1.68 Public sector net debt as a percentage of GDP is forecast to:

- be 5.1 percentage points higher in 2015-16 than forecast at Autumn Statement 2012; and
- peak at 85.6 per cent of GDP in 2016-17, before falling to 84.8 per cent of GDP in 2017-18.

[35] See *Economic Outlook*, OECD, June 2007; *OECD Economic Survey: United Kingdom 2011*, OECD, March 2011; and *UK Article IV consultation*, IMF, May 2009.

Table 1.5: Overview of the OBR's central fiscal forecast

	Per cent of GDP							
	Outturn		Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Deficit								
Public sector net borrowing	9.5	7.9	7.4	6.8	5.9	5.0	3.4	2.2
Surplus on current budget	-6.9	-6.0	-6.0	-5.2	-4.3	-3.5	-1.9	-0.9
Primary balance	-6.8	-5.1	-5.3	-4.8	-3.8	-2.6	-0.6	0.9
Cyclically-adjusted net borrowing	7.3	6.0	5.4	4.3	3.3	2.7	1.3	0.6
Cyclically-adjusted surplus on current budget	-4.7	-4.2	-4.0	-2.8	-1.7	-1.2	0.1	0.8
Cyclically-adjusted primary balance	-4.6	-3.2	-3.3	-2.3	-1.2	-0.3	1.4	2.5
Treaty deficit[1]	9.6	7.8	7.4	6.8	6.0	5.2	3.5	2.3
Cyclically-adjusted Treaty deficit	7.4	5.9	5.4	4.4	3.4	2.8	1.5	0.7
Memo: Public sector net borrowing including Royal Mail Pension Plan transfer	*9.5*	*7.9*	*5.6*	*6.8*	*5.9*	*5.0*	*3.4*	*2.2*
Memo: Treaty deficit including Royal Mail Pension Plan transfer[1]	*9.6*	*7.8*	*5.6*	*6.8*	*6.0*	*5.2*	*3.5*	*2.3*
Debt								
Public sector net debt[2]	66.5	71.8	75.9	79.2	82.6	85.1	85.6	84.8
Treaty debt ratio[3]	79.9	86.0	90.7	94.9	98.6	100.8	100.8	99.4
Output gap	-2.8	-2.7	-2.9	-3.7	-3.6	-3.3	-2.7	-2.1
Memo: total policy decisions[4]				*0.1*	*-0.1*	*-0.2*	*0.1*	*0.1*

Note: Deficit figures exclude the effect on public sector net investment in 2012-13 of transferring assets from the Royal Mail Pension Plan to the public sector, which reduces net borrowing by £28 billion (1.8 per cent of GDP) in that year, unless otherwise stated.

[1] General government net borrowing on a Maastricht basis.

[2] Debt at end March; GDP centred on end March.

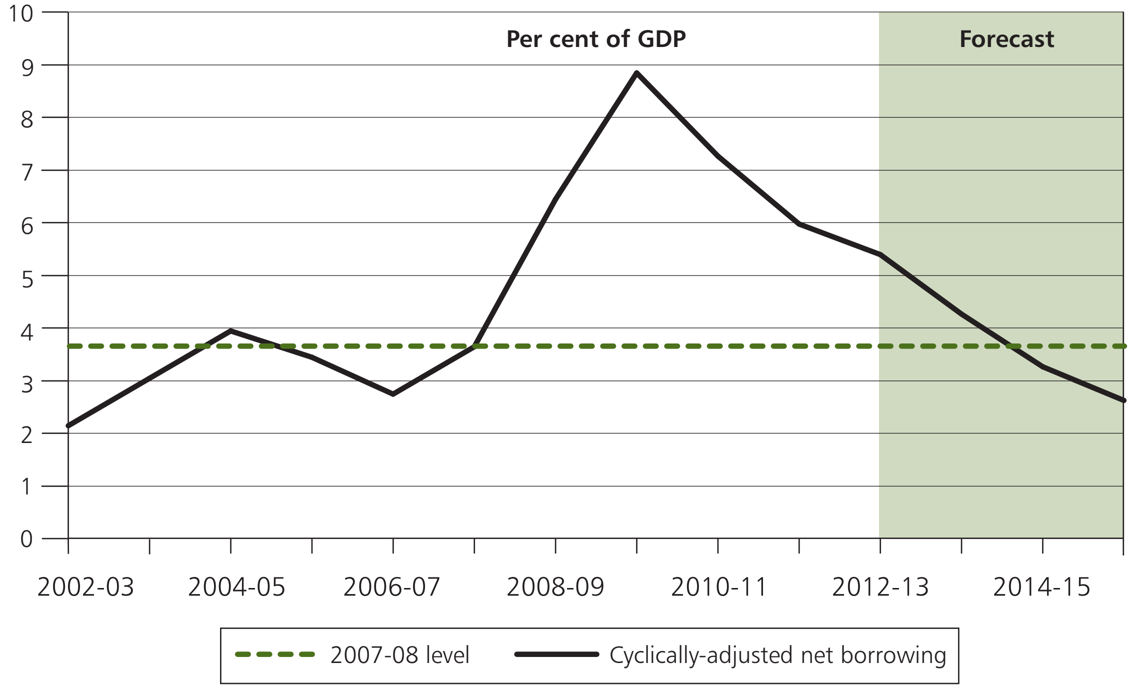
[3] General government gross debt on a Maastricht basis.

[4] Equivalent to the 'Total policy decisions' line in Table 2.1.

Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

1.69 The structural position of the public finances remains on a sustainable path. The Government's plans ensure a sustained decline in the structural deficit. Chart 1.12 shows that cyclically-adjusted net borrowing – a measure of the deficit that excludes the effects of the cycle and so illustrates the structural fiscal position – is forecast to fall below the pre-crisis level by the end of this Parliament. Cyclically-adjusted net borrowing falls by an annual average of around 1 per cent of GDP over the forecast period, in line with the structural consolidation set out in Autumn Statement 2012.

Chart 1.12: Cyclically-adjusted net borrowing until the end of this Parliament[1]



[1] Cyclically-adjusted net borrowing excluding the effect on public sector net investment in 2012-13 of transferring assets from the Royal Mail Pension Plan to the public sector.
Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

The fiscal mandate

1.70 As announced in the June Budget 2010, the Government's fiscal strategy is underpinned by a forward-looking fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period. The fiscal mandate guides fiscal policy decisions over the medium term, ensuring that the Government sets plans consistent with a reduction in the structural deficit. The fiscal mandate is based on:

- a cyclically-adjusted aggregate, to allow some fiscal flexibility at times of economic uncertainty and to allow the automatic stabilisers to operate;
- a rolling five-year forecast period, to ensure that fiscal consolidation is delivered over a realistic and credible timeframe; and
- the current balance, to protect the most productive public investment expenditure.

1.71 The Government's fiscal mandate is supplemented by a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16.

Performance against the mandate

1.72 Including all measures set out in this Budget, the OBR's March 2013 *Economic and fiscal outlook* concludes that the Government remains on course to meet the fiscal mandate. The OBR's judgement is that the Government's policies are consistent with a roughly 70 per cent chance of achieving the fiscal mandate in 2017-18. The OBR's forecast is for the fiscal mandate to be achieved a year early, in 2016-17.

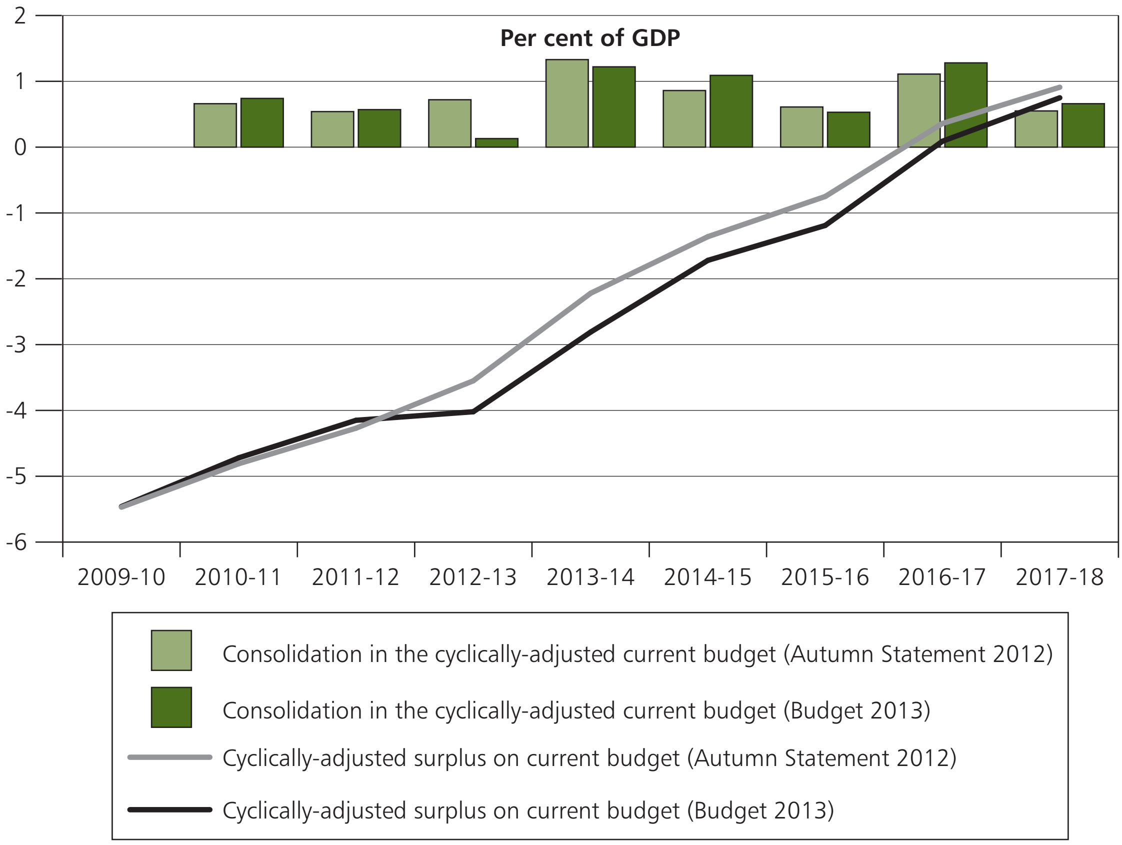
1.73 The OBR has also forecast that public sector net debt as a percentage of GDP will be falling in 2017-18, two years later than set out in the supplementary debt target.

1.74 The Government's judgement is that significant changes to the path of consolidation in the short term would constrain the operation of the automatic stabilisers, limiting their ability to support the economy. The Government's response is in line with the recommendations of international organisations. The OECD stated that *"the Government's decision in the December 2012 Autumn Statement to continue with its existing consolidation plans and not override the automatic stabilisers in order to meet the supplementary debt target is appropriate."*[36] At this time of rising debt, the Government remains committed to restoring debt to a sustainable, downward path and will retain the existing supplementary debt target.

1.75 As set out in the June Budget 2010, once the public finances are closer to balance, the period over which cyclically-adjusted current balance must be achieved could safely be shortened in order to create a tighter constraint. In addition, once the exceptional rise in debt has been addressed, a new target for debt as a percentage of GDP will be set, taking account of the OBR's assessment of the long-term sustainability of the public finances.

1.76 Charts 1.13 and 1.14 show performance against the Government's fiscal mandate and the supplementary debt target. The cyclically-adjusted current balance in 2017-18 is broadly unchanged from the OBR's December 2012 forecast.

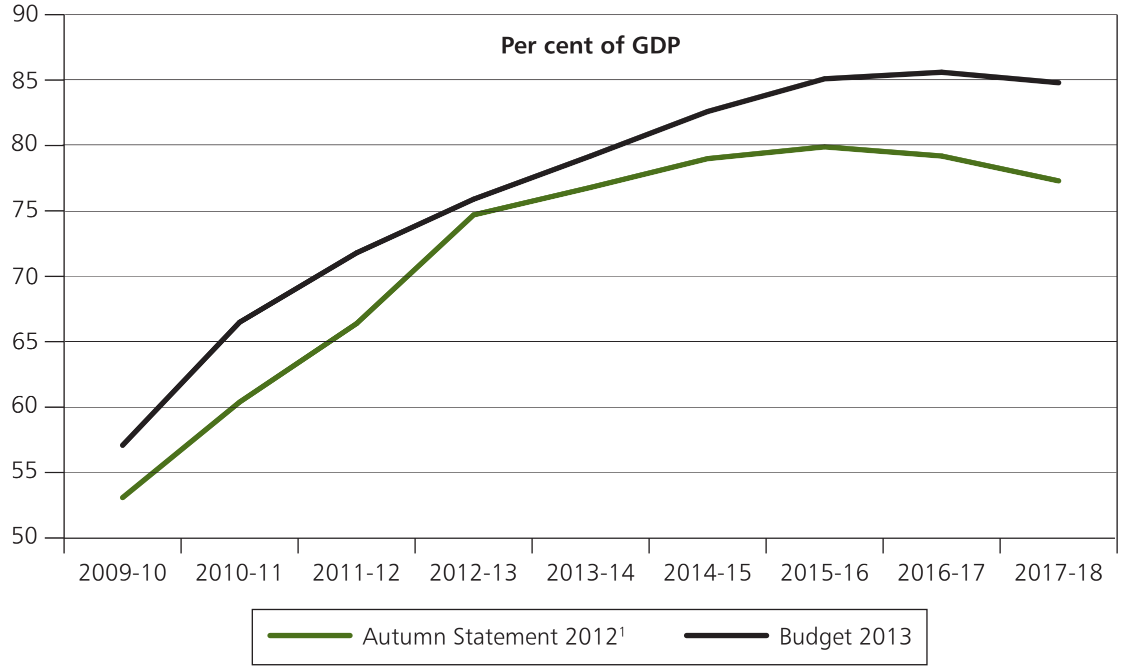
Chart 1.13: Consolidation in the cyclically-adjusted current budget



Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

[36] *OECD Economic Survey: United Kingdom 2013*, OECD, February 2013.

Chart 1.14: Public sector net debt



[1] Autumn Statement 2012 excluded the reclassification of Northern Rock (Asset Management) and Bradford and Bingley plc between 2009-10 and 2011-12.
Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

Performance against EU targets

1.77 The Government remains committed to bringing the UK's Treaty deficit in line with the 3 per cent target set out in the Stability and Growth Pact (SGP). The UK is forecast to meet the EU SGP target for the Treaty deficit in 2017-18.

Debt management

1.78 The Government's financing plans for 2013-14 are set out in full in the *Debt and reserves management report 2013-14*, published alongside the Budget and summarised in Annex A. It is anticipated that the net financing requirement of £162.9 billion will be met through gilt issuance of £151.0 billion and an increase of £11.9 billion in the stock of Treasury bills.

1.79 The financing arithmetic provides for £6 billion of sterling financing for the Official Reserves in 2013-14. The Government continues to envisage sterling financing being held at a similar level in 2014-15. This additional financing, announced at Budget 2011, is intended to meet potential calls on the Official Reserves that may arise and ensure that the level of foreign currency reserves held is sufficient.

RPI indexation

1.80 The National Statistician's announcement in January, which confirmed that the Retail Prices Index (RPI) would remain unchanged, stated that a method of calculation used in the RPI would not be chosen were the Office for National Statistics (ONS) to construct a new price index. The Government will keep the use of RPI for indexation purposes under evaluation until after the UK Statistics Authority has concluded reviewing the governance arrangements and structures supporting the production of price indices and how best to ensure that these statistics best meet the needs of users in future. This will allow sufficient time for new ONS price indices, Consumer Prices Index including Housing and Retail Prices Index Jevons, to become established. For gilt investors, their future cash flows on existing index-linked gilts will continue to be calculated by reference to the RPI in accordance with the terms and conditions of those gilts. The Government will continue to issue new index-linked gilts linked to the RPI.

Reform of the financial system

1.81 As set out in February 2013, this is the year that the Government's financial sector reforms will reset the banking system.

1.82 Following the London Inter-Bank Offered Rate (LIBOR) rate-fixing and other recent scandals, the Government intends to reform the culture and ethics of the banking industry to improve the way that banks work for their customers. In summer 2012, the Government proposed the establishment of the Parliamentary Commission on Banking Standards, which completed its pre-legislative scrutiny work on the Draft Financial Services (Banking Reform) Bill in December. The Commission has said it will produce a final report in mid-May, and is expected to produce far reaching proposals to improve professional standards and culture in the banking industry.

1.83 The Government is also undertaking ambitious reform to create a more resilient, stable and competitive banking sector, based on the recommendations of the Independent Commission on Banking (ICB), chaired by Sir John Vickers. The Financial Services (Banking Reform) Bill was introduced into the House of Commons in February 2013 and has had its second reading. The Government will be bringing forward further measures in the Bill, in line with recommendations from the Parliamentary Commission on Banking Standards, to create a powerful new tool for the regulator to ensure the independence of the ring-fence bank. The Government will seek to amend the Bill to include provisions giving the regulator the power to enforce full separation between retail and wholesale banking in a specified group, subject to approval from the Treasury.

1.84 The Government continues to implement its plans to overhaul the tripartite system of financial regulation. The Financial Services Act 2012 comes into force on 1 April 2013. It provides the Bank of England with control of macro-prudential regulation, through the FPC, and with the establishment of the Prudential Regulation Authority (PRA) as a subsidiary of the Bank of England, creates a new micro-prudential regulator of deposit-takers, insurers and large investment firms. The new Financial Conduct Authority (FCA) will be responsible for ensuring the markets it regulates function well and in a way that supports consumer protection, market integrity and competition with strong statutory objectives.

Growth

1.85 The Government is delivering an ambitious programme of structural reform to equip the UK to succeed in the global race and support aspiration. Reflecting these reforms, the UK was ranked eighth overall in the World Economic Forum Global Competitiveness Report in 2012-13, up from twelfth in 2010-11.[37] A full implementation update on the Government's *Plan for Growth* has been published alongside this Budget.[38]

1.86 Budget 2013 sets out further action the Government will take to help UK businesses create jobs and to help people buy their own home. The Budget announces reforms to:

- improve the UK's infrastructure with a commitment to increase capital spending by £3 billion a year from 2015-16;
- help those who want to buy a home and increase the number of new homes being built with £5.4 billion of additional financial support. This includes a £3.5 billion investment in a Help to Buy: equity loan scheme in England open to all those who aspire to own a new build home, and the creation of a major new Help to Buy: mortgage guarantee to increase the availability of mortgages for new or existing properties for those with small deposits. To further support the supply of new housing, the Build to Rent and affordable homes guarantee programmes will also both be significantly expanded;
- support small business, including those looking to take on their first employee, by introducing a new £2,000 Employment Allowance to reduce employer National Insurance contributions (NICs) for all businesses;
- achieve the Government's ambition for the UK tax system to be the most competitive in the G20, cutting corporation tax to 20 per cent from April 2015;
- build on the UK's strengths, with £1.6 billion of funding to support long-term strategies for 11 sectors where the UK can be world-leading, including funding for a new Aerospace Technology Institute; and
- devolve significant funding to Local Enterprise Partnerships (LEPs), in response to Lord Heseltine's review, enabling them to tackle the barriers to growth that hold back the private sector in their areas.

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[37] *The Global Competitiveness Report 2012–2013*, World Economic Forum, 2012.
[38] *Plan for Growth implementation update*, HM Treasury, March 2013.

Figure 1.1: Implementation of growth commitments[39]

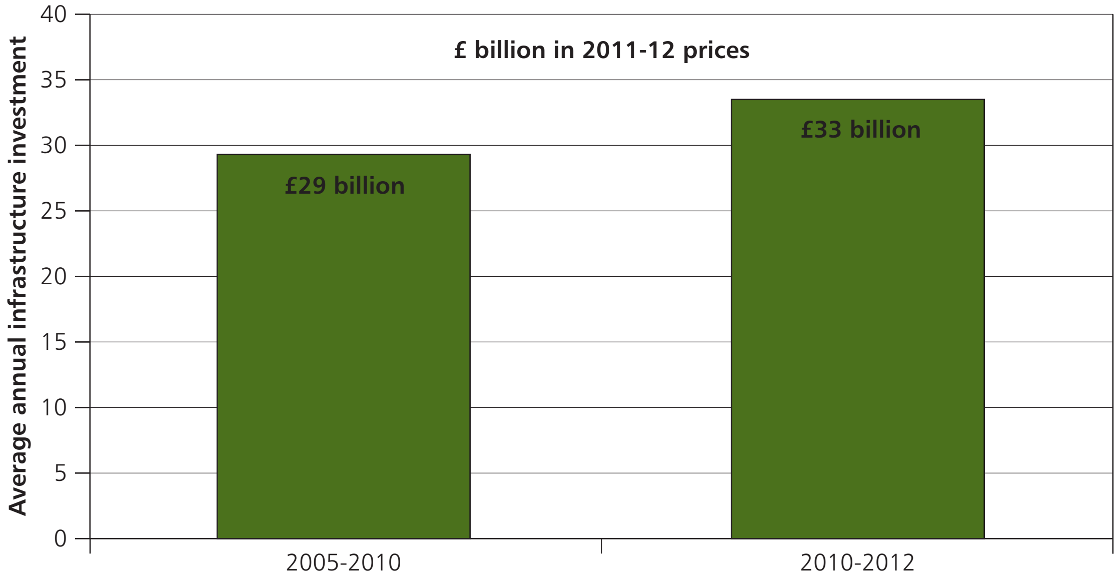
	COMMITMENTS	PROGRESS TO DATE	FORTHCOMING IMPLEMENTATION
COMPETITIVE TAX SYSTEM	*Make the UK the best location for corporate headquarters in Europe*	• Main rate of corporation tax cut to 24 per cent, the lowest in the G7 • Corporation tax for smaller companies cut to 20 per cent • Reform of Controlled Foreign Company rules • Small and medium-sized enterprises (SME) research and development (R&D) tax credit increased to 225 per cent	• By 2015, main rate will fall to 20 per cent • By 2015, a single, unified rate at 20 per cent • From April 2013, new tax reliefs for the animation, high-end television and video games industries[40] • From April 2013, a Patent Box worth £700m a year • From April 2013, an 'above the line' R&D credit at a headline rate of 10 per cent
	Reduce tax on employment and work	• Personal allowance to rise to £9,440 from April taking 1.1m people out of income tax • Threshold for employer NICs raised, with 650,000 employees taken out of employer NICs	• Personal allowance to £10,000 by April 2014 • From April 2014, £2,000 Employment Allowance for businesses and charities • From April 2013, top rate of income tax of 45 per cent
INVESTMENT AND EXPORTS	*Develop UK infrastructure*	• The largest rail investment since the Victorian era with support for £9.4bn of enhancements • Seven national and eighteen local major roads complete • UK Guarantees to support £1bn for the Northern Line Extension and £75m for Drax conversion • A tripling of support for low carbon generation, providing up to £7.6bn by 2020	• Completion in 2013 of major projects worth over £2bn, including major upgrades to roads • Consulting on the route for the second phase of High Speed Two in 2013 • From April 2013, a new carbon price floor • Legislation to provide certainty in energy infrastructure and bring forward investment
	Promote exports and inward investment	• Support for 32,000 SMEs to export in 2012-13 • Support for UK exporters to win contracts worth over £3.2bn since 2011-12	• From April 2013, £140m over two years to support more SME exporters and attract overseas investment • Financial Services Trade and Investment Board to open up trade opportunities and investment
	Encourage investment across sectors and regions	• Annual Investment Allowance increased to £250,000 for two years from January 2013 • 24 Enterprise Zones established, creating 1,700 jobs and almost £156m of investment	• From April 2013, £5.4bn on housing including Help to Buy and Build to Rent • From 2015, a Single Local Growth Fund to give local areas control over growth-related spending
BEST PLACE FOR BUSINESS	*Improve access to finance and support to new and growing businesses*	• 39 banks and building societies signed up to the Funding for Lending Scheme • £1.7bn of funding raised so far through the Business Finance Partnership • New Seed Enterprise Investment Scheme and expanded Venture Capital Trusts and Enterprise Investment Scheme	• Business Bank will start investing in 2013, and will be fully operational from 2014 • By summer 2013, further investments by the Business Finance Partnership • From April 2013, a limited extension of the capital gains tax relief for the Seed Enterprise Investment Scheme
	Reduce burdens on businesses	• New emphasis on sustainable growth in planning policy, and approvals at a 10-year high • Deregulation to save businesses £840m a year • Qualifying period for unfair dismissal increased from one year to two	• Reforms to employment law saving employers an estimated £40m a year by 2015 • By 2015, at least 3,000 regulations abolished or reduced through the Red Tape Challenge
EDUCATED, FLEXIBLE WORKFORCE	*Radical reform to every stage of education and skills provision*	• 2,724 Academies and 80 free schools open • Almost 1m apprenticeship starts this Parliament • Five University Technical Colleges (UTCs) open • Pupil Premium benefitting 1.3m deprived pupils	• In 2013, 100 free schools expected to open • 30 UTCs expected to be open by September 2014 • In 2013-14, up to £240m of skills funding will be directed to employers
	UK as a world leader on science and technology	• Four Catapult Centres opened including high-value manufacturing and cell therapy • 14 science and innovation capital projects from the Research Partnership Investment Fund	• Three more Catapult Centres to open by June 2013 • A new Aerospace Technology Institute, providing £2.1bn of R&D support to the aerospace sector

[39] For further details and data sources see Plan for Growth implementation update, HM Treasury, March 2013.
[40] Subject to state aid approval.

Infrastructure

1.87 Following years of historic underinvestment in UK infrastructure, the Government has made infrastructure a key economic policy priority. The UK's first ever *National Infrastructure Plan*, published in 2010, set out a comprehensive approach to strengthening the nation's infrastructure.[41] An update on delivery of the Top 40 Projects identified in the *National Infrastructure Plan 2011* is published alongside Budget 2013.[42,43] As Chart 1.15 shows, annual investment in infrastructure has grown since 2010.

Chart 1.15: Average annual infrastructure investment in the UK, public and private



Source: HM Treasury estimates using data from company accounts, regulators, Office for National Statistics and government departments, including private and public investment.

Government investment

1.88 Budget 2013 announces that capital investment plans will be increased by £3 billion a year from 2015-16, to lock in recent increases in capital spending over the Spending Review 2010 period, funded through reductions in current spending. This will mean £18 billion additional capital spending over the next Parliament. Together with the additions to infrastructure spending announced at Spending Review 2010, Autumn Statement 2011, and Autumn Statement 2012, this means that public investment as a share of GDP will be higher on average over this Parliament and the next Parliament collectively than under the previous government.

1.89 The Government will set out how this capital spending will be allocated at the 2015-16 Spending Round. **The Spending Round will take a long term approach to capital planning, including setting planning assumptions out to 2020-21 for key areas of capital expenditure.** The Spending Round will set social rental policy until 2025. This will provide the long-term policy certainty necessary to attract private investment today.

Support for private investment in infrastructure

1.90 The Government is acting to give private investors the confidence to invest in the UK's energy sector. From April 2013 the carbon price floor announced at Budget 2011 will come

[41] *National Infrastructure Plan 2010*, HM Treasury and Infrastructure UK, October 2010.
[42] *National Infrastructure Plan 2011*, HM Treasury and Infrastructure UK, November 2011.
[43] *Infrastructure Delivery Update*, HM Treasury and Infrastructure UK, March 2013.

into effect, providing a clear and credible long-term signal to support investment in low carbon electricity generation.

1.91 The Energy Bill, currently making its passage through Parliament, will introduce Electricity Market Reform. By providing stable revenues for investors at a fixed level known as a strike price, Contracts for Difference, as set out in the Bill, will provide long-term certainty for investors in low carbon generation. This will lower the cost of capital and help developers secure the large upfront amounts of capital investment required. Support available for low carbon electricity investment through the Levy Control Framework up to 2020 will rise to £7.6 billion a year (in 2012 prices), more than triple the £2.35 billion available in 2012-13. Together with the Government's Energy Bill and *Gas Generation Strategy*, published in 2012, this will provide the framework needed for new energy investment.[44]

1.92 The Government intends to take forward two Carbon Capture and Storage projects to the detailed planning and design stage of the competition. This represents the next step in the £1 billion Carbon Capture and Storage commercialisation programme and follows a period of intensive commercial negotiations with a number of bidders. The Department for Energy and Climate Change will set out the details of the preferred bidders, next steps on these front end engineering and design studies, and the process to final investment decision.

1.93 A successful UK shale gas industry has the potential to provide new employment and support UK energy security, benefiting the economy, taxpayers and communities. The Government will:

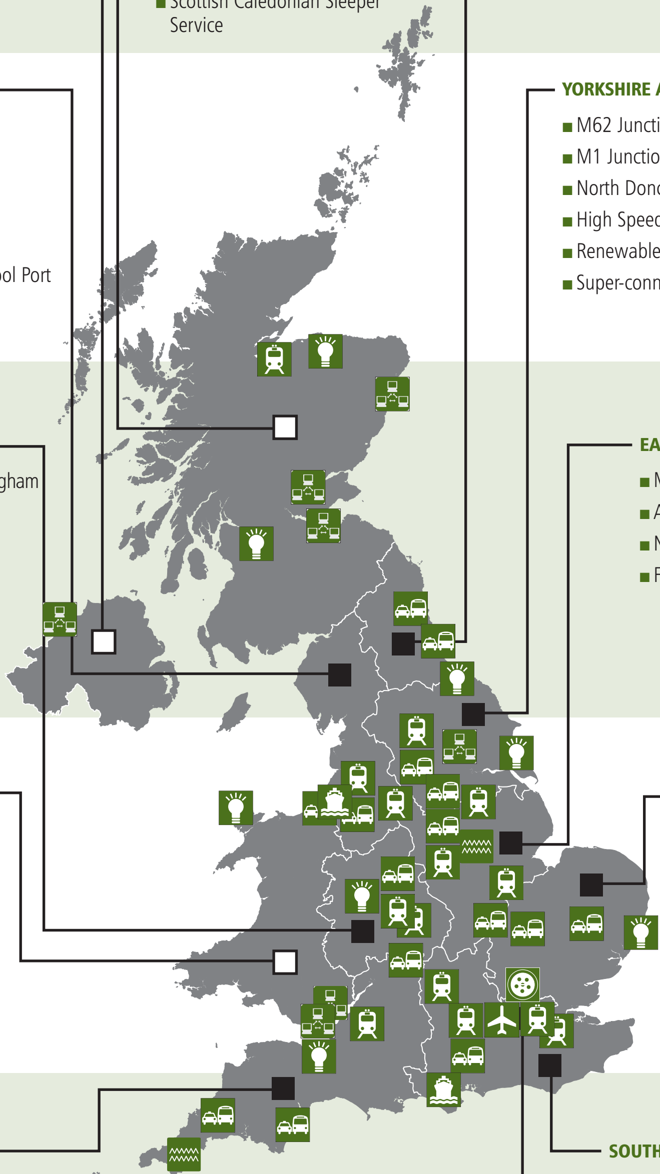
- **introduce a new shale gas field allowance and extend the ring-fence expenditure supplement from six to ten years for shale gas projects to promote investment in this industry at an early stage of its development.** The Government will consult on the detail of these reforms, including whether they should be extended to other forms of onshore unconventional gas;
- **produce technical planning guidance on shale gas by July 2013 to provide clarity around planning for shale gas during the important exploration phase for the industry.** As the shale gas industry develops the Government will ensure an effective planning system is in place and by the end of the year will produce guidance for the industry to ensure the planning system is properly aligned with the licensing regime and regulatory regimes principally: health and safety; and environmental protection. The Government will keep under review whether the largest shale gas projects should have the option to apply to the major infrastructure regime;
- **develop proposals by summer 2013 to ensure that local communities will benefit from shale gas projects in their area;** and
- **provide detail of the objectives, remit and responsibilities of the Office of Unconventional Gas and Oil.**

1.94 In addition, the Government is acting to support investment in offshore oil and gas. At Budget 2012, the Government committed to introducing a new contractual approach to provide further certainty on decommissioning relief on the UK Continental Shelf. Following successful consultation, **Budget 2013 announces that contracts will be signed later in 2013, providing the certainty needed to unlock billions of pounds of additional investment.**

[44] *Gas Generation Strategy*, Department of Energy and Climate Change, December 2012.

Figure 1.2: Range of projects and programmes from the Top 40 priority investments

- Energy
- Super-connected cities
- Roads
- Railways
- Ports
- Water
- Flood defence
- Airports



NORTHERN IRELAND
- Devolved responsibilities include: rail, roads, local transport, water, flood and waste
- Super-connected city: Derry/Londonderry

SCOTLAND
- Devolved responsibilities include: rail, roads, local transport, water, flood and waste
- Super-connected city: Aberdeen
- Super-connected city: Perth
- Super-connected city: Edinburgh
- Onshore wind: Whitlee
- Biomass: Rothe
- Scottish Caledonian Sleeper Service

NORTH EAST
- Sunderland Strategic Corridor
- Morpeth Nothern Bypass
- Offshore wind: Teesside

NORTH WEST
- M60 Junction 12-15 Salford, Greater Manchester
- Mersey Gateway Bridge
- High Speed 2 (Manchester)
- Rail: Northern Hub
- Container terminal project: Liverpool Port

YORKSHIRE AND THE HUMBER
- M62 Junction 25-30 Morley, West Yorkshire
- M1 Junction 39-42 Wakefield, West Yorkshire
- North Doncaster Chord
- High Speed 2 (Leeds)
- Renewable energy: Port of Hull
- Super-connected city: York

WEST MIDLANDS
- M6 Junction 5-8 Gravelly Hill, Birmingham
- Birmingham New Street upgrade
- Evesham Bridge
- High Speed 2 (Birmingham)
- Biomass: Ironbridge

EAST MIDLANDS
- M1 Junction 28-31 Chesterfield, Derbyshire
- A14 Kettering Bypass
- Nottingham Tram Extension
- Flood defence: Nottingham

WALES
- Devolved responsibilities include: roads, local transport, water, flood and waste
- Super-connected city: Newport
- Super-connected city: Cardiff
- Nuclear: Wlyfa Power Station

EAST OF ENGLAND
- A11 Fiveways to Thetford
- A14 corridor
- Peterborough station enhancements
- Nuclear: Sizewell

SOUTH WEST
- Kingskerswell Bypass
- Intercity Express: Stoke Gifford (Bristol)
- Nuclear: Hinkley Point
- Flood defence: Truro
- A30 (Temple)

LONDON
- Thames Tideway Tunnel
- Crossrail
- London Underground upgrade
- Heathrow Investment Programme

SOUTH EAST
- M3 Junction 2-4a Staines, Surrey
- Great Western Electrification
- Reading station upgrade
- Container terminal project: Southampton Port

1.95 The sale of 4G mobile spectrum will enable the delivery of competitive high speed mobile broadband from summer 2013 onwards, bringing benefits to businesses and consumers. However, the public sector still holds a large amount of valuable spectrum. In order to meet the commitment to release 500MHz of spectrum by 2020, **the Government will look to introduce further financial incentives to ensure more efficient use and management of public sector spectrum holdings.**

Infrastructure planning and delivery

1.96 Following Lord Deighton's assessment of Whitehall's ability to deliver infrastructure, which was announced at Autumn Statement 2012 and undertaken with Infrastructure UK (IUK) and the Major Projects Authority, **the Government will implement a series of reforms to effect a step change in its approach to infrastructure delivery.** Using the experience of delivering the Olympic and Paralympic Games and drawing on private sector best practice, these reforms include creating an enhanced central cadre of commercial infrastructure specialists in IUK who will be deployed into infrastructure projects across government, and the establishment by the summer of tough new Infrastructure Capacity Plans to drive forward progress in key government departments. These reforms will be undertaken in conjunction with Cabinet Office-led efforts to strengthen Whitehall's commercial capability and Lord Browne's work to improve the Government's management of major projects including through an enhanced Major Projects Authority.

1.97 The Government is committed to ensuring that investors have the confidence to make long-term decisions on major infrastructure projects, based on a policy framework that is informed by an objective and evidence-based assessment of the UK's infrastructure needs and priorities. **The Government will therefore consider options for making more use of independent expertise in shaping its infrastructure strategy.**

Housing and planning

1.98 The Government is committed to making the aspiration of home ownership a reality for as many households as possible. The Government wants the next generation to experience the benefits of owning their own home, in the same way their parents and grandparents were able to.

1.99 The Government has already committed to invest over £11 billion during the 2010 Spending Review period in housing. This Budget announces major reforms, including £5.4 billion of financial support, of which £1.3 billion is in 2013-14. This will tackle long-term problems in the housing market and support those who want to get on or move up the housing ladder, while also ensuring an increased number of new homes get built both now and in the future. This includes Barnett consequentials for the Scottish Government, Welsh Government and Northern Ireland Executive.

Support for home ownership

1.100 Since the financial crisis in 2007, increased requirements for larger deposits and falling equity values have meant many credit-worthy households cannot get a mortgage, or are trapped in their existing homes unable to take the next step. **The Government will support these households through Help to Buy, a package of measures that will increase the supply of low-deposit mortgages for credit-worthy households, increase the supply of new housing and contribute to economic growth.**

1.101 From 1 April 2013, building on the success of First Buy, Help to Buy: equity loan will be opened up to all those who aspire to own a new build home. The Government will:

- **provide an equity loan worth up to 20 per cent of the value of a new build home, repayable once the home is sold;**
- **significantly widen the eligibility criteria to ensure as many people as possible are able to benefit. The maximum home value will be £600,000 and there will be no income cap constraint;** and
- **ensure that the scheme is open not only to first-time buyers but also to all those looking to move up the housing ladder.**

1.102 Help to Buy: equity loan will be open for the next three years, providing £3.5 billion of investment in England, supporting up to 74,000 more home buyers as well as providing a boost to the construction sector.

1.103 The Government will create a major new Help to Buy: mortgage guarantee to increase the availability of mortgages on new or existing properties for those with small deposits. The Help to Buy: mortgage guarantee, a temporary scheme that will run for three years from January 2014, will:

- **increase the supply of high loan-to-value mortgages by offering a government guarantee to lenders who offer mortgages to people with a deposit of between 5 per cent and 20 per cent;**
- **be open not only to first-time buyers but also to existing homeowners;**
- **have no income cap constraint;** and
- **be available on homes with a value of up to £600,000.**

1.104 Help to Buy: mortgage guarantee will, subject to the final design, make available up to £12 billion of government guarantees, sufficient to support £130 billion of high loan-to-value mortgages.

1.105 The Government wants to give more social housing tenants the opportunity to benefit from home ownership. Since its introduction in the 1980s Right to Buy has helped almost 2 million households to experience the benefits of home ownership. In April 2012 the Government reinvigorated the scheme by increasing the maximum discount to £75,000. To broaden opportunity the Government will:

- **look at ways to simplify the application process to ensure applicants are not hampered by a burdensome administrative process;**
- **reduce the qualifying period before tenants become eligible for Right to Buy from five years to three years;** and
- **from 25 March raise the maximum discount cash cap in London to £100,000 where the current cap is most keenly felt.**

1.106 The additional receipts from increased sales will be used to pay down housing debt and support the Government's commitment to 1:1 replacement of all additional homes sold.

Support for new development

1.107 The Government wants to ensure that there is a long-term supply of housing that is better matched to demand.

1.108 The £200 million Build to Rent fund announced at Autumn Statement 2012 was significantly oversubscribed. **Budget 2013 announces that this fund will be expanded to £1 billion to support the development of more homes in England.** The fund will provide equity or loan finance to support the development finance stage of building new homes for private rent.

1.109 The Government is committed to implementing 'zero carbon homes' from 2016. The Department for Communities and Local Government (DCLG) will publish a detailed plan, setting out its response to the 2012 consultation on the energy efficiency requirements in building regulations, by May 2013. The Government will then consult on next steps, including on the means of delivering allowable solutions, by Summer Recess.

1.110 In London, the Mayor will work with the Homes and Communities Agency to support new build home purchases through Help to Buy: equity loan and new private rented homes through Build to Rent. This will involve a minimum of £750 million of funding up to 2015-16.

Support for affordable housing

1.111 Affordable housing plays an important part in the Government's overall drive to boost housing supply and stimulate economic growth. The Government has recently issued a prospectus to support affordable homes delivered through the guarantee programme. **The Government now wants to go further and will double the existing affordable homes guarantee programme, providing up to an additional £225 million to support a further 15,000 affordable homes starting in England by 2015.**

1.112 The Government also recognises the concerns of social landlords regarding uncertainty on social rents after 2014-15. Certainty is important to help landlords plan future housing development, providing affordable housing and boosting the construction sector. **At the 2015-16 Spending Round the Government will therefore set out a social rental policy that gives social landlords certainty until 2025.**

1.113 The Government also wants to make sure that affordable housing is available to those who need it most. The Government recently consulted on 'Pay to Stay' proposals to ensure that those social housing households on high incomes make a fairer contribution. **The Government will shortly take steps towards allowing social landlords to charge market rents to tenants with income of over £60,000.** The Government intends to require these tenants to declare their income to ensure they make a fair contribution, with all additional income reinvested in housing.

Reform of the planning system

1.114 Alongside measures to increase home ownership the Government is reforming the planning system to ensure that reforms will increase housing supply. Planning constraints have depressed the supply of new homes. Over the last 10 years, there have been an average of only 161,000 net additions to the housing stock a year while the number of households in England is projected to grow to 27.5 million in 2033, an increase of 232,000 households a year.

1.115 The *National Planning Policy Framework*, published in March 2012, is already having an effect.[45] The proportion of planning applications being approved is at a ten year high and the pace of local plan making has increased, with 70 per cent of councils now with at least a published plan. The Government will continue with the reform of the planning system to ensure the regime is simple to access, supports growth and is responsive to housing need. The Government will:

- **publish significantly reduced planning guidance by this summer, in line with Lord Matthew Taylor's recommendations, providing much needed simplicity and clarity. The Government will make greater use of information on prices to ensure that sufficient land is allocated to meet housing and employment need;**
- **ask local areas to put in place bespoke pro-growth planning policies and delivery arrangements, as part of new Local Growth Deals, pursued in response to Lord Heseltine's review, and through City Deals;** and

[45] *National Planning Policy Framework*, Department for Communities and Local Government, March 2012.

- **consult on allowing further flexibilities between use classes to support change of use from certain agricultural and retail uses to residential use to increase responsiveness within the planning system.**

1.116 In addition, DCLG is progressing a public sector land auctions model and will work with HM Treasury to conduct a feasibility study into wider use of the model.

1.117 The Government believes judicial reviews have created unacceptable delays to the development of crucial infrastructure and housing projects. The Ministry of Justice has already consulted on shortening the time limits for bringing a planning judicial review and will set out its plans in the spring. The Government will also develop further measures to streamline the process for planning judicial reviews by summer 2013.

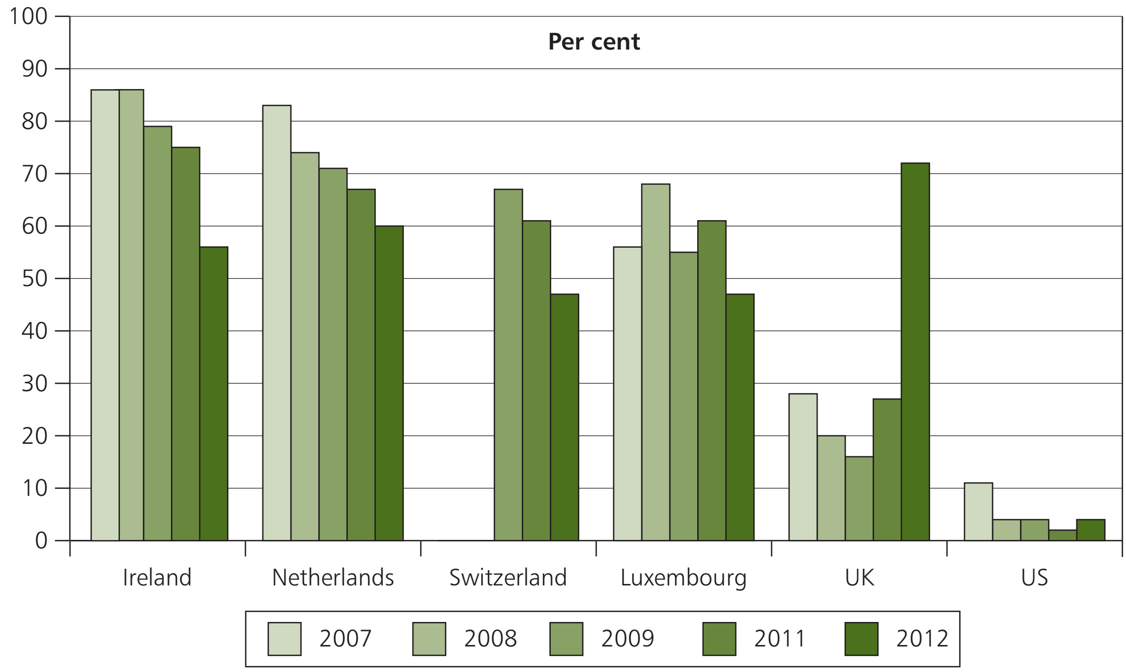
A competitive tax system

1.118 The Government's *Corporate Tax Roadmap*, published in 2010, set out major reforms to the tax system designed to support UK businesses and ensure the UK is an attractive location for foreign investment.[46]

1.119 At the heart of the reform package was a commitment to reduce the main rate of corporation tax. So far the Government has cut the main rate from 28 per cent to 24 per cent, and announced further reductions to come, to 23 per cent from April 2013 and 21 per cent from April 2014.

1.120 The Government's reforms to the corporate tax system have been welcomed by businesses. For example, Chart 1.16 shows the dramatic improvement in the UK's performance in KPMG's Annual Survey of Tax Competitiveness.

Chart 1.16: Results of KPMG Annual Survey of Tax Competitiveness[1]



[1]Chart shows percentage of respondents mentioning country in response to: overall, which of the following countries do you think a) has the most competitive tax regime? b) and which is second? c) and third (any mention).

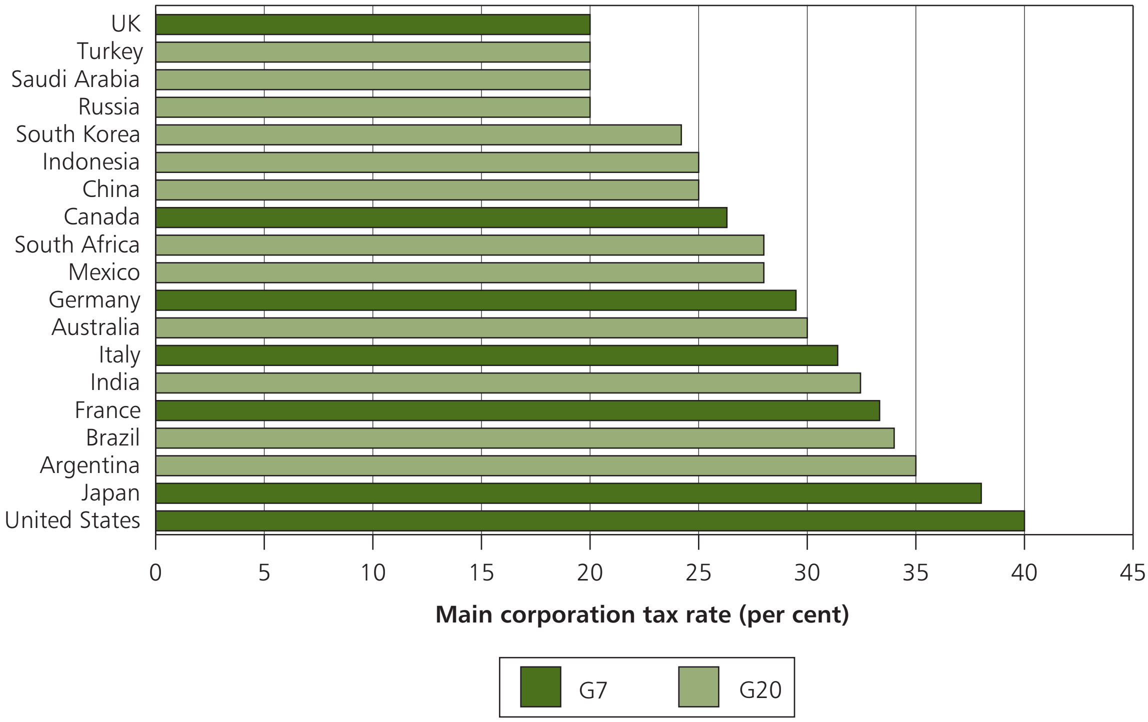
Source: KPMG.

[46]*Corporate Tax Reform: delivering a more competitive system*, HM Treasury and HM Revenue and Customs, November 2010.

1.121 At Budget 2013 the Government announces it will go further, and will reduce the main rate of corporation tax by an additional 1 percentage point in April 2015, so it will reach 20 per cent. In the process, the Government will unify the small profits rate and the main rate so there is a single rate of corporation tax, simplifying the tax system.

1.122 This means that by the end of this Parliament the UK will have the joint lowest rate of corporation tax in the G20, as shown in Chart 1.17 – and a rate that is significantly lower than key competitors, including the US, Japan, France and Germany. This will support British businesses and encourage investment. It will also show that Britain is open for business.

Chart 1.17: Main corporation tax rates in the G20 (2015 based on announced plans)



Sources: International Bureau of Fiscal Documentation, Deloitte, KPMG and PwC.

1.123 To take account of the benefit to the banking sector of the additional reductions in corporation tax, **the rate of the Bank Levy will increase to 0.142 per cent from 1 January 2014.** The levy ensures that banks make a fair contribution and reflects the risks they pose to the financial system and the wider economy.

1.124 The Government is also delivering on the other aspects of the Roadmap. In January 2013, the UK implemented a modernised Controlled Foreign Companies regime that strikes the right balance between making the corporate tax system more competitive and providing adequate protection of the UK tax base. From April 2013, the Patent Box will give a reduced 10 per cent rate of corporation tax on profits from patents, driving growth and investment in UK innovation.

1.125 Research and development (R&D) incentives recognise the importance of business investment in new ideas and technologies and form a key part of the Government's commitment to an internationally competitive tax system. As announced at Autumn Statement 2011, the Government will introduce a new 'above the line' (ATL) credit for large company R&D investment from April 2013. The ATL credit is designed to make R&D relief more visible to those making investment decisions and provide greater cash flow support to companies with no corporation tax liability.

1.126 The headline rate of the ATL credit will be 10 per cent, increased from the 9.1 per cent rate proposed at Budget 2012. This will make the UK a more attractive location for large company R&D activity by further reducing the after tax cost of investment. The introduction of the ATL credit follows an increase in the rate of the small and medium-sized enterprises (SME) R&D tax credit from 175 per cent to 225 per cent at Budget 2011, which continues to provide targeted support for early stage companies and start-ups investing in R&D in the UK.

1.127 Alongside reforms to increase the competitiveness of the tax system, the Government is acting both nationally and internationally to ensure that all businesses pay their fair share of tax. Additional reforms are set out in the next section.

Support for enterprise

1.128 The Government's ambition is for the UK to be the best place in Europe to start, finance and grow a business. Small businesses report that costs of employment are one of the biggest barriers to success they face. **Budget 2013 announces that from April 2014 every business and charity will be entitled to a £2,000 Employment Allowance towards their employer NICs bill.**[47]

A new Employment Allowance for every business and charity

From April 2014, all businesses and charities will be eligible for a new £2,000 Employment Allowance. This will reduce their employer NICs bill. Up to 1.25 million employers will benefit, with over 90 per cent of the benefit going to small businesses. The scale of the allowance means that 450,000 of the UK's small businesses will no longer pay any employer NICs. On average, employers with fewer than 10 employees over the course of the year will see their employer NICs bill reduced by 80 per cent.

The Employment Allowance will reduce the cost of taking on new staff for small businesses; supporting those with an ambition to grow by hiring their first employee or expanding their workforce. Every business will be able to employ one worker on a salary of £22,400, or four employees working full time on the adult National Minimum Wage, without paying any employer NICs at all.

The Employment Allowance will be introduced from April 2014, delivered through standard payroll software and HMRC's Real Time Information system. To ensure maximum take-up, it will be simple to administer: employers will only need to confirm their eligibility through their regular payroll processes. This confirmation will ensure that up to £2,000 will be deducted from their employer NICs liability over the course of the year's PAYE payments.

The Government will engage with business representative bodies on the details of the design and operation of the new allowance, in order to ensure the system is as simple and effective as possible.

1.129 This builds on action taken at Autumn Statement 2012 to help businesses succeed, including:

- the increase of the Annual Investment Allowance limit from £25,000 to £250,000 for two years from January 2013 to help businesses invest; and
- the doubling of the Small Business Rate Relief scheme for a further 12 months from April 2013, benefiting over half a million small businesses.

[47] Estimated impacts from HMRC analysis based on PAYE administrative data grown in line with OBR determinants.

1.130 As in previous years, the Small Business Rate Relief scheme will be considered at Autumn Statement 2013. Budget 2013 also announces wider action that will help businesses, including on fuel duty, as set out in the next section.

1.131 In addition, the Seed Enterprise Investment Scheme, launched at Budget 2012, offers 50 per cent income tax relief on investments made into small, early-stage companies. **The Government has decided to provide a limited extension of the capital gains tax holiday to continue to encourage investors to take up the new scheme. Any investors making capital gains in 2013-14 will receive a 50 per cent capital gains tax relief when they reinvest those gains into seed companies in either 2013-14 or 2014-15.** The recent expansions to Venture Capital Trusts (VCTs) and the Enterprise Investment Scheme, alongside the new Seed Enterprise Investment Scheme, mean that the UK now offers generous enterprise tax reliefs to support small and growing businesses. The Government is committed to ensuring that these schemes are effective and has sought to maintain stability by not making major changes. However, following a number of representations from investors, the Government is concerned that VCTs offering enhanced buy-backs are not operating within the spirit of the legislation. The Government will continue to monitor particular aspects of the venture capital schemes to ensure that they remain well-focused and supportive of businesses needs.

1.132 Long-term economic success depends on today's small and high growth companies being able to access affordable long term financing to grow into the large businesses of tomorrow. On 13 March 2013 the Government launched a consultation on extending Individual Savings Account (ISA) eligibility to include a wider range of small company shares. To further support these companies, **the Government will abolish Stamp Tax on Shares for companies listed on growth markets including the Alternative Investment Market (AIM) and the ISDX Growth Market, from April 2014.** This will directly benefit hundreds of smaller quoted UK firms, lowering their cost of capital, helping to promote jobs and growth across the UK.

1.133 The Government is legislating to introduce a new employee shareholder status that will give staff a stake in their firms' future success and give firms greater choice about the contracts they can offer to individuals. Employee shareholders will have different employee rights and shares worth a minimum of £2,000 in the firm they work for. As already announced, the Government will exempt gains on up to £50,000 of shares acquired by employee shareholders from capital gains tax. **The Government has also decided that the first £2,000 of share value that anyone receives under the new status will be free from income tax and NICs.** This will be of particular benefit to anyone receiving the minimum amount of shares, as it will ensure that no tax is due when they receive their shares. This will take effect from 1 September 2013, when the new status comes into force.

1.134 The Government supports employee ownership as a business model and welcomes work by the Implementation Group on Employee Ownership to take forward the recommendations of the Nuttall Review. In order to further incentivise growth of the sector, the Government is providing £50 million annually from 2014-15. This will be used to respond to recommendations from the Nuttall Review and other relevant organisations who aim to encourage employee ownership. It will also be used to **fund the introduction of a capital gains tax relief on the sale of a controlling interest in a business into an employee ownership structure.** Consultation on this measure will take into account the progress of work by the Department for Business, Innovation and Skills (BIS) and the Implementation Group to develop an 'off the shelf' employee owned company model, with the intention that the new capital gains tax relief will be introduced in Finance Bill 2014. The Government will also look at further incentives in this area, including measures targeted at employees through indirect ownership models.

1.135 Social enterprises play an important role in growing the economy, reforming public services and promoting social justice. **The Government will introduce a new tax relief to**

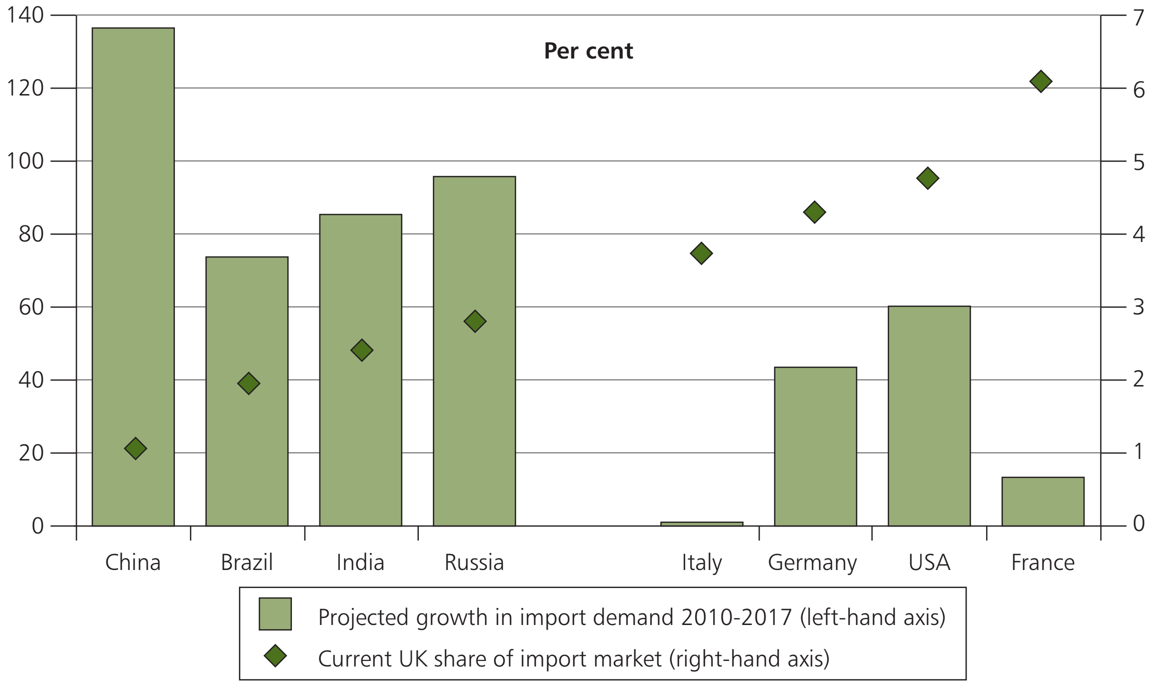
encourage private investment in social enterprise. The tax relief will complement the Government's other recent measures to help social enterprises access the capital they need, such as the launch in 2012 of Big Society Capital. The Government will consult formally on the details of the relief by summer 2013 and the relief will be introduced in Finance Bill 2014.

1.136 Each year over 130 million working days are lost to sickness absence.[48] The Government believes that more can be done to support employees to return to work, and commissioned Dame Carol Black and David Frost to conduct an independent review of sickness absence. Following their recommendations, as announced in January 2013, the Government will abolish the Percentage Threshold Scheme and recycle funding into creating the health and work assessment and advisory service for those in danger of long-term sickness absence. **The Government will also introduce a targeted tax relief so that amounts up to a cap of £500 paid by employers on health-related interventions recommended by the service are not treated as a taxable benefit in kind. The Government will consult on implementation later in 2013.**

Partnership between government and industry

1.137 As well as providing the conditions for private sector growth, both central and local government can engage more directly in supporting UK businesses to succeed in global markets, through strategic partnerships between the public and private sectors. Chart 1.18 shows that the UK currently only captures a small share of high growth import markets. These partnerships will enhance the UK's ability to compete in the global race by identifying and addressing barriers to growth including those specific to particular industries and local areas.

Chart 1.18: International comparisons of projected growth of import demand 2010–2017 and current UK share of import market



Sources: HM Treasury calculations using International Monetary Fund, Office for National Statistics and United Nations Conference on Trade and Development data.

[48] *Sickness Absence in the Labour Market, April 2012,* ONS, 2012.

Support for industry at national level

1.138 The Government's Industrial Strategy, announced in September 2012, aims to maintain and enhance the UK's global position in 11 key sectors: automotive, aerospace, life sciences, agri-tech, professional business services, information economy, construction, education, nuclear, oil and gas, and offshore wind. The Government is working with industry to create sector strategies that identify long-term opportunities and address barriers to growth. Each strategy will set out actions for both industry and the Government, such as bridging skills gaps or strengthening supply chains. The Government will also create or strengthen sector councils as a long-term platform for engagement with business, ensuring that policy making is informed by business needs. The life sciences and aerospace sector strategies have been published. The remaining sector strategies will be published during 2013.

1.139 The Government will provide £1.6 billion of funding to support these strategies. This funding will be allocated over the course of 2013.

1.140 From this fund the Government, in partnership with industry, will create an Aerospace Technology Institute (ATI). This will provide £2.1 billion of R&D support to the aerospace sector over seven years, with Government and industry contributing equal shares. The ATI will also set a strategic direction for R&D in the sector and secure additional funding from external sources. Providing certainty on government support will give the sector the stability it needs to develop the next generation of aircraft technologies in the UK. The UK currently has the second largest aerospace sector in the world (after the US), and the Government is determined to maintain the UK's position as a global leader in this growing market.

1.141 In addition, the Government is providing further support for the creative industries. The UK represents a global centre of excellence in digital media production, including visual effects. To further support this high-tech and export-oriented sector, build capacity and support growth:

- **the Technology Strategy Board will design and launch a new competition of up to £15 million inviting consortia bids to support digital content production through partnerships with industry, including specialist SMEs, educational research facilities and training providers;**
- **funding for the Skills Investment Fund will be increased to £8 million each year over the next two years, with Government match-funding voluntary industry contributions to support skills development in the UK digital content sectors;** and
- **the Government will launch a public consultation on options to provide further support for the visual effects industry through the tax system.**

1.142 The UK financial services industry plays a central role in the UK economy, contributing £129 billion to the economy, £63 billion in tax, a trade surplus of £47 billion, and over 1 million jobs, two-thirds of which are outside London.[49] To strengthen the competitiveness of the industry, it is critical that UK firms can secure access to markets around the world and that government creates the right environment and provides the right support to allow firms to win market share – especially in emerging market economies where new investors, savers and markets are appearing.

1.143 To support these efforts, the Government has created a new Financial Services Trade and Investment Board (FSTIB), chaired by a senior Treasury official and comprising senior representatives from UK Trade and Investment (UKTI), HM Treasury, and TheCityUK, and representing financial institutions. This will have the authority and expertise to identify trade and investment priorities, and to support UK firms in pursuing these vigorously across the globe.

[49] *Economic Contribution of UK Financial and Professional Services,* TheCityUK, 2013.

1.144 The Government is also creating a new unit within UKTI, led by an industry expert, to drive this work forward. By co-ordinating action across key departments, industry and UKTI, the FSTIB will work with partner jurisdictions to help open up opportunities for trade; advance the interests of UK financial institutions – large and small; bring new investment from global financial institutions to the UK's cities and regions; and find ways to support jobs and growth not only in the UK, but across the entire global economy that London serves.

1.145 The UK is the leading centre in Europe for asset management, but many of the funds managed here are based overseas. **This Budget announces a targeted package of measures to improve the competitiveness of the UK as a location for fund domicile covering regulation, marketing and tax.** This will bring tax revenues, stimulate growth, and create jobs across the country. **At the heart of the package is the abolition of the Schedule 19 (Finance Act 1999) charge on funds, which will be included in Finance Bill 2014.** Schedule 19 has been consistently cited by the industry as one of the chief obstacles to establishing new funds in the UK.

1.146 Businesses, especially early stage companies, often struggle to fund the feasibility and prototyping stages of the development of new technologies and government departments can find it difficult to engage with these companies. The Small Business Research Initiative (SBRI) aims to address this barrier to innovation and help departments meet their objectives by bringing fresh ideas to bear. Under the SBRI, businesses compete for government contracts to develop new ideas with the potential to tackle public sector challenges. **The Government will substantially expand SBRI among key departments so that the value of contracts through this route increases from £40 million in 2012-13 to over £100 million in 2013-14 and over £200 million in 2014-15.** An evaluation will be carried out alongside this expansion to ensure departments are making best use of the scheme and review whether a further expansion is possible. The evaluation will produce an interim report in autumn 2014 and a final report in February 2015.

Exports

1.147 Winning business abroad and attracting global talent and investment to the UK are central to the UK's future prosperity. At Autumn Statement 2012 the Government announced £70 million in additional funding for UKTI, along with additional flexibilities, to enable it to deliver improved services and refocus its activities on the highest value opportunities and emerging markets. UKTI has moved quickly to mobilise this extra support, and has already:

- doubled the number of companies included in its Strategic Relationship Management model to 76, as set out in Autumn Statement 2012. These key companies have been drawn from sectors with high growth potential identified in the Government's Industrial Strategy, such as education, digital and advanced manufacturing;
- increased the number of projects being pursued by its High Value Opportunity (HVO) programme to 100. UKTI have identified HVOs with a total of £80 billion (up from £51 billion), of contracts potentially available to UK firms over the next two years which UKTI will help firms to win; and
- scaled up its successful work with leading Industry Associations to increase the number of SMEs that attend overseas trade exhibitions. More than 8,000 companies are expected to benefit from this programme in 2013-14.

Lord Heseltine's review

1.148 The Government welcomes Lord Heseltine's review on economic growth, *No Stone Unturned*, which reported on 31 October 2012. His review makes a powerful case for increasing the devolution of economic powers from central government to LEPs, and for a stronger voice and role for the private sector in promoting growth. Autumn Statement 2012 set out the

Government's initial response to the review. The Government has published a full response, *Government's response to the Heseltine review*,[50] addressing his wide-ranging recommendations on all aspects of government policy that affect economic growth. **The Government can confirm that the overwhelming majority of his recommendations have been accepted.**

1.149 Building on announcements made at Autumn Statement 2012, **the Government confirms its endorsement of Lord Heseltine's recommendation on the creation of a Single Local Growth Fund, devolved to the local level through new Local Growth Deals.** This represents a step-change in decentralisation, so that the responsibility for decisions on how funding should be spent is taken by those with knowledge of, and a stake in, the local area. Funding will be allocated to LEPs on the basis of strategic multi-year plans for local growth. In developing these plans, LEPs and their partners will be challenged by government to leverage private and local funding and commit to governance reform – those that offer the most will be more likely to benefit in terms of funding and flexibilities. The competitive tension in this something-for-something approach will incentivise LEPs to offer more, and drive improvements in local areas. The Single Local Growth Fund will be operational by April 2015 and further detail will be set out at the 2015-16 Spending Round.

Business environment

1.150 The quality of the business environment is essential to the UK's success in the global race. The Government is acting to ensure that UK businesses are competitive in both domestic markets and important overseas markets, and that the UK is attractive to inward investors. The UK's overall competitiveness is improving, but further reform is needed in key areas.

Access to Finance

1.151 Following the financial crisis, access to finance remains challenging, particularly for SMEs. Progress has already been made through the FLS and the Business Finance Partnership.

1.152 The introduction of the Business Bank will make a significant difference to both the level and diversity of finance provision while also improving competition in the market and supporting SME growth. It will simplify and improve the finance and support landscape for businesses. **The Government is publishing the first strategy for the Business Bank which sets out an accelerated timetable for how the Business Bank will deploy £1 billion of new capital, improve existing schemes and develop a lasting new institution to support SME growth by the end of 2014.**

1.153 In addition, Budget 2013 announces that the Business Bank will:

- **launch a £300 million investment scheme this spring to invest alongside private investors in financial institutions and non-bank lending channels to help diversify and expand the supply of lending to SMEs and mid-sized businesses;**
- **provide £75 million of new funding for venture capital through an extension to the Enterprise Capital Fund programme and an expanded Business Angel Co-investment Fund to support start ups and early stage companies;** and
- **support more lenders to increase SME lending through the Enterprise Finance Guarantee by maintaining the generous guarantee cap introduced at Budget 2012. Through the trade credit pilot, Kingfisher aims to support an additional £30 million of credit to SMEs.**

[50] *Government's response to the Heseltine review,* Department for Business, Innovation and Skills and HM Treasury, March 2013.

1.154 To provide further support for SMEs, **the Government will provide £30 million for a Growth Vouchers programme in England**. This programme will test a variety of innovative approaches to helping SMEs overcome barriers to achieving growth, such as limited use of external advice. It will target a number of specific areas of advice such as making a successful loan application to a bank or taking on an employee.

1.155 Across the entire regulatory system, the Government is taking action to shift the balance of regulation in favour of private sector investment and growth. This is particularly important for the regulation of defined benefit (DB) pensions as recent economic conditions have put companies sponsoring DB schemes under significant financial pressure. The Government will provide the Pensions Regulator (TPR) with a new objective to support scheme funding arrangements that are compatible with sustainable growth for the sponsoring employer and fully consistent with the 2004 funding legislation. The precise wording of this new objective will be set out in legislation that the Department for Work and Pensions (DWP) will publish later in spring 2013. Implementation of the new objective will be subject to review after 6 months and TPR will revise is Code of Practice to reflect their forthcoming new objective as soon as possible in 2013. The Government is also consulting on a new growth duty for non-economic regulators and is attracted, subject to the results of that consultation, to applying such a new duty to TPR.

1.156 DWP's call for evidence on asset and liability smoothing did not reveal a strong case for changing legislation to permit smoothing. The Government will therefore not be pursuing this measure.

Competition in the banking sector

1.157 The Government is committed to fostering a strong, diverse and competitive banking sector to ensure that the banks are driven to offer better products and services, based on the needs of consumers. The Government demonstrated this commitment by asking the Independent Commission on Banking (ICB) to consider competition as part of its remit. Having accepted the competition recommendations of the ICB in full, the Government is currently delivering an extensive programme of reform. A major part of the reform is being legislated in the Financial Services (Banking Reform) Bill, which will substantially reduce the perceived implicit government guarantee that benefits the large incumbents in the banking sector. The Government is also driving the banking industry to deliver a new seven-day switching service from September 2013 to make it easier for people to switch their current account provider. In addition to the existing reform programme, Budget 2013 announces:

- **that the Government will shortly issue a consultation document on bringing payment systems into a competition-focused regulatory regime.** The regulator will have strong powers to ensure that challenger banks have the opportunity to compete on a level playing field with their larger competitors by requiring that challengers can access the payments infrastructure fairly and transparently. Subject to the outcome of the consultation, the Government intends to legislate for the new regime in the Financial Services (Banking Reform) Bill; and
- **that the Financial Services Authority will shortly publish a government commissioned review on barriers to entry and expansion in banking.** As a result of the review, the FCA and PRA will make major changes to the way they deal with new and existing small banks. The authorisation process for becoming a bank will be quicker and easier and there will be a comprehensive series of changes to the capital and liquidity rules to level the playing field for new banks. The changes will make a significant difference to the ease with which challengers can enter the UK banking system.

Competition and Regulation

1.158 The Government is driving down the burden of red tape on business. The One-In One-Out policy on new regulation, which has already reduced costs to business by almost £840 million a year, increased to a One-In Two-Out policy in January 2013. The Red Tape Challenge has already implemented reforms that will save businesses over £155 million a year. By the end of 2013 the first phase of the Red Tape Challenge will have identified three thousand regulations to be abolished or simplified.

1.159 To further improve the efficiency and effectiveness of regulation, the Government will:

- **launch a second phase of the Red Tape Challenge. Alongside implementing the Red Tape Challenge and Focus on Enforcement reforms, this second phase will look at the whole regulatory system – including laws, guidance, compliance, and enforcement, through short targeted reviews.** The reviews will look at areas such as infrastructure, key stages in the growth of companies, and business activities where negotiating the system is overly complex. The Government will seek views from business on what specific problems should reviewed before the launch in summer 2013;
- **drive efficiency and reduce fees charged to businesses through additional budgeting controls placed on regulators in the 2015-16 Spending Round.** This will reduce the costs imposed by regulators of doing business in the UK, without reducing the effectiveness of regulatory enforcement; and
- **make economic regulator appeals quicker, simpler and more efficient.** A consultation on a new framework will begin by summer 2013.

1.160 The Government has asked the economic regulators to develop a coordinated and streamlined approach to charging and conditions on new infrastructure where it crosses existing infrastructure. The economic regulators have agreed to investigate this. A coordinated approach has the potential to simplify the UK's infrastructure landscape for investors, making the UK more welcoming to new investment and building on our world class infrastructure regulatory environment.

1.161 The Government is committed to supporting competition to deliver better value for money to consumers. **The Government has made a renewed commitment to accept Office of Fair Trading (OFT) and Competition Commission recommendations and will also extend this commitment to the Competition and Markets Authority.** As part of this, following recent OFT recommendations, **the Government will work with motorway service areas and other relevant bodies to improve the availability of fuel price information to motorway users**.

Apprenticeships

1.162 This Government recognises the vital role apprenticeships play in promoting growth, improving skills and providing individuals with real opportunities. The Government has demonstrated its commitment to the apprenticeship programme with nearly a million apprenticeship starts since 2010.

1.163 Doug Richard's review on behalf of BIS, published in November 2012, was a thorough review of the quality of apprenticeships and the best way for employers to interact with the skills system. **The Government has launched a consultation on implementation of the Richard Review, to put employers at the centre of the apprenticeship system and raise standards.**

Fairness

1.164 The Government's economic and fiscal strategy is underpinned by its commitment to fairness and its desire to support those who want to work hard and get on. Budget 2013 builds on announcements made at Autumn Statement 2012 with further action to make the tax and welfare system fairer, support aspiration and keep costs down for households and businesses:

- the income tax personal allowance will increase by £1,335 to £9,440 in April 2013 – the largest ever cash increase. **Budget 2013 announces that from April 2014 the personal allowance will rise to £10,000, meeting the Government's objective one year early;**
- the planned January 2013 fuel duty increase was cancelled, and the April 2013 increase was deferred to September. **Budget 2013 announces further support for motorists through the cancellation of the fuel duty increase that was planned for 1 September 2013;**
- from April 2013, local authorities that decide to freeze or reduce council tax in 2013 will be provided with a grant;
- **Budget 2013 announces a new Tax-Free Childcare Scheme which will support around 2.5 million working families with 20 per cent of their childcare costs;** and
- **Budget 2013 announces further measures to ensure that all individuals and businesses pay their fair share of tax, raising £4.6 billion over five years.**

Supporting households and rewarding work

1.165 The Government is committed to promoting aspiration, rewarding work and supporting households' standard of living. Budget 2013 announces policies that cut income tax for those on low and middle incomes, and reduce pressures on the cost of living. In total, Budget 2013 provides an additional £7 billion of support for households over the forecast period.

Supporting low and middle incomes

Personal allowance

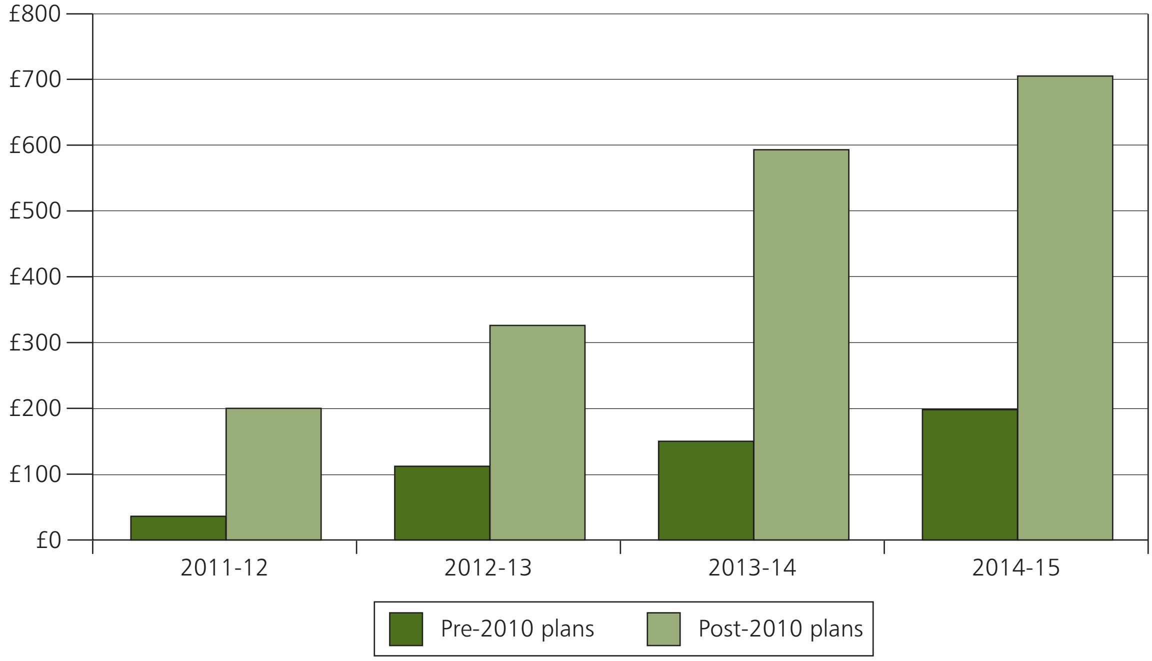
1.166 In May 2010, the Coalition Agreement set out the Government's commitment to make the first £10,000 of income free from income tax. The ambition was to reach this level by the end of the Parliament. **Budget 2013 announces that this commitment will be met a year ahead of schedule: the personal allowance will be increased by £560 to £10,000 in 2014-15.** Meeting the commitment earlier will benefit an estimated 24.5 million individuals in 2014-15. The Government believes this is the most effective way to support those on low and middle incomes, because it enables people to keep more of the money they earn. Reducing the amount of income tax that people pay also rewards those who want to work hard and progress.

1.167 In each year of this Parliament, the Government has taken significant steps towards meeting this objective. In 2010, the personal allowance was just £6,475, but successive above-inflation increases totalling £3,525 will mean that it has risen by more than 50 per cent in just four years.

1.168 As a result of this Government's actions, by April 2014 2.7 million low income individuals under 65 will have been lifted out of income tax altogether. This includes anyone whose income would have been in the 10 per cent starting rate band in 2007-08.[51]

1.169 The Government's increases to the personal allowance have also helped middle income households affected by rising prices and low average earnings growth. From April 2014, the typical basic rate taxpayer will pay £705 less income tax per year in cash terms, leaving them £493 better off than under the previous government's plans as Chart 1.19 shows.

Chart 1.19: Cumulative cash benefit for a typical basic rate taxpayer from personal allowance changes since 2010-11



Source: HM Revenue and Customs analysis.

1.170 As set out in Budget 2011, once the personal allowance has reached £10,000 in 2014-15 it will increase by CPI in future years, starting from 2015-16.

1.171 Table 1.6 shows the reduction in the amount of income tax paid by most individuals at each income level as a result of the Government's personal allowance increases since 2010, up until the point at which the personal allowance is removed for high earners. The National Minimum Wage for full-time employees is £12,070, so these individuals will have benefitted from a substantial cut in the amount of income tax they pay once the personal allowance reaches £10,000 in 2014-15.[52]

[51] Based on an individual with an income in 2007-08 of up to £7,455, equal to the personal allowance plus the starting rate threshold, and adjusted in line with earnings growth to £8,520 in 2014-15.
[52] Income on National Minimum Wage based on 37.5 hours per week.

Table 1.6: Illustration of income tax and National Insurance contributions paid per year, by income level in nominal terms[1]

Gross income (£)	2010-11 (£)	2011-12 (£)	2012-13 (£)	2013-14 (£)	2014-15 (£)	Change over period
7,500	400	40	0	0	0	-100.0%
10,000	1,180	840	670	380	250	-78.8%
15,000	2,730	2,440	2,270	1,980	1,850	-32.2%
20,000	4,280	4,040	3,870	3,580	3,450	-19.4%
30,000	7,380	7,240	7,070	6,780	6,650	-9.9%
40,000	10,480	10,440	10,270	9,980	9,850	-6.0%
50,000	14,190	14,390	14,220	14,040	13,860	-2.3%
75,000	24,440	24,890	24,720	24,540	24,360	-0.3%
100,000	34,690	35,390	35,220	35,040	34,860	0.5%
150,000	57,780	59,380	59,460	59,810	59,860	3.6%

[1] Calculations are based on announced parameters of the tax system up to 2014-15. The table is also based on an individual born after 5 April 1948 paying employee NICs (not contracted out). Gross income refers to earnings only (i.e. all gross income is subject to income tax and Class 1 NICs). Income tax calculations assume no other allowances or deductions. NICs are calculated on a weekly basis and then annualised. All figures are rounded to the nearest £10.

Source: HM Revenue and Customs calculations.

Supporting households

Fuel duty

1.172 The Government has taken extensive action to support households and businesses with the high cost of fuel by abolishing the fuel duty escalator, cutting fuel duty and introducing the fair fuel stabiliser (FFS). The FFS ensures that when oil prices are high, fuel duty will increase by no more than inflation. Under the FFS, fuel duty would only increase by inflation in 2013.

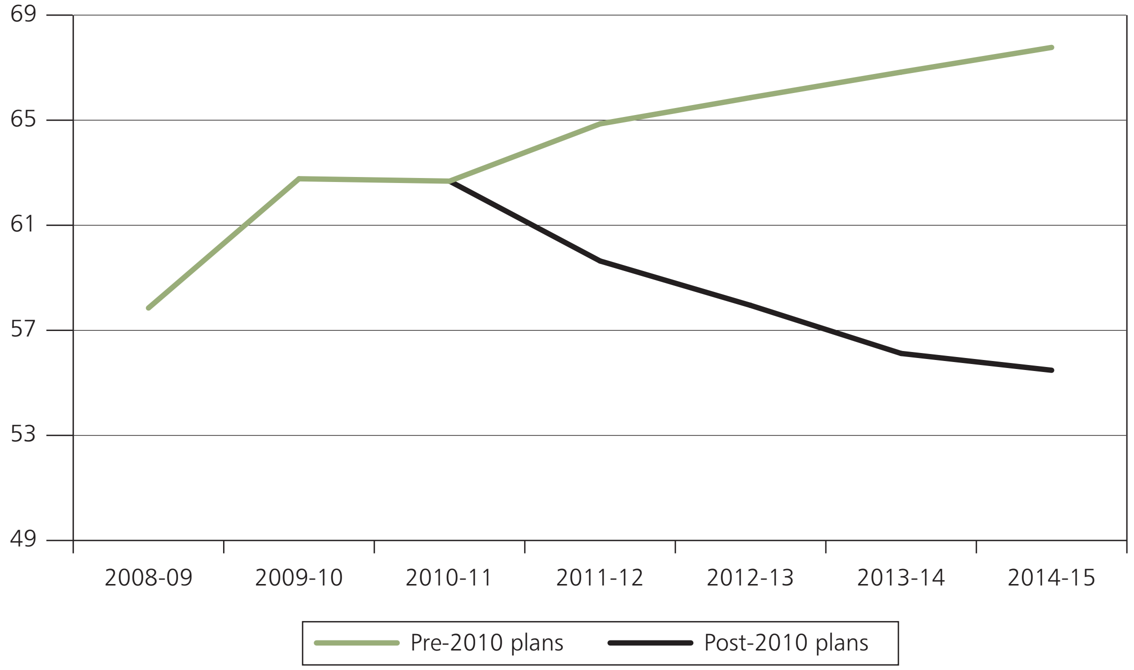
1.173 Nevertheless, in recognition of the impact that persistently high pump prices have on the cost of living, **Budget 2013 announces that the 1.89 pence per litre fuel duty increase that was planned for 1 September 2013 will be cancelled.** This means that fuel duty will have been frozen for nearly three and half years, the longest duty freeze for over 20 years.

1.174 In total, the Government's actions on fuel duty will have eased the burden on motorists by £21.5 billion over the Parliament to 2015-16. From April 2013, pump prices will be 13 pence per litre (ppl) lower than under the previous government's plans, and are forecast to be 18 ppl lower by the end of the Parliament. This means that it will cost the typical motorist £7 less to fill up their tank every time they visit the pump from April, and £10 less by the end of the Parliament. In addition, a small business could have saved £340 in total over the last two years and will continue to save at least £340 a year.[53]

1.175 As a direct result of this Government's actions, fuel duty is forecast to fall over this Parliament by 11 per cent in real terms. Had the Government implemented the fuel duty escalator, rates would have increased by 7 per cent as Chart 1.20 shows.

[53] Pump price and total saving for a private motorist driving a typical family car and business motorist driving a typical van by May 2015 assumes that fuel duty increases by RPI in September 2014. The final fuel duty rate will be confirmed in Budget 2014 according to the FFS.

Chart 1.20: Real terms fuel duty rates (pence per litre)



Notes: Pre-2010 plans based on the previous government's legislated increases and planned increases up to 2014-15. Post-2010 plans based on this Government's policy. Plans expressed in 2012-13 prices.

Source: HM Revenue and Customs analysis.

Alcohol duty

1.176 The Government is committed to supporting communities as well as individual households. The Government has already taken action to support community pubs through the reduction in both the small profits rate and the corporation tax rate, and regulatory changes to make it easier for pubs to play live music.

1.177 To provide further support to community pubs, **Budget 2013 announces that general beer duty will be reduced by 2 per cent from 25 March 2013. The Government will then cancel the escalator for beer duty next year and instead increase it by inflation thereafter.** Tax on average strength beer will be 1 penny lower after Budget 2013, saving beer drinkers 4 pence a pint in 2013-14 compared to the previous government's plans. Duty on high and low strength beer will also be adjusted to reduce the tax on a typical product by 1 penny a pint from 25 March 2013. The Government will shortly respond to its alcohol consultation, including with proposals to deal with deeply-discounted alcohol in supermarkets and other stores.

Supporting parents

Childcare

1.178 High quality, affordable childcare is essential to improving children's life chances and supporting parents who want to get back into work. The Government has already prioritised investing in early education, in particular for the most disadvantaged families, through:

- increasing the free entitlement to 15 hours a week of free early education for all three and four year olds; and
- extending 15 hours of free early education a week to 40 per cent of two year olds by 2014-15.

1.179 However, for some parents the high cost of childcare is still a significant disincentive to work. **The Government therefore announces a new Tax-Free Childcare Scheme for working families. The Government will provide 20 per cent of working families' childcare costs, up to £1,200 for each child.** This is equivalent to basic rate tax relief on childcare costs up to £6,000 a year. The scheme will ultimately be open to around 2.5 million working families in the UK. Households in which all parents work but do not receive support through tax credits (or Universal Credit, once it is established) will be eligible, so long as neither parent earns over £150,000 a year.

1.180 The Tax-Free Childcare Scheme offers support to more parents than the current Employer Supported Childcare (ESC) system, which is only available to some employees. The Government will therefore phase out ESC. Existing members of this scheme will be able to choose whether to remain on their current scheme or move to the new scheme (if they are eligible). The tax exemption available for workplace nurseries will remain.

1.181 This new system will be phased in from autumn 2015, partly funded by the phasing out of the ESC system. From the first year of operation, all children under five will be eligible. Disabled children up to age 16 will also be eligible, in line with existing ESC rules. The scheme will then build up over time to include children under 12.

1.182 The Government will also increase assistance for parents who receive childcare support through Universal Credit, which in due course will replace tax credits. Households eligible for tax credits already receive support for 70 per cent of their childcare costs up to a cap. **Budget 2013 announces that an additional £200 million will be provided to increase childcare support in Universal Credit.** This is equivalent to covering 85 per cent of childcare costs for households qualifying for the Universal Credit childcare element (where either a lone parent or both parents in a couple pay income tax). This will improve work incentives and ensure that it is worthwhile for low and middle income earners to work up to full-time hours. This additional £200 million is planned to be phased in from April 2016 as childcare support moves from tax credits into Universal Credit and it will be funded from within social security budgets at the time.

1.183 The Government will consult shortly on the detailed design and operation of the Tax-Free Childcare Scheme, including on how employers can continue to play a role in supporting their employees with childcare costs and to ensure it operates effectively with Universal Credit.

Children's savings

1.184 In November 2011, the Government introduced Junior ISA, a new tax-advantaged savings account for children under the age of 18. Children who have a Child Trust Fund (CTF) are currently ineligible for Junior ISA, although the Government has ensured that children with CTF accounts are not disadvantaged by increasing the CTF subscription limit to equal the Junior ISA limit (£3,600 in 2012-13 and £3,720 in 2013-14).

1.185 The Government wants to support parents by ensuring that there continues to be a clear and simple way to save for all children, and **will therefore consult on options for transferring savings held in CTFs into Junior ISA.**

Providing certainty on support for older people

1.186 The Government wants to give people clarity and security about what they can expect when they retire or reach old age. The current State Pension system is highly complicated and the existing social care funding system exposes individuals to catastrophic care costs, making it difficult for people to plan and prepare for their future. The Government has announced two major long-term reforms, the single-tier State Pension and social care funding reform, which together represent a comprehensive new deal for pensioners and people who want to plan and save for old age.

Single-tier State Pension

1.187 In January 2013, the Government set out its plans for the single-tier State Pension, as a cost-neutral reform set above the basic level of means-tested support. **Budget 2013 confirms that the single-tier State Pension will begin in 2016-17.**

1.188 The current State Pension system is highly complicated. The majority of individuals do not know what pension they will get from the state and the level of means-testing discourages people to save for their retirement. Introducing the single tier for newly-retired pensioners in 2016-17 will bring clarity and confidence to the State Pension system. This will provide a firm foundation to support people who want to take responsibility for their retirement income by saving, particularly alongside automatic enrolment (the Government's recent workplace pensions reform). The single tier will particularly benefit women, the low paid and the self-employed, who have tended to build up low amounts of Additional State Pension under the current system. Compared to the current system, by 2040, around 1.25 million of the lowest income pensioners will have higher retirement incomes.

1.189 A necessary consequence of the single-tier State Pension system is the closure of the State Second Pension, because everyone will have access to the same single-tier State Pension. **As a result, Budget 2013 confirms that from 2016-17 the ability for members of a defined benefit occupational pension scheme to 'contract out' of the State Second Pension will end.** They and their employers will therefore no longer be entitled to pay a lower NICs rate.

1.190 To alleviate the impact on private sector employers, the Government has committed to legislating for a statutory override, which will allow private sector employers to cover the costs of additional NICs payments through changes to contribution rates or benefits for their existing pension schemes.

1.191 For employees, single tier will make the State Pension system fairer by ensuring that, from 2016-17 onwards, everyone except for the self-employed will pay the same rates of NICs and build up access to the same single-tier State Pension. This means that those who are contracted out in 2016-17 will contribute more in National Insurance, and in return they will get a more generous State Pension.

1.192 The effects of the single tier introduction will vary between individuals, but 90 per cent of employees affected by the end of contracting-out who reach State Pension age in the first 20 years after the single tier's introduction will be better off over their lifetimes. An individual who is 40 years old when single tier is introduced in 2016 would contribute an extra £6,000 of NICs before reaching State Pension age in 2043. But they would gain £24,000 in extra State Pension over the course of their retirement. An individual who is 30 years old when single tier is introduced in 2016 would contribute an extra £7,000 in NICs before reaching State Pension age in 2054. But they would gain £18,000 in extra State Pension over their retirement.[54]

1.193 None of the additional employee and private sector employer NICs will be used for net revenue-raising. Overall, the Budget constitutes a net reduction in taxation for non-wealthy households, and a net reduction in NICs for private sector employers.

Social care funding reform

1.194 Drawing on the Dilnot Commission's recommendations, the Government has announced that it will introduce a cap on reasonable care costs. This will give a level of financial protection to those with the greatest care and support needs. In addition, the residential care means test will be extended to give more people access to financial support for their residential care costs.

[54] For an individual contracted-out over their whole career, with average life expectancy and median earnings (2012-13 earnings terms rounded to the nearest £1,000).

Taken together, these reforms should help an extra 100,000 people who would not receive any support under the current system. The reforms will help people who want to work hard and save for old age, by providing peace of mind that the savings they want to leave to their children will not be at risk of being wiped out by catastrophic care costs.

1.195 The Government has made clear that it would not implement these reforms without finding a way to pay for them. The Government has set out that the higher employer NICs revenue that arises from the end of contracting-out for members of defined benefit occupational pension schemes will help cover the costs of social care reform for the duration of the next Parliament. As the single-tier State Pension will begin in 2016-17, **Budget 2013 announces that the Government will introduce a £72,000 cap on reasonable care costs and extend the means test from April 2016.**

1.196 The new social care cap will protect the assets of those who face the highest social care costs, and will particularly benefit older people who have worked and saved all their lives to build up assets. As announced in February 2013, the Government will freeze the inheritance tax threshold for three years until April 2018, providing a simple and fair way of ensuring that those with the largest estates, who are more likely to benefit from social care reform, help to fund it. The Government has set out that the inheritance tax freeze will contribute to the costs of social care reform in the next Parliament.

Equitable Life

1.197 Budget 2013 announces that the Government will make an ex-gratia payment of £5,000 to those policyholders who bought their Equitable Life With-Profits Annuity before 1 September 1992, and are living at the time of this announcement. A further £5,000 will be available to those policyholders who meet the above criteria and are in receipt of Pension Credit. These one-off payments are in recognition of the resulting pressures this very elderly group face, having not received the income they hoped for from their Equitable Life annuity. Payments will be made in 2014-15 or earlier if possible.

Affordable public spending

1.198 Budget 2013 maintains the Government's policy of setting clear and credible consolidation plans by fixing the envelope for Total Managed Expenditure in 2015-16. The Government confirms that health, schools and ODA will be protected in 2015-16. These protections will be of greatest benefit to households on lower incomes, who benefit from health and school spending by around £2,700 a year more than those on the highest incomes.[55]

An affordable welfare system

1.199 Welfare spending must remain affordable, help those who need it most and provide the right incentives for people to work. Welfare spending rose by 20 per cent in real terms in the decade before the financial crisis, leaving reduced resources available for other public services.[56] Reforming the welfare system will not only put welfare spending on a more sustainable footing, but will also reduce pressures on public services.

1.200 As previously announced, a package of welfare reforms will be implemented from April 2013 which will meet these key objectives. It includes:

- the introduction of Universal Credit, the biggest change to the welfare system in a generation which will ensure that it always pays to be in work;
- the Household Benefit Cap, which will ensure no family will receive more on benefits than the average family in work;

[55] Based on comparison of income quintiles one and two against quintile five, HM Treasury analysis.
[56] Public sector net social benefits, Office for National Statistics.

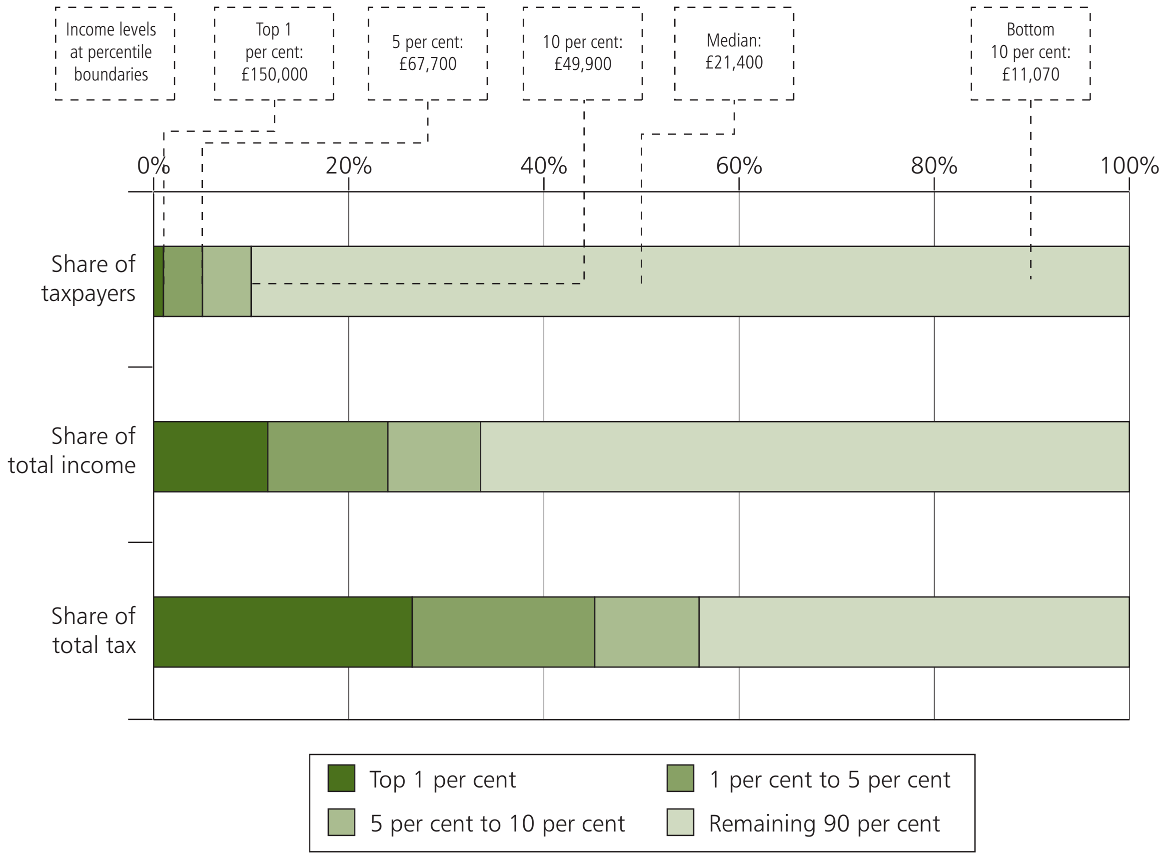
- the phased introduction of Personal Independence Payments to replace working-age Disability Living Allowance, which will ensure a more accurate assessment of needs so that support is reaching those who need it most;
- uprating a wide range of benefits and tax credits by 1 per cent in each of the next three years, as announced at Autumn Statement 2012. This recognises that benefits have risen faster than average earnings in recent years, while protecting the most vulnerable; and
- a number of measures to help reduce the £23 billion cost of Housing Benefit, while increasing fairness and efficiency in the system.

1.201 By the end of April 2013, the Government will have implemented measures to deliver over 90 per cent of the total savings expected from reforms to the welfare system announced to date. As set out earlier in this chapter, to help manage spending pressures the Government will strengthen the spending framework to improve control of AME, including areas of welfare expenditure.

A fair contribution from individuals and businesses

1.202 The Government is committed to a fair tax system in which those with the most contribute the most. As set out in Chart 1.21, over a quarter of all income tax is paid by just 1 per cent of taxpayers, with the top 5 per cent paying around half of all income tax.

Chart 1.21: Population, income and income tax share of individuals in 2012-13



Notes: Data expressed in terms of non-equivalised gross income of individual taxpayers; projected estimates.

Source: HM Revenue and Customs personal tax statistics.

1.203 Since 2010, the Government has raised taxes on the rich in every Budget: Budget 2010 increased higher rate capital gains tax; Budget 2011 tackled avoidance through disguised remuneration; Budget 2012 raised stamp duty on high-value homes; Autumn Statement 2012 took action to reduce the cost of pensions tax relief; and Budget 2013 announces further measures that tackle offshore tax evasion by high earners. The revenue raised from these measures will offset many times over the small cost of just over £100 million from the reduction in the additional rate of income tax from 50 per cent to 45 per cent.

Tackling tax evasion and avoidance

1.204 The vast majority of individuals and businesses pay their fair share of tax. Budget 2013 takes action against those who do not by announcing a significant crackdown on offshore tax evasion, tax avoidance and aggressive tax planning in four key areas:

- offshore tax evasion;
- avoidance of employment taxes;
- tax avoidance schemes; and
- corporation tax.

1.205 Collectively, these announcements will raise over £4.6 billion in new revenue over the next five years and protect against the loss of billions of pounds of revenue through the immediate closure of 10 loopholes. Further detail on these loophole closures is included in Chapter 2.

Offshore tax evasion

1.206 Following the Autumn Statement 2012 announcement that the Government would look to conclude further agreements based on its groundbreaking agreement with the US, the Isle of Man, Guernsey and Jersey have agreed to enter automatic tax information exchange agreements with the UK. These agreements will significantly increase the amount of information on potentially taxable income that is automatically exchanged, in order to further clamp down on tax evasion. HMRC has also put disclosure facilities in place to allow investors with accounts in the Isle of Man, Guernsey or Jersey to settle their past tax affairs in advance of the information being automatically exchanged. These agreements are expected to raise over £1 billion over the next five years.

1.207 The Government will look to sign similar agreements with other jurisdictions and is already in discussions with the Overseas Territories. Those, like the Crown Dependencies, who demonstrate their commitment to transparency and to tackling tax evasion will see their reputations enhanced. This forms a key part of the Government's offshore evasion strategy, published alongside Budget 2013 by HMRC's new centre of excellence on offshore evasion.

Avoidance of employment taxes

1.208 The Government is committed to reforming areas of the tax system where avoidance behaviour is widespread or where there are opportunities to level the playing field in the tax treatment of compliant and non-compliant businesses. Following Budget 2011 reforms to combat disguised remuneration, and the success of the Employee Benefit Trust Settlement Opportunity which has brought in over £600 million in the last 18 months, Budget 2013 announces new action to tackle avoidance of employment taxes.

1.209 The misuse of the partnership rules has been a feature of many avoidance schemes closed down in recent years, and the Government announced on 5 December 2012 that HMRC would consider the taxation of partnerships. As a result of this work, **the Government will consult on measures to:**

- **remove the presumption of self-employment for limited liability partnership (LLP) partners, to tackle the disguising of employment relationships through LLPs;** and
- **counter the artificial allocation of profits to partners (in both LLPs and other partnerships) to achieve a tax advantage.**

1.210 Autumn Statement 2012 also announced that HMRC would review the use of offshore employment intermediaries. As a result of that review, **the Government will strengthen obligations to ensure the correct income tax and NICs are paid by offshore employment intermediaries,** with consultation on the details. As part of its ongoing compliance work, HMRC will continue to gather evidence about other forms of employment tax avoidance in order to inform future policy and operational decisions.

Tax avoidance schemes

1.211 The Government is taking further action to tackle tax avoidance schemes:

- the UK's first General Anti-Abuse Rule will be introduced in Finance Bill 2013 to provide a significant new deterrent to abusive avoidance schemes and strengthen HMRC's means of tackling them;
- **the Government will shortly consult on new proposals to target the promoters of tax avoidance schemes, intending to tackle both the supply and demand of these schemes.** HMRC will consult on new "naming and shaming" proposals alongside a range of targeted disclosure requirements and associated penalties;
- **the Government will act on the warning made at Budget 2012 to introduce retrospective legislation to address aggressive Stamp Duty Land Tax avoidance schemes.** This action will tackle schemes exploiting 'transfer of rights' rules;
- **suppliers bidding for contracts will be required to declare specified non-compliance with tax obligations,** allowing government departments to exclude bidders that have not been compliant. The Government will review the effectiveness of the policy within a year and amend the rules if necessary to secure compliance; and
- a progress report on tackling avoidance and evasion is being published alongside Budget 2013.

Corporation tax

1.212 Alongside reforms to increase the competitiveness of the tax system, the Government is determined to take steps to ensure that domestic and multinational companies pay their fair share of tax and do not engage in aggressive tax planning. The Government has been at the forefront of the calls for collective action to strengthen international tax standards.

1.213 At the G20 meeting of Finance Ministers and Central Bank Governors in Moscow in February 2013, the OECD presented a report on *Addressing Base Erosion and Profit Shifting* which underlined the importance of international cooperation in tackling these issues.[57] The OECD has identified three main clusters of work: a review of ways to counter base erosion, looking at how to determine tax jurisdiction in particular in relation to the development of the digital economy, and an examination of how the transfer pricing rules allocate profits between different countries. The UK will use its involvement in these groups to work towards reform of

[57] *Addressing Base Erosion and Profit Shifting*, Organisation for Economic Co-operation and Development, February 2013.

the international tax standards. These issues will be examined by the OECD, which will present a comprehensive action plan to the G20 in July 2013.

1.214 The Government will take immediate action to prevent the growing practice of 'loss buying', where companies pass the potential to gain access to corporation tax loss relief to unconnected third parties. The Government will introduce new rules to prevent such behaviour in the future and raise just over £1 billion in new revenue as a result.

Tax debt collection

1.215 The Government announces that it will enable HMRC to increase the amount of tax debt collected via the Pay As You Earn system from individuals on higher incomes. The Government will consult on how this process will be designed. The Government will also introduce operational measures to increase HMRC's efficiency in collecting tax debts and make it easier for people to pay off a tax debt.

2 Budget policy decisions

2.1 Chapter 1 explains how the measures announced in this Budget advance the Government's long-term goals. This chapter provides a brief description of all Budget policy decisions. These are decisions on tax measures, National Insurance contributions (NICs), measures that affect Annually Managed Expenditure (AME), changes to Departmental Expenditure Limits (DEL), and supply-side reform measures. Unless stated otherwise, measures in this chapter are measures announced at this Budget. The tables in this chapter set out the cost or yield of all Budget policy decisions with a fiscal impact in the years up to 2017-18.[1]

Fiscal impacts of Budget policy decisions

2.2 Alongside this Budget, the Office for Budget Responsibility (OBR) has published an independent forecast of the public finances and the economy incorporating Budget policy decisions. To produce the Budget forecast, the OBR has certified the Government's assessment of the direct cost or yield of Budget policy decisions that affect the economy and public finance forecasts and has made an assessment of the indirect effects of Budget measures on the economy.

2.3 Table 2.1 shows the cost or yield of all new Budget decisions with a direct effect on public sector net borrowing (PSNB). This includes tax measures, NICs measures, measures affecting AME and changes to DEL.

2.4 Consistent with its commitment to transparency, the Government is also publishing the methodology underlying the calculation of the fiscal impact of each Budget policy decision. This is included in the supplementary document *Budget 2013 policy costings*, published alongside this Budget.[2]

[1] The numbers or lower-case letters in brackets after each measure refer to the line in Table 2.1 or Table 2.2 where its cost or yield is shown.
[2] *Budget 2013 policy costings*, HM Treasury, Department for Work and Pensions, and HM Revenue and Customs (HMRC), March 2013.

Table 2.1: Budget 2013 policy decisions[1]

	Head	£ million				
		2013-14	2014-15	2015-16	2016-17	2017-18
Previously announced (smaller measures)						
1 Carbon Reduction Commitment: exclude schools	Tax	0	0	-65	-65	-65
2 Government response to OTS review of share schemes	Tax	-40	-45	-50	-55	-55
3 Carbon price floor: Northern Ireland exemption	Tax	-20	-25	-40	-45	-45
4 Annual charge and SDLT 15% rate: reliefs for commercial businesses	Tax	-30	-40	-40	-40	-45
5 Capital Gains Tax on disposals of high value residential property: extension to UK non-natural persons	Tax	+25	0	0	+5	+5
6 Universal Credit: exempt from income tax	Tax	0	0	-35	-35	-30
7 Debt Cap: tightening of rules	Tax	+50	+60	+50	+35	+30
8 Building Societies: capital instruments	Tax	+20	+20	+20	+20	+30
9 Employee shareholder status: CGT changes	Tax	0	0	*	+5	+30
10 Enterprise Management Incentive: qualification for CGT entrepreneurs' relief	Tax	-10	-15	-20	-25	-25
11 Lorry road user levy and offsetting VED reduction	Tax	0	+25	+25	+25	+25
12 Income tax: transfer of assets abroad	Tax	0	0	-10	-10	-10
13 Cap on reliefs: exemption for EIS share loss relief and overlap relief	Tax	0	-20	-10	-10	-10
14 Carbon price floor: non rate changes	Tax	+5	+5	+5	+5	+5
15 Disincorporation relief	Tax	-10	-5	-5	-5	-5
16 Vehicle Excise Duty: PIP disability exemption	Tax	-10	-10	-10	-5	0
17 Pension Credit pass through	Spend	+5	+5	*+5*	*+5*	*
Previously announced (Mid Term Review)						
Single Tier: introduce from 2016-17:						
18 Contracting out NICs: public sector employers	Tax	0	0	0	+3,325	+3,285
19 Contracting out NICs: public sector employees	Tax	0	0	0	+1,365	+1,350
20 Contracting out NICs: private sector employers	Tax	0	0	0	+570	+565
21 Contracting out NICs: private sector employees	Tax	0	0	0	+235	+235
Other Mid Term Review:						
22 Inheritance tax: threshold freeze for 3 years from 2015-16	Tax	0	0	+20	+80	+170
23 Social Care funding reform: introduce Dilnot cap from 2016-17	Spend	0	0	*0*	*-1,000*	*-1,000*
24 Childcare additional funding[2]	Spend	0	0	-400	-750	-750
Growth and Enterprise						
25 National Insurance: £2,000 Employment Allowance	Tax	0	-1,255	-1,370	-1,595	-1,725
26 Corporation tax: reduce main rate to 20% from 2015-16	Tax	0	-5	-400	-785	-865
27 Capital Spending: maintain 2014-15 level	Spend	0	0	*-3,000*	*-3,000*	*-3,000*
28 Affordable housing	Spend	0	-125	*0*	*0*	*0*
29 Right to Buy changes	Spend	-5	+45	*+40*	*+50*	*+50*
30 Stamp duty: abolish schedule 19 charge	Tax	0	-145	-145	-150	-160
31 Abolishing stamp duty on AIM and other junior shares	Tax	+5	-170	-170	-170	-175
32 Seed Enterprise Investment Scheme: extend CGT holiday to 2013-14	Tax	0	-5	*	0	0
33 Employee shareholder status: income tax	Tax	0	-15	-45	-65	-75
34 R&D Tax Credits: increase Above the Line credit to 10%	Spend	-20	-80	*-85*	*-90*	*-95*

35 Employee ownership: additional support	Spend	0	-50	*-50*	*-50*	*-50*
36 Industrial Strategy	Spend	-125	-160	*-180*	*-180*	*-180*
37 Growth vouchers	Spend	-10	-25	*0*	*0*	*0*
38 Tax relief: health interventions	Tax	0	-10	-10	-10	-10
39 Health interventions	Spend	0	+10	*+10*	*+10*	*+15*
40 Bank Levy (including offsetting CT changes)	Tax	0	+195	+250	+245	+250
Personal Tax						
41 Personal allowance: increase by an additional £560 to £10,000 in 2014-15	Tax	0	-1,075	-1,045	-1,060	-1,210
42 Pensions tax relief: individual protection	Tax	0	+100	+80	+50	0
Duties						
43 Fuel Duty: cancel September 2013 increase	Tax	-480	-810	-835	-870	-900
44 Alcohol: 1p off pint of beer and abolish escalator in 2014-15	Tax	-170	-215	-210	-205	-205
Avoidance and Debt		**+395**	**+1,025**	**+1,395**	**+1,075**	**+1,020**
45 Tax repatriation from Jersey, Guernsey, and Isle of Man	Tax	+80	+240	+325	+235	+170
46 Offshore employment intermediaries	Tax	0	+80	+85	+85	+90
47 Partnerships	Tax	0	+125	+365	+300	+285
48 Corporation Tax: losses	Tax	+260	+305	+270	+205	+190
49 Loans from close companies to participators	Tax	0	+65	+75	+70	+60
50 IHT: limiting deduction of liabilities	Tax	+5	+20	+15	+15	+15
51 General Anti-Abuse Rule: non revenue protection	Tax	0	+60	+50	+40	+85
52 Stamp Duty Land Tax: subsales	Tax	+45	+35	+30	+25	+25
53 Debt: improving coding out	Tax	0	0	+45	+40	+45
54 Avoidance schemes: enhanced information powers	Tax	0	+5	+35	+35	+35
55 Penalties in avoidance cases	Tax	0	+55	+60	+5	+10
Motoring and Environment						
56 Capital allowances: Ultra Low Emission Vehicles	Tax	0	0	-5	-25	-35
57 Company car tax: ULEVs	Tax	0	0	-10	-15	-15
58 VED: freeze rates for HGVs in 2013-14	Tax	-10	-10	-10	-10	-10
59 Aggregates levy: freeze in 2013-14	Tax	-10	-15	-15	-15	-15
60 Capital allowances: energy and water efficient technologies	Tax	+5	+15	+25	+30	+20
61 Capital allowances: energy saving plant & machinery in Northern Ireland	Tax	0	+5	+5	+10	+10
Changes to spending forecasts						
62 Spending total adjustment	Spend	+1,325	+1,085	*0*	*0*	*0*
63 Official Development Assistance: adjusting to meet 0.7% GNI target	Spend	+135	+165	*+200*	*+250*	*+305*
64 Special Reserve	Spend	+300	0	*0*	*0*	*0*
65 Equitable life	Spend	0	-45	*0*	*0*	*0*
TOTAL POLICY DECISIONS		**+1,315**	**-1,650**	**-2,850**	**+1,740**	**+1,305**
Total spending policy decisions		**+1,605**	**+1,055**	**0**	**0**	**0**
Total tax policy decisions		**-290**	**-2,705**	**-2,850**	**+1,740**	**+1,305**
Total tax policy decisions excluding impact on Government departments		**-290**	**-2,705**	**-2,850**	**-1,585**	**-1,980**
Financial transactions[3]:						
Help to Buy extension		-1,150	-1,430	-1,550	0	0
Build to Rent extension		-150	-445	-360	0	0

[*] Negligible.

[-] Spending measures do not affect borrowing in 2015-16, 2016-17 and 2017-18 as they fall within the Total Managed Expenditure assumption.

[1] Costings reflect the OBR's latest economic and fiscal determinants.

[2] Additional funding for childcare will start in Autumn 2015. The Government is allocating £750m per annum for this support.

[3] Financial transactions impact on PSND and not PSNB so do not feed through to the bottom line.

Table 2.2: Measures announced at Autumn Statement 2012 or earlier which take effect from April 2013 or later[1]

		Head	£ million				
			2013-14	2014-15	2015-16	2016-17	2017-18
Measures announced at Autumn Statement 2012							
a	Corporation tax: decrease main rate to 21% from 2014-15	Tax	-5	-370	-705	-790	-825
b	Business rates: empty property relief	Tax	-10	-55	-50	-30	-5
c	Business rates: small business relief extension	Tax	-475	+40	+5	0	0
d	Cash basis for small businesses	Tax	0	-165	+25	-5	*
e	Capital gains tax (CGT) relief: employee shareholder status	Tax	0	0	*	-15	-75
f	High end television: tax relief	Spend	-5	-25	-45	-60	-65
g	Personal allowance: increase by an additional £235 to £9,440 in 2013-14, with equal gains to higher rate taxpayers	Tax	-995	-1,140	-1,155	-655	-570
h	Working age discretionary benefits and tax credits: increase by 1% for three years from 2013-14	Spend	+515	+1,685	+2,680	+2,835	+2,935
i	Child Benefit: increase by 1% for two years from 2014-15	Spend	0	+220	+360	+360	+380
j	Housing Benefit: increase Local Housing Allowance by 1% for two years from 2014-15 with provision to high rent areas	Spend	0	+135	+280	+335	+375
k	Universal Credit impact of work allowance measure and increase by 1% for two years from 2014-15	Spend	0	+170	+680	+1,030	+1,215
l	Higher rate threshold: index by 1% for two years from 2014-15	Tax	0	+350	+960	+1,235	+1,260
m	Inheritance tax: increase nil rate threshold by 1% in 2015-16	Tax	0	0	+20	+40	+45
n	CGT: increase annual exempt amount by 1% for two years from 2014-15	Tax	0	0	+10	+15	+15
o	Tax credits: error and fraud	Spend	0	+315	+185	+85	*
p	Pensions: restrict tax relief	Tax	+200	+300	+600	+1,000	+1,125
q	Gift Aid Small Donation Scheme: amendments	Spend	-10	-15	-10	-20	-30
r	Amendments to cap on Income Tax reliefs	Tax	0	-85	-65	-70	-75
Measures announced at Budget 2012							
s	Personal allowance: increase by £1,100 in 2013-14, with a proportion passed to higher rate tax payers	Tax	-3,465	-3,700	-3,720	-3,875	-3,240
t	Income tax: reduce additional rate to 45p in 2013-14	Tax	-60	-110	-110	-120	-140
u	Income tax: cap on unlimited tax reliefs	Tax	*	+385	+245	+275	+290
v	Stamp Duty Land Tax: avoidance on residential property and associated CGT changes	Tax	+75	+75	+80	+90	+100
w	Corporation tax: decrease main rate to 24% in 2012-13, 23% in 2013-14 and 22% from 2014-15	Tax	-695	-740	-765	-815	-850
x	R&D Tax Credits: Above the Line	Spend	-10	-240	-165	-165	-170
y	Video games and animation: tax relief	Spend	-15	-50	-50	-55	-55
z	North Sea oil & gas: decommissioning certainty	Tax	+140	+425	+365	+330	+480
aa	Climate change levy: levy exemption certificates removal	Tax	+120	+125	+150	+165	+185
ab	Carbon Price Floor: combined heat and power relief and other changes	Tax	-65	-105	-170	-200	-240
ac	Company car tax	Tax	0	+125	+405	+375	+395
ad	Capital allowances: company cars	Tax	*	+25	+125	+225	+215
ae	Age-related allowances: freeze amount and restrict to existing receipts from 6 April 2013	Tax	+315	+700	+1,040	+1,280	+1,520
af	IHT: spouse relief	Tax	*	-5	-5	-5	-5
ag	Local authorities: Tax Increment Financing	Spend	-20	-20	-	-	-

ah	Transfer of assets	Tax	*	*	*	*	*
ai	Insurance tax: Claims Equalisation Reserves	Tax	0	+85	+90	+80	+80
aj	Life assurance premium relief	Tax	0	0	+5	+5	+5
ak	Stamp Duty Land Tax: area based reliefs	Tax	+30	+35	+35	+40	+40
Measures announced at Autumn Statement 2011							
al	Air passenger duty: business jets	Tax	+5	+5	+5	+5	+5
am	Climate change levy: increase electricity tax relief to 90 per cent	-15	-15	-20	-20	-20	-20
Measures announced at Budget 2011							
an	Corporation tax: decrease to 24% in 2013-14 and 23% in 2014-15	Tax	-705	-740	-760	-805	-845
ao	Carbon price floor: introduce from 2013-14 with £30 per tonne of CO_2 target	Tax	+975	+1,420	+2,025	+2,075	+2,200
ap	Climate change agreements: reform	Tax	-25	-25	-25	-25	-30
aq	Company car tax: adjustment to rates for 2013-14	Tax	+120	+125	+125	+130	+135
ar	VAT: fraud on imported road vehicles	Tax	+110	+100	+95	+90	+85
as	Gift Aid: small donations scheme	Spend	-45	-75	-95	-100	-100
Measures announced at Spending Review 2010							
at	Council Tax Benefit: 10% reduction in expenditure and localisation	Tax	+475	+475	+475	+475	+470
au	Total household benefit payments capped on the basis of average take-home pay for working households from 2013-14	Spend	+110	+185	+185	+185	+185
av	Disability Living Allowance: remove mobility components for claimants in residential care from April 2013	Spend	+155	+160	+160	+160	+165
aw	Child and Working Tax Credits: use real time information	Spend	0	+260	+190	+80	+10
Measures announced at June Budget 2010							
ax	Corporation tax: decrease to 25% in 2013-14 and 24% in 2014-15	Tax	-1,720	-2,500	-2,970	-3,185	-3,335
ay	Basic rate limit: freeze in 2013-14	Tax	+275	+515	+445	+510	+580
az	Disability Living Allowance: reform gateway from 2013-14	Spend	+140	+660	+1,190	+2,000	+2,870
ba	Social sector: limit working age entitlements to reflect size of family from 2013-14	Spend	+465	+465	+465	+470	+470
Measures announced before June Budget 2010							
bb	Alcohol duty: increase in rates in 2013-14 and 2014-15 (March Budget 2010)	Tax	+155	+330	+340	+355	+370
bc	Patent box from 2013-14 (2009 Pre-Budget Report)	Tax	-350	-640	-675	-740	-760
bd	Landfill tax: increase in 2014-15 (2009 Pre-Budget Report)	Tax	0	+65	+60	+60	+60

* *Negligible*

[1] *Costings reflect the OBR's latest economic and fiscal determinants.*

2.5 The supplementary document *Overview of tax legislation and rates*, published alongside this Budget, provides a more detailed explanation of tax measures included in this chapter and a summary of their impacts.[3]

Public Spending

Total Managed Expenditure

2.6 Spending in 2016-17 and 2017-18 – In line with previous policy, the Government has set a fiscal assumption that Total Managed Expenditure (TME) in 2016-17 and 2017-18 will continue to fall in real terms at the same rate as over the Spending Review 2010 period. Fiscal consolidation for 2016-17 and 2017-18 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead.

[3] *Overview of tax legislation and rates,* HM Treasury and HMRC, March 2013.

Table 2.3: Total Managed Expenditure[1]

	£ billion					
				Forecasts		
	2012-13[2]	2013-14	2014-15	2015-16	2016-17	2017-18
CURRENT EXPENDITURE						
Resource AME	317.4	334.1	345.1	362.3	378.5	396.1
Resource DEL excluding depreciation	317.6	320.7	315.7			
Ring-fenced depreciation	22.2	18.1	19.3			
Implied Resource DEL, including depreciation				*331.9*	*325.1*	*316.9*
Public sector current expenditure	**657.2**	**672.9**	**680.0**	**694.2**	**703.7**	**713.0**
CAPITAL EXPENDITURE						
Capital AME[2]	-20.0	5.0	5.5	6.3	8.6	9.2
Capital DEL	36.1	42.2	44.9			
Implied Capital DEL[3]				*44.2*	*42.7*	*42.9*
Public sector gross investment	**16.1**	**47.2**	**50.4**	**50.4**	**51.3**	**52.1**
Total Managed Expenditure	**673.3**	**720.0**	**730.4**	**744.7**	**754.9**	**765.1**
Total Managed Expenditure (% GDP)	*43.6%[2]*	*45.2%*	*44.0%*	*43.1%*	*41.8%*	*40.5%*

Envelope for 2015-16 Spending Round				***744.7***		
of which						
Current spending envelope				*694.2*		
Capital spending envelope				*50.4*		
Memo: TME baseline for years beyond 2014-15[4]			*735.9*	*744.7*	*754.9*	*765.1*
Average annual real growth	*SR10 period*		*-0.4%*	*Beyond SR10 period:*		*-0.4%*

[1] Budgeting totals are shown net of the OBR's forecast Allowance for Shortfall. Resource DEL excluding ring-fenced depreciation is the Treasury's primary control within resource budgets and is the basis on which Spending Review 2010 settlements were agreed. The OBR publishes public sector current expenditure in DEL and AME, and public sector gross investment in DEL and AME. A reconciliation is published by the OBR.

[2] In 2012-13, TME is temporarily reduced by a £28 billion effect on public sector net investment resulting from the transfer of assets from the Royal Mail Pension Plan to the public sector. For budgeting purposes, income from this transaction is treated as Capital AME. Excluding the effect of Royal Mail TME would be 45.4 per cent of GDP.

[3] Implied Capital DEL reduces in 2016-17 as measures set out in table 2.6 come to an end. This does not affect the public sector gross investment forecast as it is offset by a corresponding adjustment to the Capital AME forecast.

[4] TME is lower in the baseline for calculating the assumption for the years beyond 2014-15 as a result of excluding the effect of all measures announced at Budget 2013 and Autumn Statement 2012, capital measures announced at Autumn Statement 2011, and the OBR's Allowance for Shortfall forecast.

Departmental Expenditure Limits

2.7 Reduction in departmental spending in 2013-14 and 2014-15 – Resource DEL will be reduced by £1.1 billion in 2013-14 and £1.2 billion in 2014-15. This is equivalent to a 1 per cent reduction for most departments. The schools and health budgets remain unchanged. Local Government and police allocations that have been set out for 2013-14 will not be changed. HM Revenue and Customs will also be excluded, to ensure that they are able to focus on delivering the additional revenue targets set out at Autumn Statement 2012. The budget of the Department for International Development (DFID) will be reduced by £135 million in 2013-14 and £165 million in 2014-15 to reflect the downward revisions to nominal Gross National Income set out in the OBR forecast. There is also a reprofiling of funding for broadband programmes to support local delivery. The Government will reduce the Special Reserve provision to reflect progress made by the Afghans in taking on responsibility for their security. This funding is held over and above the Ministry of Defence budget. (62) (63) (64)

Table 2.4: Departmental Expenditure Limits

	£ billion		
	Estimate	Plans	
	2012-13	2013-14	2014-15
Departmental Programme and Administration Budgets (Resource DEL excluding depreciation[1])			
Education	51.4	53.1	53.8
NHS (Health)[2]	102.9	106.9	109.8
Transport	4.4	4.8	4.4
CLG Communities	1.4	2.0	1.3
CLG Local Government	24.0	23.9	21.7
Business, Innovation and Skills[3]	15.4	14.9	13.8
Home Office	7.9	8.0	7.4
Justice	8.1	7.2	6.8
Law Officers' Departments	0.6	0.6	0.5
Defence[4]	27.1	26.5	24.5
Foreign and Commonwealth Office	2.0	1.8	1.1
International Development	6.1	8.8	8.3
Energy and Climate Change	1.2	1.4	1.1
Environment, Food and Rural Affairs	1.9	1.9	1.7
Culture, Media and Sport[5]	1.9	1.2	1.1
Work and Pensions	7.1	7.6	7.4
Scotland	25.0	25.3	25.3
Wales	13.3	13.5	13.5
Northern Ireland	9.5	9.5	9.5
Chancellor's Departments	3.3	3.7	3.5
Cabinet Office	2.1	2.1	2.3
Small and Independent Bodies	1.4	1.5	1.4
Reserve	0.0	2.2	2.8
Special Reserve	0.0	0.4	1.8
Adjustment for Budget Exchange[6]	0.0	-1.7	-1.2
Green Investment Bank	0.0	1.0	0.0
Total Resource DEL excluding depreciation	**317.8**	**328.3**	**323.6**
Adjustment for DEL/AME switches[7]	*0.0*	*-6.4*	*-6.9*
OBR Allowance for Shortfall	*-0.3*	*-1.2*	*-1.0*
OBR Resource DEL excluding depreciation forecast	***317.6***	***320.7***	***315.7***
Capital DEL			
Education	4.5	4.0	4.6
NHS (Health)	3.7	4.4	4.6
Transport	7.8	8.7	8.9
CLG Communities	2.5	4.2	4.8
CLG Local Government	0.0	0.0	0.0
Business, Innovation and Skills	1.1	1.8	2.1
Home Office	0.4	0.4	0.5
Justice	0.3	0.3	0.3
Law Officers' Departments	0.0	0.0	0.0
Defence	7.4	9.8	9.0
Foreign and Commonwealth Office	0.1	0.1	0.1
International Development	1.7	1.9	2.0
Energy and Climate Change	2.1	2.2	2.2
Environment, Food and Rural Affairs	0.4	0.4	0.5
Culture, Media and Sport	0.3	0.2	0.3
Work and Pensions	0.4	0.4	0.2
Scotland	3.0	2.6	2.9
Wales	1.4	1.3	1.4
Northern Ireland	0.8	0.9	1.0
Chancellor's Departments	0.2	0.2	0.1
Cabinet Office	0.3	0.4	0.4
Small and Independent Bodies	0.1	0.1	0.1
Reserve	0.0	0.9	1.1
Special Reserve	0.0	0.1	0.3
Adjustment for Budget Exchange	0.0	-1.1	-0.4
Green Investment Bank	0.2	0.5	0.0
Total Capital DEL plans	**38.6**	**44.6**	**46.9**
Spectrum receipts	*-2.3*	*0.0*	*0.0*
OBR Allowance for Shortfall	*-0.3*	*-2.3*	*-2.0*
OBR Capital DEL forecast	***36.1***	***42.2***	***44.9***

[1] Resource DEL excluding ring-fenced depreciation is the Treasury's primary control total within resource budgets and the basis on which Spending Review 2010 settlements were made.

[2] The health budget remains projected to grow in real terms every year from 2012-13 to 2014-15.

[3] Spending on the Green Investment Bank is part of the Department for Business, Innovation and Skills' budget in 2012-13. However, consistent with previous Budgets, the Green Investment Bank is shown separately here.

[4] The defence budget for 2013-14 reflects the likely initial drawdown of funding from the Special Reserve for the net additional cost of military operations at Main Estimates. No such allocation has yet been made for 2014-15; the funding in this year remains in the Special Reserve.

[5] Includes the Olympics budget in 2012-13 only.

[6] Departmental budgets in 2013-14 and 2014-15 include amounts carried forward from 2012-13 through Budget Exchange, which will be voted at Main Estimates. These increases will be offset by any deposits at Supplementary Estimates in future years so are excluded from spending totals.

[7] Net aggregate adjustment to departmental plans for changes to local government funding for Business Rates Retention and Council Tax localisation. These changes will be voted at Main Estimates.

2.8 Date of the 2015-16 Spending Round – The Government will publish individual departmental budgets for 2015-16 in a Spending Round to be announced on 26 June 2013.

2.9 Spending envelope for 2015-16 – The Government has set envelopes for current and capital spending in 2015-16 of £694.2 billion and £50.4 billion. Health, schools and Official Development Assistance will be protected.

2.10 Capital spending plans – The Government has increased capital spending plans by £3 billion a year from 2015-16. The Government will take a long-term approach to capital as part of the 2015-16 Spending Round, setting plans out to 2020-21 for the most economically valuable areas of capital expenditure. (27)

2.11 Efficiency programme in 2015-16 – The 2015-16 Spending Round will extend the efficiency programme into 2015-16, with the expectation of generating a further £5 billion of savings.

Table 2.5: Estimated underspends and Budget Exchange carried forward since Budget 2012[1]

	£ billion					
	Resource DEL excluding depreciation			Capital DEL		
	Estimated underspend[2]	Budget Exchange[3]		Estimated underspend	Budget Exchange	
	2012-13	2013-14	2014-15	2012-13	2013-14	2014-15
Education	-1.0	0.4	0.2	0.0	0.1	0.0
NHS (Health)	-1.4	0.0	0.0	-0.8	0.0	0.0
Transport	-0.7	0.1	0.0	-0.2	0.3	0.1
CLG Communities	-0.5	0.2	0.0	-0.3	0.0	0.0
CLG Local Government	0.0	0.0	0.0	0.0	0.0	0.0
Business, Innovation and Skills	-0.6	0.2	0.2	-0.2	0.0	0.0
Home Office	-0.7	0.1	0.0	-0.1	0.0	0.0
Justice	0.4	0.0	0.0	0.0	0.0	0.0
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0	0.0
Defence[4]	-0.5	0.5	0.8	-0.8	0.1	0.2
Foreign and Commonwealth Office	0.2	0.0	0.0	0.0	0.0	0.0
International Development	-0.5	0.1	0.0	0.0	0.0	0.0
Energy and Climate Change	-0.3	0.1	0.0	0.0	0.0	0.0
Environment, Food and Rural Affairs	-0.2	0.1	0.0	0.0	0.0	0.0
Culture, Media and Sport	-0.1	0.0	0.0	-0.4	0.0	0.1
Work and Pensions	-0.7	0.0	0.0	0.1	0.0	0.0
Scotland	-0.2	0.0	0.0	0.4	0.0	0.0
Wales	-0.1	0.0	0.0	0.2	0.0	0.0
Northern Ireland	0.0	0.0	0.0	-0.1	0.0	0.0
Chancellor's Departments[5]	-0.1	0.0	0.0	0.1	0.0	0.0
Cabinet Office	0.0	0.0	0.0	0.0	0.0	0.0
Small and Independent Bodies	0.0	0.0	0.0	0.0	0.0	0.0
Green Investment Bank[6]	0.0	0.0	0.0	-0.6	0.5	0.0
Other[7]	-0.7	0.0	0.0	0.6	0.0	0.0
TOTAL	**-7.6**	**1.7**	**1.2**	**-2.1**	**1.1**	**0.4**
Single Use Military Equipment[4]				*-1.7*	*0.0*	*0.0*
Exceptional inter-period flexibility[8]		*0.4*	*0.4*		*0.4*	*0.4*

[1] These figures exclude measures from this Budget and Autumn Statement 2012 to illustrate changes in departmental data that informed the OBR's Allowance for Shortfall judgement. In addition to underspends, departments' budgets also change as a result of inter-departmental transfers and classification decisions, as well as changes voted at Supplementary Estimates.

[2] The difference between plans published at Budget 2012 and departments' latest estimates of their full-year position.

[3] These are the amounts carried forward from 2012-13 through Budget Exchange, presented in the Supplementary Estimates.

[4] The Capital DEL changes exclude spending on Single Use Military Equipment (SUME) from the defence budget. This better illustrates the PSGI changes that underpin the OBR's forecast as SUME scores as capital spending in budgets but current spending in the OBR's forecasts.

[5] Excludes £0.3 billion of income from London Inter-Bank Offered Rates (LIBOR) fines that was not present in Budget 2012 totals.

[6] Spending on the Green Investment Bank scores as financial transactions spending and so does not directly affect the deficit.

[7] Includes changes to the Reserve, Special Reserve and Budget Exchange adjustments.

[8] Exceptional inter-period flexibilities identified after Supplementary Estimates; these figures are provisional.

2.12 As described in Chapter 1, departmental underspends in 2012-13 are higher than in a typical year, which has informed the OBR's Allowance for Shortfall judgement. Table 2.5 sets out the underspends as well as changes to departmental budgets (for example, inter-departmental transfers and classification changes) that have emerged since Budget 2012, as well as the Budget Exchange amounts that departments are carrying into future years as a result.

Financial transactions and contingent liabilities

2.13 A number of policy measures announced in the Budget do not directly affect PSNB in the same way as conventional spending or taxation. These include financial transactions that directly impact only on the central government net cash requirement (CGNCR) and public sector net debt, and transactions likely to be recorded as contingent liabilities. Table 2.6 shows the effect of financial transactions on CGNCR.

Table 2.6: Financial transactions: impact on central government net cash requirement

	£ million		
Financial transactions – Housing	**2013–14**	**2014–15**	**2015–16**
Help to Buy	-1,150	-1,430	-1,550
Build to Rent extension	-150	-445	-360
TOTAL	**-1,300**	**-1,875**	**-1,910**

All figures include Barnett consequentials.

Pay and employment

2.14 Public sector pay – Public sector pay awards in 2015-16 will be limited to an average of up to 1 per cent. It will be for government departments and pay review bodies to determine whether a lower award is justified based on affordability and individual recruitment and retention needs. In 2014-15, pay awards for civil service departments who entered the 2010 pay freeze early will average at 1 per cent, aligning them with the rest of the public sector.

2.15 The Government will seek significant further savings through reform to progression pay in the 2015-16 Spending Round. The armed forces will be excluded due to the unique nature of their careers.

2.16 Military Pay – In addition to the recent 1 per cent increase in base pay for the armed forces, the X-Factor component of base pay will also be increased by half a percent, as recommended by the independent Armed Forces Pay Review Body, from 1 May 2013. By accepting the recommendations in full, armed forces personnel are receiving a total 1.45 per cent increase in base pay.

Capital spending

2.17 M4 in south Wales – The Government is continuing to discuss options for funding improvements to the M4 in south Wales with the Welsh Government, alongside an assessment of the Silk Commission recommendations, and will be reporting in due course.

Housing

2.18 Changes to pension investment rules to encourage the conversion of unused space in commercial properties – The Government will explore with interested parties whether the conversion of unused space in commercial properties in high streets and town centres to residential use could be encouraged by amending Investment Regulated Pensions Schemes rules. Any amendments would need to be consistent with sound public finances and the Government's wider pensions strategy.

2.19 Help to Buy: mortgage guarantee – The Government will create the Help to Buy: mortgage guarantee to increase the availability of mortgages for those with small deposits across the UK.

2.20 Help to Buy: equity loan – From 1 April 2013 Help to Buy: equity loan will be opened up to all those who aspire to own a new build home. The Government will:

- provide an equity loan worth up to 20 per cent of the value of a new build home, repayable once the home is sold;
- significantly widen the eligibility criteria for shared equity to ensure as many people as possible are able to benefit. The maximum home value will be £600,000 and there will be no income cap constraint; and
- ensure that the scheme is open not only to first time buyers but also to all those looking to move up the housing ladder.

2.21 Social Rental Policy – At the 2015-16 Spending Round, the Government will set out a social rental policy that gives social landlords certainty until 2025.

2.22 Pay to Stay – The Government will shortly take steps to allow landlords to charge market rents to those social housing households with incomes of more than £60,000 a year and intends to make it the responsibility of these households to ensure they are making a fair contribution, with all additional income reinvested in housing.

2.23 Right to Buy: increase cap in London – From 25 March 2013 the maximum Right to Buy discount cash cap will be raised from £75,000 to £100,000 in London. (29)

2.24 Right to Buy: simplification – The Government will simplify the Right to Buy application process for both local authorities and prospective tenants.

2.25 Right to Buy: eligibility – The Government will reduce the time tenants have to wait before they are eligible for Right to Buy from five to three years. (29)

2.26 Build to Rent – The Government will expand the £200 million Build to Rent fund announced at Autumn Statement 2012 to £1 billion.

2.27 Zero Carbon Homes – The Department for Communities and Local Government (DCLG) will consult on next steps for Zero Carbon Homes.

2.28 Extension to affordable homes guarantee programme – The Government will double the existing affordable homes guarantee programme, providing up to a further £225 million to support a further 15,000 affordable homes in England. (28)

2.29 Public Land Disposals – DCLG have invited bids from eligible public landholders for the £290 million funding allocated to accelerate surplus public land disposals at Autumn Statement 2012. In addition, around 30 sites will transfer to the Howes and Communities Agency, who will dispose of them quickly.

Other spending measures

2.30 Equitable Life with-profits annuitants – The Government will make flat rate lump sum payments to living with-profits annuitants aged over 60 who bought their annuity from Equitable Life Assurance Society before 1 September 1992. Payments will start in 2014 or earlier if possible. (65)

2.31 Whole Place Community Budgets – The Government will establish a new multi-agency network to drive the transformation of local public services. The network will spread innovation from the Whole-Place Community Budget pilots and What Works Centres to support other places at key stages to provide advice and support on co-designing local public service transformation.

2.32 Social care funding reform – Drawing on the Dilnot Commission's recommendations, the Government will introduce a £72,000 cap on reasonable care costs and extend the means test from April 2016. (23)

Personal tax and welfare

Income tax and National Insurance contributions

2.33 Income tax: personal allowance in 2013-14 – As announced at Autumn Statement 2012, from April 2013 the income tax personal allowance will be increased to £9,440. The basic rate limit will be £32,010. The higher rate threshold will be £41,450 in 2013-14. The National Insurance upper earnings/profits limit will also be reduced to align it with the higher rate threshold. (Finance Bill 2013) (g)

2.34 Income tax: personal allowance in 2014-15 – The Government will increase the income tax personal allowance to £10,000 in 2014-15. The basic rate limit will decrease to £31,865 in line with the Autumn Statement 2012 decision to increase the higher rate threshold by 1 per cent to £41,865. (Finance Bill 2014) (41) The personal allowance will then be increased by CPI from 2015-16.

2.35 Income tax rates – The basic and higher rates of income tax for 2013-14 will remain at their 2012-13 levels. As announced at Budget 2012 and legislated for in Finance Act 2012, the additional rate of income tax will be reduced from 50 per cent to 45 per cent from 2013-14. (Finance Bill 2013) (t)

2.36 Income tax: reliefs cap – As announced at Budget 2012, the Government will cap previously unlimited income tax reliefs at the greater of £50,000 or 25 per cent of an individual's income. Charitable reliefs, share loss relief applying to Enterprise Investment Scheme or Seed Enterprise Investment Scheme (SEIS) and overlap relief will be exempt from this cap. (Finance Bill 2013) (u) (13)

2.37 Expenses of devolved administration members – The Government will legislate to formalise aspects of the income tax treatment of travel expenses incurred by members of devolved administrations on parliamentary or assembly duties. This will include a tax exemption for expenses incurred on travel by spouses or partners of devolved administration members where they share caring responsibilities for a dependent. (Finance Bill 2013)

2.38 Universal Credit – The Government will legislate to ensure that Universal Credit will be exempt from income tax. (Finance Bill 2013) (6)

2.39 Scottish rate of income tax – The Government will introduce legislation in Finance Bill 2014 to require the National Audit Office to report annually to the Scottish Parliament on HMRC's administration of the Scottish rate of income tax. (Finance Bill 2014)

2.40 Income tax exemptions for non-resident athletes – Legislation will be introduced to exempt from UK income tax any income arising to non-resident competitors in relation to the London Anniversary Games in 2013 or the Glasgow Commonwealth Games in 2014. (Finance Bill 2013)

2.41 National Insurance: £2,000 Employment Allowance – The Government will introduce an allowance of £2,000 per year for all businesses and charities to be offset against their employer NICs bill from April 2014. (25)

2.42 National Insurance administration for the self-employed – The Government will consult on options to simplify the administrative process for the self-employed by using Self Assessment to collect Class 2 NICs alongside income tax and Class 4 NICs.

2.43 SEIS: off-the-shelf companies – The Government will amend the qualifying conditions attached to the SEIS so that an investment on or after 6 April 2013 into companies established by corporate formation agents can qualify for the scheme. (Finance Bill 2013)

2.44 Community Investment Tax Relief (CITR) – As announced at Budget 2012, the Government will relax the CITR on-lending requirements that currently place conditions on the speed with which Community Development Finance Institutions must on-lend the funding they receive, and introduce new rules to allow investors to carry unused relief forward from April 2013. The Government will also place limits on the amounts of CITR tax relief an investor company can obtain in any three year period. (Finance Bill 2013)

2.45 Social investment tax relief – The Government will consult by summer 2013 on the introduction of a new tax relief to encourage investment into social enterprises. The outcome of the consultation will be confirmed at Autumn Statement 2013 with a view to introducing legislation in Finance Bill 2014. (Finance Bill 2014)

2.46 Employee shareholder status – To ensure that the first £2,000 of share value received by those adopting the new employee shareholder status is free from income tax and NICs, the Government will legislate to deem that employee shareholders have paid £2,000 for shares they receive from 1 September 2013, when the new status comes into force. (Finance Bill 2013) (33)

2.47 Non-domicile taxation – As announced on 6 December 2011, the Government will simplify the rules applying to the taxation of non-domiciles and remove minor anomalies. (Finance Bill 2013)

2.48 Statutory residence test and reform of ordinary residence – As announced on 6 December 2011, the Government will introduce a statutory definition of tax residence and abolish ordinary residence for most tax purposes from 6 April 2013. Overseas workday relief will be made available to any non-domiciled individual who arrives in the UK following a period where they have been non-resident for at least three tax years. (Finance Bill 2013)

2.49 Legislation of Statement of Practice 1/09 (SP1/09) – As proposed in a consultation document published in June 2011, the Government will introduce legislation to put SP1/09 on a statutory basis from 6 April 2013. SP1/09 provides an administrative easement for employees who claim overseas workday relief. (Finance Bill 2013)

2.50 Government response to Office of Tax Simplification (OTS) review of unapproved share schemes – The Government will consult shortly on a number of the recommendations of the OTS's review of non-tax advantaged ('unapproved') share schemes. (Finance Bill 2014)

2.51 Government response to OTS tax-advantaged employee share schemes review – As announced on 11 December 2012, the Government will introduce a package of simplification measures in response to the OTS's review of the tax-advantaged share schemes. (Finance Bill 2013 and Finance Bill 2014) (2)

2.52 Employer provided benefits in kind: beneficial loans – Legislation will be introduced in Finance Bill 2014 to increase the exempt threshold for the small loans exemption limit from £5,000 to £10,000. (Finance Bill 2014)

Taxation of pensions and savings

2.53 Lifetime Allowance (LTA) for pensions contributions – As announced at Autumn Statement 2012, LTA for pension savings will reduce from £1.5 million to £1.25 million for 2014-15 and subsequent years. As part of this change, the Government will offer a fixed protection regime to individuals to prevent any retrospective tax charges following the reduction of the lifetime allowance. The Government will also consult on the detail of an individual protection regime in spring 2013. (Finance Bill 2013) (p)

2.54 Individual Protection – The Government will offer an individual protection regime, in addition to a fixed protection regime, for individuals with pension rights above £1.25 million when the standard LTA is reduced from £1.5 million to £1.25 million for 2014-15 and subsequent years. The Government will consult on the detail in spring 2013 and legislation will be included in Finance Bill 2014. (Finance Bill 2014) (42)

2.55 Reduction in the Annual Allowance (AA) for pensions contributions – As announced at Autumn Statement 2012, the AA for pension savings will reduce from £50,000 to £40,000 for 2014-15 and subsequent years. (Finance Bill 2013) (p)

2.56 Restriction of pensions tax relief: closing loophole – As announced at Budget 2012, legislation will be included in Finance Bill 2013 to remove the tax and NICs incentives for employees and employers respectively from arrangements where an employer pays a pension contribution into a registered pension scheme for an employee's spouse or family member as part of their employee's flexible remuneration package. (Finance Bill 2013)

2.57 Overseas transfers of UK pension savings – As announced at Budget 2012, qualifying recognised overseas pension schemes (QROPS) will need to re-notify HMRC every five years that they continue to meet the requirements to be QROPS. Former QROPS will also have to continue to report payments out of transfers received while they were QROPS and there will be additional reasons for excluding a pension scheme from being a QROPS. (Finance Bill 2013)

2.58 Tax relief on loans to purchase life annuities – As recommended by the OTS, the Government will consult on the impact of the future withdrawal of relief for interest on loans to purchase life annuities taken out by pensioners before 1999.

2.59 Pension drawdown – The Government will increase the capped drawdown limit for pensioners with these arrangements of all ages from 100 per cent to 120 per cent of the value of an equivalent annuity in Finance Bill 2013, from 26 March 2013. (Finance Bill 2013)

2.60 Pensions drawdown rates – The Government has commissioned the Government Actuary's Department to review the pensions drawdown table and the underlying assumptions used to provide drawdown rates to make sure they continue to reflect the annuity market.

2.61 Defined benefit pensions regulation – The Government will provide the Pensions Regulator with a new objective to support scheme funding arrangements, that are compatible with sustainable growth for the sponsoring employer and fully consistent with the 2004 funding legislation. The precise wording of this new objective will be set out in legislation that DWP will publish later in spring 2013.

2.62 Child Trust Funds – The Government will consult on options for transferring savings held in Child Trust Funds into Junior ISAs. (Finance Bill 2014)

2.63 Bridging pensions – Following the announcement at Budget 2012, legislation will be introduced with effect from April 2013 to align the tax rules on the payment of bridging pensions with DWP changes to State Pension Age. (Finance Bill 2013)

2.64 Income tax rules on interest – The Government will introduce legislation in Finance Bill 2013 on disguised interest and on deduction of income tax from interest on compensation payments, specialty debt, and interest in kind. (Finance Bill 2013)

2.65 Pensions tax consequentials of the abolition of contracting out (defined contribution schemes) – As announced in Budget 2012, legislation will be introduced in Finance Bill 2013 to bring tax legislation into line with DWP legislation which abolished contracting out through a defined contribution pension scheme from 6 April 2012. (Finance Bill 2013)

2.66 LTA: fixed protection technical improvements – As announced at Budget 2012, a regulation-making power will be included in Finance Bill 2013 in order to amend the fixed protection legislation introduced in Finance Act 2011 and make it work as intended. (Finance Bill 2013)

CGT and inheritance tax

2.67 Capital Gains Tax (CGT): residential property – The Government will apply CGT at 28 per cent to gains accruing on or after 6 April 2013 on disposals made by certain non-natural persons of UK residential property valued at over £2 million that has been subject to the Annual Tax on Enveloped Dwellings. (Finance Bill 2013) (5)

2.68 SEIS: CGT relief – The Government will legislate to provide a 50 per cent relief against CGT chargeable on gains realised in 2013-14 which are reinvested in the SEIS in 2013-14 or 2014-15. (Finance Bill 2013) (32)

2.69 CGT: employee shareholder status – As announced on 8 October 2012 and confirmed at Autumn Statement 2012, the Government will exempt from CGT gains on up to £50,000 of shares received by individuals adopting the new employee shareholder employment status. The CGT exemption will apply to shares received from 1 September 2013, when the new status comes into force. (Finance Bill 2013) (e) (9)

2.70 CGT: annual exempt amount (AEA) – As announced at Autumn Statement 2012, the AEA will increase by 1 per cent in 2014-15 and 2015-16. The AEA will rise to £11,000 in April 2014 and £11,100 in April 2015. (Finance Bill 2014) (n)

2.71 Employee ownership: additional support – The Government will provide £50 million annual funding from 2014-15 to support employee ownership. This will include the introduction of a CGT exemption on qualifying disposals of a controlling interest in a business into an employee-owned structure from April 2014. (Finance Bill 2014) (35)

2.72 Entrepreneurs' Relief: Enterprise Management Incentives (EMI) shares – As announced at Budget 2012, the Government will extend Entrepreneurs' Relief to cover gains made on shares acquired through the exercise of EMI options, to apply to qualifying share disposals from 6 April 2013. (Finance Bill 2013) (10)

2.73 CGT: Heritage Maintenance Funds (HMFs) – As announced at Budget 2012, the Government will ease a restriction for trusts that are HMFs and which have deferred CGT charges arising from the re-settlement of assets from one HMF to another. This will have retrospective effect from 6 April 2012. (Finance Bill 2013)

2.74 Inheritance tax (IHT): investments in open ended investment companies (OEICs) and authorised unit trusts (AUTs) – As announced at Autumn Statement 2012, the Government will legislate to ensure that the switching of UK assets in a trust settled by a non-UK domiciled individual to investments in OEICs and AUTs is exempt from IHT. This will ensure that the changes introduced in Finance Act 2003 work as intended. Consequently, these changes have effect from 16 October 2002. (Finance Bill 2013)

2.75 IHT: periodic charges on trusts – The Government will consult further on simplifying the calculation of IHT charges to which trusts are subjected at ten-yearly intervals and when property is transferred out of the trust. (Finance Bill 2014)

2.76 IHT: nil-rate band – As announced on 11 February, the Government will partly fund reforms to the funding of social care by extending the freeze on the IHT nil-rate band of £325,000 until 2017-18. (Finance Bill 2014) (22)

2.77 IHT: spouses and civil partners domiciled outside the UK – As announced at Budget 2012, the Government will legislate to increase the IHT-exempt amount that a UK-domiciled individual can transfer to their non-UK domiciled spouse or civil partner. The Government will also allow individuals who are domiciled outside the UK and who have a UK-domiciled spouse or civil partner to elect to be treated as domiciled in the UK for the purposes of IHT. (Finance Bill 2013) (af)

Gift Aid and charitable giving

2.78 Gift Aid – The Government will consult on proposals to make it easier to claim Gift Aid through a wide range of digital giving channels, including options for enabling donors to complete a single Gift Aid declaration to cover all their donations through a specific channel.

2.79 Community Amateur Sports Clubs (CASCs) – As announced on 4 March 2013, the Government will consult on measures to clarify the eligibility conditions for CASCs. (Finance Bill 2013)

Welfare

2.80 Single-tier State Pension – The Government will introduce the single-tier State Pension from April 2016-17. As announced in the White Paper in January 2013, the State Second Pension will close and contracting-out of National Insurance will be abolished. The current value of the contracting-out rebate is 3.4 per cent for employers and 1.4 per cent for employees on earnings between the lower earnings limit and the upper accruals point. (18, 19, 20, 21)

2.81 Tax reliefs and Personal Independence Payments (PIP) – Through Finance Bill 2013 and amending other regulations, the Government will legislate to ensure tax reliefs currently available for claimants of Disability Living Allowance (DLA) will be available for those eligible to receive PIP, which will begin to replace DLA for working age claimants from April 2013 and those in receipt of Armed Forces Independence Payments (AFIP).

2.82 Finance Bill 2013 will introduce legislation to: treat for tax purposes assets held in trusts for vulnerable beneficiaries in a similar way as if held directly by the vulnerable person; extend the qualifying age for a child under employer supported childcare if the child is in receipt of DLA; ensure beneficial capital allowance treatment for lessors of cars to the disabled; and grant a Vehicle Excise Duty (VED) exemption for those in receipt of higher rate mobility and a 50 per cent discount for those in receipt of standard rate mobility. (Finance Bill 2013)

2.83 The Government will also make consequential changes to VAT and insurance premium tax rules.

2.84 Pension Credit pass-through – As announced by the DWP in December 2012, the standard minimum income guarantee in Pension Credit will rise by 1.9 per cent in April 2013 to match the cash increase in the basic State Pension. This will mean that no single pensioner need live on less than £145.40 a week, and no pensioner couple on less than £222.05 a week. The threshold for the Savings Credit will increase to £115.30 for single pensioners and £183.90 for pensioner couples. The net effect of these two measures is broadly cost neutral. (17)

2.85 Sickness absence – The Government will abolish the Percentage Threshold Scheme and recycle funding into creating the health and work assessment and advisory service for those at danger of long-term sickness absence. The Government will also introduce a targeted tax relief so that amounts up to a cap of £500 paid by employers on health-related interventions recommended by the service are not treated as a taxable benefit in kind. The Government will consult on implementation later in 2013. (38) (39)

2.86 Childcare vouchers – The Government will introduce a new Tax-Free Childcare Scheme to support working families with the costs of childcare. Once fully in place, support will be worth 20 per cent of childcare costs up to £6,000 per child each year, for children under 12.

This new system will be phased in from autumn 2015, with all children under five eligible from the first year of operation. Disabled children up to age 16 will also be eligible in line with existing Employer Supported Childcare Rules. Tax-Free Childcare will be available to families where all parents are working, who are not already receiving support through tax credits or Universal Credit and where neither parent earns over £150,000 a year. Alongside the new scheme, the current Employer Supported Childcare will be phased out for new applicants from autumn 2015.

2.87 The Government will also increase childcare support within Universal Credit, to improve work incentives and ensure that it is worthwhile to work up to full-time hours for low and middle income parents. An additional £200 million of support for childcare will be provided, which is equivalent to covering 85 per cent of childcare costs for households qualifying for the Universal Credit childcare element where the lone parent or both earners in a couple pay income tax. The details of how to provide this support will be determined as part of the consultation on the Tax-free Childcare scheme, to ensure the two schemes operate effectively together. The new element of support in Universal Credit will be funded from within social security budgets at the time. (24)

Corporate taxes

Corporation tax

2.88 Corporation tax: main rate – The Government will reduce the main rate of corporation tax to 21 per cent from April 2014, as announced at Autumn Statement 2012. (Finance Bill 2013) Budget 2013 announces an additional 1 percentage point reduction to 20 per cent from April 2015. (Finance Bill 2013) (a) (26)

2.89 Single rate of corporation tax – The small profits rate and the main rate of corporation tax will be unified in 2015, when the main rate is reduced to 20 per cent. (Finance Bill 2014)

2.90 Corporation tax: small profits rate – The small profits rate of corporation tax will remain at 20 per cent from April 2013. (Finance Bill 2013)

2.91 Annual Investment Allowance (AIA) – As announced at Autumn Statement 2012, the Government will increase the AIA limit from £25,000 to £250,000 for two years for all qualifying investments in plant and machinery made on or after 1 January 2013. (Finance Bill 2013)

2.92 Research and Development (R&D) tax credit: 'Above the Line' (ATL) – As announced at Autumn Statement 2011, the Government will introduce an ATL credit for large company R&D expenditure incurred on or after 1 April 2013. Budget 2013 increases the ATL credit to a rate of 10 per cent before tax. Companies with no corporation tax liability will be able to claim a payable credit. The ATL credit will be introduced alongside the existing super-deduction in April 2013, and will fully replace the super-deduction in April 2016. (Finance Bill 2013) (34)

2.93 Capital allowances for business cars: first year allowances (FYA) – As announced at Budget 2012, the 100 per cent FYA for businesses purchasing the lowest emissions vehicles will be extended until 31 March 2015. From April 2013, the carbon dioxide emissions threshold below which cars are eligible for the FYA will be reduced from 110 grams/kilometre to 95 grams/kilometre and leased business cars will no longer be eligible for the FYA. (Finance Bill 2013) (ad)

2.94 The Government will extend the FYA for a further three years until 31 March 2018. From April 2015, the carbon dioxide emissions threshold will be reduced from 95 grams/kilometre to 75 grams/kilometre. (Finance Bill 2015) (56)

2.95 The Government will review the case for going further with the FYA, and the appropriate emissions threshold, at Budget 2016.

2.96 Capital allowances for business cars: main rate – As announced at Budget 2012, the carbon dioxide emissions threshold below which cars are eligible for the main rate of capital allowances will be reduced from 160 grams/kilometre to 130 grams/kilometre from April 2013. (Finance Bill 2013)

2.97 The Government will review the main rate emissions threshold at Budget 2016, with any amendments taking effect from April 2018. (ad)

2.98 Capital allowances: gas refuelling equipment – As announced at Budget 2012, the existing 100 per cent FYA for business expenditure on gas refuelling equipment will be extended for a further two years to 31 March 2015. (Finance Bill 2013)

2.99 The Government will now extend the FYA for gas refuelling equipment for a further three years to 31 March 2018. (Finance Bill 2015)

2.100 Capital allowances: Mineral Extraction Allowances – The Government will consult informally on proposals to align the treatment of assets eligible for Mineral Extraction Allowances with that for assets eligible for Plant and Machinery Allowances, where profits are not taxed in the UK.

2.101 UK group relief rules – As announced on 11 December 2012, the Government will amend the restrictions on when companies resident in the European Economic Area can surrender losses from their UK branches as group relief from corporation tax in the UK. From 1 April 2013, these restrictions will be based on whether the losses are used elsewhere in any period, rather than on whether they could potentially be used elsewhere. (Finance Bill 2013)

2.102 Restrictions on corporation tax group loss relief – As announced on 11 December 2012, the Government will expand the types of commercial arrangements that are exempt from anti-avoidance rules affecting group loss relief. This will ensure the group loss relief anti-avoidance rules are more effectively targeted for the future. (Finance Bill 2013)

2.103 Corporation tax reliefs for the creative sector – As announced at Budget 2012, the Government will introduce corporation tax reliefs for the animation, high-end television and video games industries. The Commission is expected to approve the animation and high-end television tax reliefs shortly, to start on 1 April 2013. The video games tax relief will be introduced following state aids approval. (Finance Bill 2013) (y)

2.104 Disincorporation relief – The Government will introduce a disincorporation relief for five years from April 2013. The relief will allow a company to transfer goodwill and an interest in land to its shareholders so that no corporation tax charge arises on the company on the transfer. The relief will be available to businesses with total qualifying assets not exceeding £100,000. (Finance Bill 2013) (15)

2.105 Lease premium relief: effective duration of a lease – As announced on 11 December 2012, the Government will limit the availability of lease premium relief where leases are of more than 50 years duration. The legislation will take effect for leases granted on or after 1 April 2013 for companies and on or after 6 April 2013 for individuals and partnerships. (Finance Bill 2013)

2.106 Controlled Foreign Companies (CFC) rules – As announced on 11 December 2012, legislation will be introduced to make four amendments to the new CFC rules introduced in Finance Act 2012. In addition to those previously announced, four minor additional amendments will be made to ensure the CFC rules operate as intended. All the amendments, subject to one transitional rule, will have effect from 1 January 2013 in line with the commencement date for the new CFC rules. (Finance Bill 2013)

2.107 World wide debt cap rules – As announced on 11 December 2012, with effect from that date, changes to the debt cap rules will revise the way in which the group treasury company election operates. (Finance Bill 2013) (7)

2.108 Corporation tax: deferral of exit charges – As announced on 11 December 2012, the Government will introduce legislation to enable companies to opt for deferred payment arrangements in respect of exit charges. (Finance Bill 2013)

2.109 Manufactured payments – As announced on 15 September 2011 and consulted on during 2012, legislation will be introduced to simplify the rules for manufactured payments and make them less vulnerable to avoidance. The new rules will have effect from 1 January 2014. (Finance Bill 2013)

2.110 Corporation tax simplification: foreign currency assets and chargeable gains – As announced at Budget 2012 and following consultation over the summer, the Government is introducing legislation requiring relevant companies to compute their chargeable gains and losses on disposals of ships, aircraft, shares and interests in shares in their functional currency. This measure has effect from a day appointed by Treasury order, shortly after Royal Assent. (Finance Bill 2013)

2.111 Review of loan relationships and derivative contracts legislation – The Government will consult on a package of proposals to modernise the corporation tax rules governing the taxation of corporate debt, with a view to legislating in Finance Bill 2014 and Finance Bill 2015. This will include measures both to clarify and strengthen the structure of the legislative regime and to update aspects of the detailed rules. (Finance Bill 2014 and Finance Bill 2015)

2.112 Loans to participators (wider reform) – The Government will consult on options to reform the structure and operation of the tax charge on loans from close companies to make the rules fairer and simpler.

2.113 Chief constables' exemption from corporation tax – As set out in a Written Ministerial Statement published on 17 January 2013, the Government will amend the Corporation Tax Act 2010 to exempt chief constables and the Commissioner of Police of the Metropolis from corporation tax, with effect from 16 January 2012 and 22 November 2012 respectively. (Finance Bill 2013)

Taxation of the financial services sector

2.114 Bank Levy rate – As announced at Autumn Statement 2012, the Government will legislate in Finance Bill 2013 to set the full rate of the Bank Levy at 0.130 per cent from 1 January 2013. From 1 January 2014, the Government will legislate in Finance Bill 2013 to set the full rate of the Bank Levy at 0.142 per cent. (Finance Bill 2013) (40)

2.115 Corporation tax and foreign banks levies – As announced at Autumn Statement 2012, the Government will legislate in Finance Bill 2013 to ensure that, from 1 January 2013, foreign bank levies paid by a foreign banking group trading in the UK cannot be claimed as a deduction against UK corporation tax and income tax. Transitional arrangements will also make clear that a claim to double taxation relief in respect of a foreign bank levy will prevent that foreign bank levy from being deducted against corporation tax and income tax. (Finance Bill 2013)

2.116 Tax treatment of regulatory capital – As announced on 26 October 2012, legislation will be introduced in Finance Bill 2013 to clarify that the coupon on Tier 2 debt capital which is already in issue, or yet to be issued, will be deductible for the purposes of a bank computing its profits for corporation tax purposes. (Finance Bill 2013)

2.117 In addition, the Government will legislate to clarify that banks' Additional Tier 1 debt capital instruments already in issue or yet to be issued will be similarly deductible for the purposes of a bank computing its profits for corporation tax purposes.

2.118 Tax treatment of building societies' capital instruments – Following consultation, regulations have been made so that the tax treatment of new Basel III compliant building society capital instruments 'Core Capital Deferred Shares' will be the same as equivalent share capital from 1 March 2013. (8)

2.119 Life insurance: time apportionment relief – The Government will introduce legislation in order to provide greater alignment between the treatment of life insurance policies issued by insurers inside and outside the UK, while ensuring that the rules provide a more appropriate reduction to chargeable event gains. (Finance Bill 2013)

2.120 Life Insurance Qualifying Policies – The Government will limit the premiums that can be paid into Qualifying Policies to £3,600 a year from 6 April 2013, with transitional arrangements for policies issued before that date. (Finance Bill 2013)

2.121 Stamp tax on shares: growth markets – Following consultation, the Government will abolish stamp tax on shares in companies quoted on growth markets such as the Alternative Investment Market and the ISDX Growth Market. (Finance Bill 2014) (31)

2.122 Investment Trust amendments – The Government will address two unintended consequences of previous changes to the tax rules for investment trust companies. One change will be made through secondary legislation, the other in Finance Bill 2013. (Finance Bill 2013)

2.123 Offshore Funds (Tax) Regulations: amendments – The Government will make changes to address issues in the operation of the Offshore Funds (Tax) Regulations 2009. Regulations will be introduced to close an avoidance loophole with effect from today. Further Regulations to help ensure that investors in offshore reporting funds are taxed on the correct proportionate share of income will be published in draft form for comment.

Investment management package

2.124 Investment management marketing and regulation – The Government will introduce a marketing strategy to promote the UK as a centre of fund management and domicile, and will also act to improve the process whereby new funds are authorised in the UK. The Government will also make changes to limited partnerships to more effectively accommodate their use for private equity investments. These follow on from previously announced policies, including the launch of authorised contractual schemes and the establishment of an Islamic Finance Taskforce.

2.125 Investment Management Exemption – The Government will consult on minor changes to the White List of permitted investment transactions.

2.126 Extension of s.363A Taxation (International and Other Provisions) Act 2010 (TIOPA) – The Government will consult on proposals to widen the scope of s.363A of TIOPA to provide certainty that locating fund management activities of certain offshore non Undertakings for Collective Investments in Transferrable Securities funds will not lead to a risk of that fund being deemed to be tax resident. (Finance Bill 2014)

2.127 Withholding tax rules on interest distributions from bond funds – The Government will consult on a proposal to remove the requirement to withhold tax on interest distributions on UK domiciled bond funds when sold via reputable intermediaries and marketed only to non-UK investors.

2.128 Schedule 19 – The Government will abolish the stamp duty reserve tax charge in Schedule 19 Finance Act 1999 on surrenders of units in collective investment schemes from 1 April 2014. (Finance Bill 2014) (30)

Oil and gas taxes

2.129 Shale gas – The Government will introduce a new field allowance for shale gas and extend the Ring Fence Expenditure Supplement for shale gas projects from 6 to 10 years. The Government will consult on the detail of these measures, including whether they should be extended to other forms of unconventional onshore gas. (Finance Bill 2014)

2.130 The Government will produce technical planning guidance on shale gas by July 2013 to provide clarity around planning for shale gas during the important exploration phase for the industry. As the shale gas industry develops, the Government will ensure an effective planning system is in place and by the end of the year will produce guidance for the industry to ensure that the planning system is properly aligned with the licensing regime and regulatory regimes, principally: health and safety, and environmental protection. The Government will keep under review whether the largest shale gas projects should have the option to apply to the major infrastructure regime.

2.131 The Government will develop proposals by summer 2013 to ensure that local communities will benefit from shale gas projects in their area.

2.132 Budget 2013 announces the scope, responsibilities and objectives of The Office for Unconventional Gas and Oil.

2.133 Carbon Capture and Storage (CCS) – The Government intends to take forward two CCS projects to the detailing planning and design stage of the competition. This represents the next step in the £1 billion CCS commercialisation programme.

2.134 Decommissioning certainty – The Government will enter into contracts (decommissioning relief deeds) with companies operating in the UK and UK Continental Shelf, to provide certainty on the relief they will receive when decommissioning assets. A model decommissioning relief deed will be published alongside Finance Bill 2013 and placed in the House of Commons Library. The first contracts with industry are expected to be signed later in the year. To support the introduction of decommissioning relief deeds the Government will introduce measures in Finance Bill 2013 to:

- extend the availability of decommissioning relief for onshore terminals of offshore installations;
- allow HMRC to release taxpayer information where this is necessary to support operation of decommissioning relief deeds;
- amend the subsidy rules for decommissioning security settlements to allow for post-tax securitisation; and
- limit decommissioning relief between connecting parties. (Finance Bill 2013)

2.135 Decommissioning security arrangements – The Government will remove IHT charges for property held in decommissioning security settlements. (Finance Bill 2013)

Other business taxes

2.136 Simpler income tax: cash basis – As announced at Budget 2012, the Government will introduce a new cash basis for small, unincorporated businesses to calculate their income tax from April 2013. Businesses with annual receipts up to £79,000 will be eligible and will be able to continue to use the cash basis until receipts reach £158,000. (Finance Bill 2013) (d)

2.137 Simpler income tax: simplified expenses – All unincorporated businesses will be eligible to use flat rates to calculate certain business expenses, rather than having to calculate their actual business usage, from April 2013. (Finance Bill 2013)

2.138 OTS review of partnerships – The Government will ask the OTS to carry out a review of ways to simplify the taxation of partnerships. This will include an initial scoping exercise to identify which areas are most complex for taxpayers. Further details will be provided by the OTS shortly.

Indirect taxes

Alcohol duties

2.139 Alcohol duty rates – The general beer duty rate will be reduced by 2 per cent from 25 March 2013. Duty rates on low strength beer will be reduced by 6 per cent and on high strength beer by 0.75 per cent in total from 25 March 2013. All beer duty rates will then increase by the Retail Prices Index (RPI) thereafter. As announced at the March Budget 2010, wine, spirits, and cider duty rates will increase by 2 per cent above RPI from 25 March 2013. (Finance Bill 2013) (44)

Tobacco duties

2.140 Tobacco duty rates – As announced at the March Budget 2010, duty rates on tobacco products will increase by 2 per cent above RPI. These changes will come into effect from 6pm on 20 March 2013. (Finance Bill 2013)

2.141 Tax treatment of herbal smoking products – As announced at Budget 2012, and following consultation on implementation, the Government will make legally available tobacco-free (herbal) smoking products liable to tobacco products duty. The change will come into effect on 1 January 2014. (Finance Bill 2013)

Gambling duties

2.142 Gaming duty revalorisation – The Government will increase gaming duty bands in line with RPI for accounting periods starting on or after 1 April 2013. (Finance Bill 2013)

2.143 Combined bingo – The Government will relax the current bingo duty arrangements for combined bingo involving non-UK participants. This change will come into effect for accounting periods that begin on or after the date that the Finance Bill 2013 receives Royal Assent. (Finance Bill 2013)

Fuel duties

2.144 Fuel duty – The 1.89 pence per litre fuel duty increase that was due to take effect on 1 September 2013 will be cancelled. (43)

2.145 Minor fuel duty rates – In 2015-16 the duty differential between the main rate of fuel duty and the rate for compressed natural gas will be maintained, and the duty differential for liquefied petroleum gas will be reduced by the equivalent of 1 penny per litre. (Future finance bill)

Other transport taxes

2.146 VED rates and bands – From 1 April 2013 VED rates will increase in line with RPI, apart from VED rates for heavy goods vehicles (HGVs) which will be frozen in 2013-14. (Finance Bill 2013). The Government has no plans to make significant reforms to the structure of VED for cars and vans in this Parliament. (58)

2.147 VED: disabled drivers exemption – From 8 April 2013 the Government will extend the current VED exemption for disabled drivers to individuals receiving the enhanced mobility

PIP. The Government will also introduce a new 50 per cent VED discount for individuals receiving the standard mobility PIP. (Finance Bill 2013) (16)

2.148 VED: classic vehicle exemption – The Government will extend the cut off date from which classic vehicles are exempt from VED by one year. From 1 April 2014 a vehicle manufactured before 1 January 1974 will be exempt from paying VED. (Finance Bill 2014)

2.149 VED: HGVs – From 1 April 2014, the Government will reduce and re-structure VED rates for HGVs within the HGV Road User Levy scheme, as set out in *Overview of tax legislation and rates.* (Finance Bill 2014) (11)

2.150 VED: Reduced Pollution Certificates (RPCs) – RPC VED discounts for Euro VI vehicles are due to expire on 31 December 2016. The Government will replace RPC VED discounts with grants for Euro IV-VI vehicles within the HGV Road User Levy scheme, from 1 April 2014 to 31 December 2016. Details of the grants will be announced shortly by the Department for Transport. The Government will end RPC VED discounts for Euro I-III vehicles within the HGV Road User Levy scheme from 1 April 2014, and for all other Euro I-III vehicles from 1 April 2016. (Finance Bill 2014)

2.151 VED: tax disc display waiver – To reduce tax administration costs, the Government will put off-the-road declarations onto an indefinite basis. The Government will also extend the grace period to 14 days, following the payment of tax, on the non-display of the tax disc in a vehicle. (Finance Bill 2013)

2.152 Company Car Tax (CCT): ultra low emission vehicles (ULEVs) – From April 2015, two new CCT bands will be introduced at 0-50 grams/kilometre of carbon dioxide (g/km CO_2) and 51-75 g/km CO_2. (Finance Bill 2013)

2.153 The appropriate percentage of the list price subject to tax for the 0-50 g/km CO_2 band will be 5 per cent in 2015-16, and 7 per cent in 2016-17. The appropriate percentage of the list price subject to tax for the 51-75 g/km CO_2 band will be 9 per cent in 2015-16 and 11 per cent in 2016-17. In 2017-18 there will be a 3 percentage point differential between the 0-50 and 51-75 g/km CO_2 bands, and between the 51-75 and 76-94 g/km CO_2 band. In 2018-19 and 2019-20 there will be a 2 percentage point differential between the 0-50 and 51-75 g/km CO_2 bands and between the 51-75 and 76-94 g/km CO_2 bands. (Finance Bill 2013 and future finance bills) (57)

2.154 In future years CCT rates will be announced three years in advance. The Government will review these incentives for ULEVs in light of market developments at Budget 2016, to inform decisions on CCT from 2020-21 onwards.

2.155 Fuel benefit charge (FBC) – From 6 April 2014 the FBC multiplier will increase by RPI for both cars and vans.

2.156 Van benefit charge (VBC) – The Government will freeze the VBC at £3,000 in 2013-14 and will increase it by the RPI only from 6 April 2014. The Government commits to pre-announcing the VBC one year ahead.

2.157 Air Passenger Duty (APD) rates – As announced at Budget 2012, APD rates for 2013-14 will rise in line with the RPI from 1 April 2013. (Finance Bill 2013) Budget 2013 announces that APD rates for 2014-15 will rise in line with RPI from 1 April 2014, as set out in *Overview of tax legislation and rates*. (Finance Bill 2014) The Government has no plans to vary APD rates by levels of airport congestion.

2.158 APD: annual accounting scheme – The Government will give HMRC the power to require operators of business jets to make payments of APD on account, should HMRC consider this is necessary to protect revenue. (Finance Bill 2013)

Carbon Taxes

2.159 Climate change levy (CCL) rates – CCL rates will increase in line with RPI from 1 April 2014. (Finance Bill 2013)

2.160 Carbon price floor (CPF) rates – The Government will set 2015-16 carbon price support rates equivalent to £18.08 per tonne of carbon dioxide in line with the carbon price floor set out at Budget 2011. The Government will continue to provide support to energy-intensive industries to compensate for the indirect cost of the CPF in 2015-16. Further details will be announced at the next spending round. (Finance Bill 2013)

2.161 CPF: Northern Ireland – The Government will exempt electricity generators in Northern Ireland from the carbon price floor from 1 April 2013. (Finance Bill 2013) (3)

2.162 CCL: exemptions for metallurgical and mineralogical processes – The Government will introduce exemptions from the climate change levy for energy used in metallurgical and mineralogical processes from 1 April 2014. The Government will seek views from industry on these exemptions and will publish draft legislation at the time of Autumn Statement 2013. (Finance Bill 2014)

2.163 CPF: technical changes – As announced at Autumn Statement 2012, technical changes to the carbon price floor will be made to reduce administrative burdens. (Finance Bill 2013) (14)

2.164 Carbon Reduction Commitment: schools – The Government will exclude English state schools from the Carbon Reduction Commitment from April 2014. The cost of this measure in 2014-15 will be funded by a reduction in Resource DEL expenditure for relevant departments. (1)

Waste and other environmental taxes

2.165 Aggregates levy – The aggregates levy rate will remain at £2.00 per tonne in 2013-2014. (59)

2.166 Landfill tax rates – The Government will increase the standard rate of landfill tax by £8 per tonne to £80 per tonne from 1 April 2014. The lower rate of landfill tax will remain frozen at £2.50 per tonne in 2014-15. (Finance Bill 2013)

2.167 Enhanced capital allowances: energy-saving and water-efficient technologies – The list of designated energy-saving and water-efficient technologies qualifying for enhanced capital allowances will be updated during summer 2013, subject to state aids approval. (60)

2.168 Capital allowances: railway assets and ships – Legislation will be introduced in Finance Bill 2013 to remove the general exclusion to first year allowances for expenditure incurred on railway assets and ships. These changes will have effect from 1 April 2013. (Finance Bill 2013)

2.169 Capital allowances for energy-saving plant and machinery in Northern Ireland – Legislation will be introduced in Finance Bill 2013 to ensure that expenditure on plant and machinery in Northern Ireland that qualifies for both first-year allowances for energy-saving technologies and the renewable heat incentive is treated in the same way as the rest of the UK. Further details will be published in *Overview of tax legislation and rates*. The legislation will also apply to any future Feed-In Tariff scheme that may be introduced in Northern Ireland. (Finance Bill 2013) (61)

2.170 Landfill communities fund – The value of the landfill communities fund for 2013-14 will remain unchanged at £78.1 million. As a result, the cap on contributions by landfill operators will be amended to 6.8 per cent. Future decisions on the value of the fund will take into account the level of unspent funds held by environmental bodies.

2.171 Coalition commitment to increase the proportion of revenue from environmental taxes – Measures announced at this Budget will result in the proportion of revenue from environmental taxes increasing from 0.5 per cent to 0.8 per cent over this Parliament, in accordance with the Coalition commitment.

VAT measures

2.172 VAT: refunds for NHS bodies – As announced at Budget 2012, following changes introduced by the Health and Social Care Act 2012, the Government will legislate in Finance Bill 2013 to exempt the following NHS bodies from corporation tax and include them within the Section 41 VAT Refund Scheme:

- the NHS Commissioning Board;
- clinical commissioning groups;
- the National Institute for Health and Care Excellence; and
- the Health and Social Care Information Centre. (Finance Bill 2013)

2.173 Following changes proposed by the Care and Support Bill, the Government will also legislate in Finance Bill 2014 to include the following bodies within the Section 41 VAT Refund Scheme:

- the Health Research Authority; and
- Health Education England. (Finance Bill 2014)

2.174 VAT: charitable buildings – As announced at Budget 2012, the Government will withdraw charitable buildings from the scope of the VAT reduced rate for the supply and installation of energy-saving materials, with effect from 1 August 2013. (Finance Bill 2013)

2.175 VAT: amendment to road fuel scale charges (RFSCs) – As announced at Budget 2012, the Government will amend the law relating to VAT RFSCs, bringing long standing concessions into law, withdrawing a concession relating to partially exempt businesses and simplifying the annual revalorisation.

2.176 VAT: revalorisation of RFSCs – The annual adjustment to the VAT RFSCs in line with current fuel prices will take effect from 1 May 2013.

2.177 VAT: changes to the place of supply rules and introduction of the Mini One Stop Shop – The Government will legislate to change the rules for the taxation of intra-EU business to consumer supplies of telecommunications, broadcasting and e-services. From 1 January 2015 these services will be taxed in the member state in which the consumer is located, ensuring these are taxed fairly and helping to protect revenue. (Finance Bill 2014)

2.178 To support these changes, the Government will also legislate for the introduction of a Mini One Stop Shop from 1 January 2015. This will give businesses the option of registering in just the UK and accounting for VAT due in other member states using a single return. (Finance Bill 2014)

2.179 VAT: revalorisation of registration and deregistration thresholds – From 1 April 2013 the VAT registration threshold will be increased from £77,000 to £79,000 and the deregistration threshold from £75,000 to £77,000.

2.180 VAT: Changes to zero-rating of exports from the UK – The Government will introduce amendments to secondary legislation in autumn 2013 to extend zero-rating to sales of goods to businesses that are registered for VAT but not established in the UK, where those businesses export the goods to a non-EU destination.

2.181 VAT: treatment of refunds made by manufacturers – The Government will legislate to allow manufacturers to reduce their VAT payments to take account of refunds they make directly to final consumers. There will be a consultation during 2013 to gain a better understanding of industry practices, with a view to legislation in Finance Bill 2014. (Finance Bill 2014)

2.182 VAT: review of the VAT Retail Export Scheme (tax free shopping) – The Government will consult on options for re-designing the Retail Export Scheme to make it easier to use and understand, reduce the scope for error, improve compliance and protect revenue.

2.183 VAT: extension of the education exemption to for-profit providers of higher education – At Budget 2012 the Government announced a review of the VAT treatment of university degree level education. Responses to the subsequent consultation on whether to extend the existing exemption to commercial entities supplying such education identified a number of issues with the options proposed. The Government has listened to those who have responded and as a result will look to develop alternative options, including possible changes to the exemption for further education and will consult on these later in the year.

2.184 VAT: withdrawal of the exemption for business supplies of research between eligible bodies – In December 2012 the Government issued a consultation on the withdrawal of the VAT exemption for business research supplied by one eligible body to another. Subject to the outcome of the consultation, the Government intends to introduce secondary legislation withdrawing the exemption, with effect from 1 August 2013.

Property taxes

2.185 Annual Tax on Enveloped Dwellings – As announced at Budget 2012 and following consultation, the Government will introduce an annual charge on residential properties valued at over £2 million owned by certain non-natural persons, such as companies. Reliefs will apply for genuine commercial businesses and other limited categories. The charge, to be called the Annual Tax on Enveloped Dwellings, will take effect from 1 April 2013. (Finance Bill 2013) (v) (4)

2.186 Stamp Duty Land Tax (SDLT) rates – As announced in December 2012, the Government will introduce further reliefs to the 15 per cent rate of SDLT which applies to residential properties valued at over £2 million purchased by certain non-natural persons. These will take effect from the date on which Finance Bill 2013 receives Royal Assent. (Finance Bill 2013) (v)

2.187 SDLT: reform of transfer of rights rules – As announced at Budget 2012 and following consultation, the Government will reform SDLT rules for “transfers of rights” with effect from the date on which Finance Bill 2013 receives Royal Assent. (Finance Bill 2013)

2.188 SDLT: avoidance – The Government will introduce legislation in Finance Bill 2013 to put beyond doubt that certain SDLT avoidance schemes that abuse the transfer of rights rules do not work. These changes will have retrospective effect to 21 March 2012. (Finance Bill 2013) (52)

2.189 SDLT: leases simplification – As announced at Budget 2012 and following consultation, the Government will simplify the SDLT rules that apply to certain non-standard lease transactions. The changes will have effect from the date on which Finance Bill 2013 receives Royal Assent. (Finance Bill 2013)

2.190 Real Estate Investment Trusts (REITs) – As announced in December 2012, the Government will legislate to allow a UK REIT to treat income from another UK REIT as income of its tax exempt property rental business. (Finance Bill 2013) The Government is further considering the case for REITs being included within the definition of “institutional investor”.

Avoidance and evasion

2.191 High-risk areas of the tax code: taxation of unauthorised unit trusts – As announced at Budget 2011, the Government is undertaking a programme of work to improve areas of legislation that have been subject to repeated attempts at tax avoidance. Finance Bill 2013 will provide powers to enable secondary legislation to be introduced to reform the taxation of unauthorised unit trusts. The reforms will remove avoidance opportunities while simplifying the rules and reducing administrative burdens for exempt investors. (Finance Bill 2013)

2.192 IR35 – As announced at Autumn Statement 2012, the Government will make a small amendment to the existing IR35 provisions to equalise the tax and NICs treatment of office holders, and put beyond doubt that the legislation applies to office holders for tax purposes. (Finance Bill 2013)

2.193 IHT: limiting the deduction of liabilities – The Government will legislate to close an IHT loophole that allows a deduction from the value of an estate for an outstanding debt regardless of whether or not the debts are paid after death, or how the borrowed funds have been used. (Finance Bill 2013) (50)

2.194 Close company loans to participators – The Government will close three loopholes used to attempt to avoid the tax charge on loans from close companies to individuals with a share or interest in the company. This measure will have effect from 20 March 2013. (Finance Bill 2013) (49)

2.195 Transfer of assets abroad and gains on assets held by foreign companies – As announced on 5 December 2011, the Government will amend anti-avoidance legislation designed to protect the UK tax base. New exemptions from the regimes will have retrospective effect from 6 April 2012 but, exceptionally, in respect of the chargeable gains changes, a taxpayer may elect for the new rules to apply from 6 April 2013. Other changes to the transfer of assets abroad regime will take effect from 6 April 2013. (Finance Bill 2013) (12)

2.196 International agreements to improve tax compliance – The Government will include legislation in Finance Bill 2013 to implement the UK-US Agreement to Improve International Tax Compliance and to Implement FATCA. (Finance Bill 2013) Final Regulations will be issued shortly. The Isle of Man, Guernsey and Jersey have agreed to enter into similar automatic exchange agreements with the UK. HMRC has set up disclosure facilities with the Isle of Man, Guernsey and Jersey to allow investors to come forward and regularise their past tax affairs in advance of information being automatically exchanged. (45)

2.197 Offshore evasion strategy – HMRC's new centre of excellence on offshore evasion has published a new offshore evasion strategy.

2.198 Offshore employment intermediaries – The Government will consult on strengthening obligations to ensure the correct income tax and NICs are paid by offshore employment intermediaries. This is a result of the review announced at Autumn Statement 2012. (Finance Bill 2014) (46)

2.199 Making overpayment relief EU compliant – As announced in Autumn Statement 2012, the Government will legislate in Finance Bill 2013 to amend the current rules to ensure a consistent time limit for repayment penalties for all overpaid tax. (Finance Bill 2013)

2.200 Data-gathering from merchant acquirers – As announced in Autumn Statement 2012, the Government will legislate in Finance Bill 2013 to amend HMRC's data-gathering powers. (Finance Bill 2013)

2.201 Modernising Customs civil penalties – Following consultation, the Government will legislate in Finance Bill 2014 to modernise Customs civil penalties to bring them into line with other HMRC penalties. (Finance Bill 2014)

2.202 Avoiders Unit – HMRC will go further in tackling tax avoidance by piloting new data to better understand the motivations of individuals engaging in tax avoidance.

2.203 Improving 'Coding Out' – The Government will consult on reforming HMRC's ability to collect debts via a tax debtor's tax code, known as 'Coding Out'. The current limit of £3,000 per year for all tax debtors will be replaced with a graduated scale introducing higher limits for those with higher earnings – or up to £17,000 limit for those earning £90,000 or more. HMRC's information technology (IT) system will also be upgraded to allow splitting of debts across years for 'Coding Out'. (53)

2.204 Increasing the use of charging orders – HMRC will increase its use of charging orders, used to secure a tax debt against a debtor's assets.

2.205 Automated telephony – HMRC will update its telephone system to allow tax debts to be paid via an automated process.

2.206 Better data – HMRC will improve its ability to target resources in collecting tax debt by linking further datasets in the Department's systems.

2.207 Pay As You Earn (PAYE) penalties – As announced at Budget 2012, the Government will update the PAYE penalty regime to take account of the introduction of Real Time Information. (Finance Bill 2013)

2.208 Customs and Excise modernisation: fines on ships – As announced at Budget 2012, the Government will re-value fines on ships to ensure they remain appropriate disincentives. (Finance Bill 2013)

2.209 Customs and Excise modernisation: definition of goods – As announced at Budget 2012, the Government is clarifying the definition of goods under customs legislation. (Finance Bill 2013)

2.210 Customs and Excise modernisation: power to detain excise goods – As announced at Budget 2012, the Government will clarify HMRC's power to detain goods during customs and excise investigations. (Finance Bill 2013)

2.211 Criminal investigation powers – As announced at Budget 2012, the Government will make a minor legislative change allowing HMRC to exercise certain criminal asset recovery powers in-house instead of indirectly via police action. (Finance Bill 2013)

2.212 Self Assessment returns – As announced at Budget 2012, the Government will legislate to enable HMRC to withdraw a notice to file a Self Assessment tax return in appropriate cases. (Finance Bill 2013)

2.213 Using public procurement to deter avoidance and evasion – As announced at Autumn Statement 2012, the Government will publish and implement updated public procurement guidance on 1 April 2013 to require potential government suppliers to declare specified previous occasions of tax non-compliance.

2.214 Withdrawal of relief for payments of patent royalties – As announced at Autumn Statement 2012, the Government will legislate at Finance Bill 2013 to withdraw the relief for payments of patent royalties by individuals at section 448 of the Income Tax Act 2007, with effect from 5 December 2012. (Finance Bill 2013)

2.215 Avoidance schemes involving loan relationships and derivatives – As announced at Autumn Statement 2012, the Government will legislate to close down three corporation tax avoidance schemes involving financial products, with effect from 5 December 2012. (Finance Bill 2013)

2.216 Trade and property business deductions – As announced on 21 December 2012, the Government will introduce targeted anti-avoidance rules to the income tax and corporation tax provisions governing the relationship between rules prohibiting and allowing deductions, with effect from 21 December 2012. (Finance Bill 2013)

2.217 General Anti-Abuse Rule (GAAR) – As announced at Budget 2012, the Government will introduce a GAAR in this year's Finance Bill to tackle abusive tax avoidance schemes. (Finance Bill 2013) (51)

2.218 Corporation tax deductions for employee share acquisitions – This measure amends existing legislation to clarify a company's entitlement to corporation tax deductions for accounting expenses in connection with share options or awards granted to employees. This measure will have effect from 20 March 2013. (Finance Bill 2013)

2.219 Banking Code of Practice – Following consultation the Government will introduce legislation in Finance Bill 2014 to provide for HMRC to publish an annual report, from 2015, on the operation of the Code of Practice on Taxation for Banks. (Finance Bill 2014) This report may include the naming of any bank that HMRC considers not to be complying with the Code. The Government will consult on the governance process around determining non-compliance and the nature of the report to be published by HMRC.

2.220 Corporate 'loss buying' – The Government will introduce targeted anti-abuse rules, with immediate effect, to prevent companies entering into arrangements with unconnected third parties where the potential to create corporate losses are bought and then relieved against profits unconnected from the activity from which they arose. (Finance Bill 2013) (48)

2.221 Lifting the Lid on Tax Avoidance: next steps – As announced on 11 December 2012 legislation is being introduced in Finance Bill 2013 to improve the information collected under the Disclosure of Tax Avoidance Schemes regime. Regulations will be made later on in 2013. (Finance Bill 2013)

2.222 Review of two areas of partnership tax rules where tax is being lost – Following on from the announcement made at Autumn Statement 2012 to review partnerships as a high risk area of the tax code, this measure confirms consultation on legislation to counter the use of limited liability partnerships to disguise employment relationships and the artificial allocation of profit/loss to secure tax advantages. (Finance Bill 2014) (47)

2.223 Loopholes involving corporation tax loss relief rules – The Government will close down three loopholes, with immediate effect, within the corporation tax loss relief rules, which have enabled companies to access relief for losses either more quickly or in ways contrary to the underlying principles of the legislation. (Finance Bill 2013) (48)

2.224 Penalties in avoidance cases – This measure announces a consultation on a penalties-based approach to taxpayers who fail to settle with HMRC in circumstances where an avoidance scheme has been defeated in another party's litigation through the courts. (Finance Bill 2014) (55)

2.225 Compliance progress report – This measure announces the publication of a report highlighting the Government's successes in tackling tax avoidance and evasion and its strategy going forward.

2.226 Enhanced information powers for tax avoidance schemes – Following on from the announcement made at Autumn Statement 2012, the Government will consult, after Budget 2013, on new powers to take tougher action against high risk promoters of tax avoidance schemes, including new information and penalty powers, and the possible use of 'naming and shaming'. (54)

Tax administration

2.227 UK-Switzerland agreement: remittance basis – Legislation will be introduced to ensure that the policy objectives behind the original agreement are delivered in full. The changes took effect from the date that the agreement came into force, which was 1 January 2013. (Finance Bill 2013)

2.228 Technical assistance to developing countries – Budget 2013 announces £3 million funding a year from DfID for a long-term programme of capacity building by HMRC to support developing countries' tax and customs administrations through a new Developing Countries Capacity Building Unit. The first partnership will be with South African Revenue Service, to support tax capacity of other revenue authorities in the region.

2.229 Memorandum of Understanding on Royal Taxation – The Memorandum of Understanding about how Her Majesty The Queen and His Royal Highness the Prince of Wales pay tax voluntarily on income that would otherwise not be taxable has been revised. Without making any material change, the text now takes account of the Sovereign Grant Act 2011.

Supply-side reform of the economy

Infrastructure

2.230 Infrastructure delivery – The Government will reform its approach to infrastructure delivery, including creating an enhanced central cadre of commercial specialists in Infrastructure UK who will be deployed into infrastructure projects across government, and by summer 2013 establishing new infrastructure capacity plans for key government departments.

2.231 Infrastructure strategy – The Government will consider options for making more use of independent expertise in further developing its infrastructure strategy, ensuring that investors have the confidence to make long-term decisions on infrastructure.

2.232 Communications infrastructure – The Government will look to introduce further financial incentives on public sector spectrum holdings to ensure that spectrum is more efficiently managed and used.

2.233 UK Guarantees Scheme – As part of the UK Guarantees Scheme, the Government has approved a guarantee of up to £75 million which will help raise finance for the partial conversion of the Drax coal-fired power station to biomass.

Deregulation

2.234 Red Tape Challenge: aviation regulation – The Government will scrap or improve 58 per cent of active aviation regulations that were identified under the Red Tape Challenge. The Civil Aviation Authority will update its IT systems to make it simpler for consumers, pilots and the aviation industry to use. The Government is also working with European partners towards a proportionate and risk-based approach to aviation regulation.

2.235 Red Tape Challenge: maritime regulation – The Government will scrap or improve nearly two thirds of the maritime regulations identified by the Red Tape Challenge. The Government is also introducing a new system to speed up the implementation of international maritime agreements into UK law.

2.236 Second phase of the Red Tape Challenge – The Government will launch a second phase of the Red Tape Challenge in summer 2013. This will look at areas such as infrastructure, key stages in the growth of companies, and business activities where negotiating the system is overly complex, through a series of short reviews.

2.237 Reforming appeals of economic regulator decisions – The Government will reform the regulatory and competition appeals framework to support more streamlined regulatory decision-making, while providing appropriate rights of appeal. By summer 2013, the Government will consult on reforms, including:

- the grounds on which other regulatory appeals and appeals of competition decisions can be brought, to make them clearer and more consistent;
- streamlined processes and strengthened governance arrangements for the Competition Appeal Tribunal (CAT) and Competition Service, and a full review of the CAT's rules;
- bringing greater consistency across sectors, for instance, on which appeal body hears each type of appeal;
- reducing opportunities to game the system, for instance by presenting new evidence during appeals; and
- introducing fast-track procedures to achieve quicker judgments in simple cases.

2.238 Infrastructure charges and conditions – The Government has asked economic regulators to develop a coordinated and streamlined approach to charging and conditions on new infrastructure where it crosses existing infrastructure. The economic regulators have agreed to investigate this.

2.239 Fees for regulation – In the 2015-16 Spending Round, the Government will drive efficiency and reduce fees through additional budgeting controls placed on regulators, without reducing the effectiveness of regulatory enforcement.

2.240 Guidance for volunteer events – The Government will encourage volunteers to run events by improving the quality of the guidance and publishing it in a single document on www.gov.uk. Confusing guidance has previously deterred volunteers and obstructed events which are valuable to local communities.

Planning

2.241 Judicial review – The Ministry of Justice has consulted on shortening the time limits for bringing a planning judicial review and will set out its plans in spring 2013. The Government will also develop further measures to streamline the process for planning judicial reviews by summer 2013.

2.242 Planning use class – The Government will consult on further flexibilities between use classes to support change of use from certain agricultural and retail uses to residential use to increase responsiveness within the planning system.

2.243 Planning guidance – The Government will publish significantly reduced planning guidance by this summer, in line with Lord Matthew Taylor's recommendations. This will strengthen the focus on using market signals to ensure land is allocated to support development.

2.244 Land auctions feasibility study – DCLG is progressing the public sector land auctions model and will work with HM Treasury to conduct a feasibility study into wider use of the model.

Access to finance

2.245 Business Bank – The Government will:

- publish the Business Bank's first business strategy on 22 March 2013. This will set out an accelerated timetable for how the Business Bank will deploy £1 billion of new capital to improve existing access to small and medium-sized enterprise (SME) support schemes and develop a lasting new institution by the end of 2014 that will expand and diversify UK finance markets so that they serve the needs of SMEs;
- launch a £300 million investment scheme in spring 2013 to help diversify and expand the supply of lending to SMEs and mid-sized businesses;
- provide an additional £50 million for the Business Angel Co-investment Fund for SMEs;
- extend the Enterprise Capital Fund programme to include a £25 million venture capital Catalyst Fund for investment in SMEs; and
- maintain the lenders' guarantee cap at 20 per cent for Enterprise Finance Guarantee loan portfolios for 2013-14.

2.246 Start Up Loans – As announced in January 2013, £30 million additional funding has been given to expand the Start Up Loans scheme in England and increase the age limit to 30, up from 24.

Payment systems

2.247 Regulator for payment systems – The Government will bring the payment systems into a competition-focused regulatory regime. It will formally consult on this shortly after this Budget.

2.248 Card payments for SMEs – The Government has secured a commitment from the payment card industry to reduce the time it takes for credit and debit card payments to reach SMEs' bank accounts by up to three days, by using the Faster Payments System to process payments.

Competition

2.249 Competition recommendations – The Government has renewed its commitment to accept Office of Fair Trading (OFT) and Competition Commission recommendations and will extend this commitment to the Competition and Markets Authority. There will be a presumption that all recommendations will be accepted unless there are strong policy reasons not to do so.

2.250 Fuel price information – In response to OFT recommendations, the Government will work with motorway service areas and other relevant bodies to improve the availability and visibility of motorway fuel price information for motorway users.

2.251 Financial Services Authority review on barriers to entry – In the Banking Reform White Paper, published 14 June 2012, the Government asked the Financial Services Authority (FSA) to conduct a review of regulatory barriers to entry and expansion in UK banking. The FSA will publish its review shortly after Budget.

Sector support

2.252 Industrial Strategy – The Government will provide £1.6 billion to support a range of sectors as part of the Industrial Strategy. From this fund the Government, in partnership with industry, will create an Aerospace Technology Institute. This will provide £2.1 billion of R&D support to the aerospace sector over seven years, with government and industry contributing equal shares. Funding for other sectors will be announced later in 2013. (36)

2.253 Visual effects industry investment – The Technology Strategy Board will launch a new competitive fund of up to £15 million to support the digital content production industry. The Skills Investment Fund will be increased to £8 million, up from £3 million, each year over the next two years, with the Government matching voluntary industry contributions, to support skills development in the UK digital content sectors. In addition, the government will launch a public consultation to consider options to use the tax system to provide further support for the visual effects industry.

2.254 Growth Vouchers – The Government will provide £30 million for an SME Growth Vouchers programme in England to test a variety of approaches to help SMEs overcome barriers to achieving growth. (37)

Procurement

2.255 Small Business Research Initiative (SBRI) – The Government will substantially expand the SBRI among key departments so that the value of contracts through this route increases from £40 million in 2012-13 to over £100 million in 2013-14, representing 0.25 per cent of procurement budgets, and rising to over £200 million in 2014-15, representing 0.5 per cent of procurement budgets.

Other supply-side reforms

2.256 Lord Heseltine's Review – The Government has published a full response to Lord Heseltine's review which reported in October 2012. The response confirms that of his 89 recommendations, 81 have been accepted either in full or in part, 5 have been rejected and 3 will be considered as part of the Spending Round later this year.

2.257 The Government will create a Single Local Growth Fund of growth-related spending, which will be operational by April 2015. Funding will be allocated to Local Enterprise Partnerships on the basis of multi-year strategic plans.

2.258 Richard Review – As announced on 14 March 2013, the Government has launched a consultation on the implementation of the Richard Review of Apprenticeships.

2.259 SME credit database – The Government will investigate options for improving access to SME credit data to make it easier for newer lenders to assess loans to smaller businesses.

2.260 Co-operatives legislation – The Government will consult in summer 2013 on options for raising the limit on individual subscriptions for Withdrawable Share Capital in Industrial and Provident Societies (IPSs) and introducing insolvency procedures for IPSs and credit unions.

A Financing

A.1 This annex sets out details of the Government's financing plans for 2013-14. Further details can be found in the *Debt and reserves management report 2013-14,* published on HM Treasury's website at www.hm-treasury.gov.uk.

Financing arithmetic

A.2 The Office for Budget Responsibility's (OBR) forecast for the central government net cash requirement (CGNCR) in 2013-14 is £113.9 billion. The relationship between public sector net borrowing (PSNB) and the CGNCR is set out in the OBR's March 2013 *Economic and fiscal outlook.*

A.3 The net financing requirement (NFR) comprises the CGNCR, plus any financing required for gilt redemptions, additional Official Reserves and other adjustments, less the net contribution to financing from National Savings and Investments (NS&I). The NFR for 2013-14 is projected to be £162.9 billion, reflecting:

- the forecast for the CGNCR of £113.9 billion. This includes the effect of cash which is expected to be transferred from the Asset Purchase Facility in 2013-14;
- a -£2.9 billion adjustment for Northern Rock (Asset Management) (NRAM) and Bradford & Bingley plc (B&B) in 2013-14. As set out at Autumn Statement 2012, NRAM and B&B have been reclassified as part of central government and so their activities influence the CGNCR. However, there are additional cash flows, mostly from the repayment of loans into the Exchequer, which reduce the Exchequer's need to raise cash;
- gross gilt redemptions of £51.5 billion;
- a planned short-term financing adjustment of -£5.6 billion resulting from unanticipated overfunding in 2012-13;
- £6.0 billion of financing for the Official Reserves;
- a zero net contribution to financing from NS&I.

A.4 As set out in Table A.1, the NFR for 2013-14 will be met by gilt sales of £151.0 billion and an increase in the Treasury bill stock of £11.9 billion relative to the level projected at end-March 2013 (£56.1 billion).

Gilt issuance methods

A.5 Auctions will remain the Government's primary method of gilt issuance. In addition, the Government has decided to continue the use of syndications and mini-tenders as supplementary methods of gilt issuance.

A.6 Decisions on the skew of issuance are set annually with reference to the Government's debt management objective, as set out in the *Debt and reserves management report 2013-14.*

A.7 It is anticipated that for 2013-14:

- £121.0 billion (80.1 per cent of total issuance) will be issued by auction;
- £20.0 billion (13.2 per cent of total issuance) will be issued by syndication; and
- £10.0 billion (6.6 per cent of total issuance) will be issued by mini-tender.

Gilt issuance by maturity and type

A.8 It is anticipated that issuance by auctions and syndications will be split by maturity and type as follows:

- £42.6 billion of short conventional gilts (28.2 per cent of total issuance);
- £30.0 billion of medium conventional gilts (19.9 per cent of total issuance);
- £32.6 billion of long conventional gilts (21.6 per cent of total issuance); and
- £35.8 billion of index-linked gilts (23.7 per cent of total issuance).

A.9 In addition, the Debt Management Office (DMO) plans to deliver sales via mini-tender of £10.0 billion (6.6 per cent of total issuance). The mini-tender programme will continue to be used to support the syndication programme by providing flexibility to accommodate any variations in proceeds from syndicated offerings. The DMO determines the maturities and types of gilts to be issued by mini-tender, in consultation with the market during the year.

A.10 As announced at Autumn Statement 2012, in 2013-14 the DMO will look to launch new issuance in the 50 to 60 year area, subject to demand and market conditions. Decisions on specific maturities for issuance during the year will be taken by the DMO after consultation with the market through the normal channels.

National Savings and Investments

A.11 NS&I is expected to make a zero net contribution to financing in 2013-14, within a range of -£2 billion to +£2 billion. NS&I's projected net contribution in 2012-13 is -£750 million, which is in line with its previous target range of -£3 billion to +£1 billion, set at Autumn Statement 2012.

Table A.1: Financing arithmetic for 2012–13 and 2013–14

£ billion	**2012-13**	**2013-14**
Central government net cash requirement	**105.1**	**113.9**
Adjustment for Northern Rock Asset Management (NRAM) and Bradford & Bingley plc (B&B)[1]	-2.7	-2.9
Gilt redemptions	52.9	51.5
Financing for the Official Reserves	6.0	6.0
Buy-backs[2]	0.0	0.0
Planned short-term financing adjustment[3]	-17.2	-5.6
Gross financing requirement	**144.1**	**162.9**
less		
National Savings and Investments	-0.8	0.0
Net financing requirement	**144.9**	**162.9**
Financed by:		
1. Debt issuance by the Debt Management Office (DMO)		
a) Treasury bills[4]	**-14.4**	**11.9**
b) Gilts	**164.8**	**151.0**
of which		
Conventional:		
Short	50.8	42.6
Medium	34.7	30.0
Long	37.5	32.6
Index-linked	35.9	35.8
Mini-tenders	6.0	10.0
2. Other planned changes in net short-term debt[5]		
Change in the Ways and Means Advance	0.0	0.0
3. Changes in net short-term cash position[6]	**5.6**	**0.0**
Total financing	**150.5**	**162.9**
Short-term debt levels at end of financial year		
Treasury bill stock[7]	56.1	68.0
Ways and Means Advance	0.4	0.4
DMO net cash position	6.1	0.5

Figures may not sum due to rounding.

[1] See explanation in paragraph A.3

[2] Purchases of 'rump' gilts, with a small nominal outstanding, in which Gilt-edged Market Makers (GEMMs) are not required to make two-way markets. The Government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

[3] To accommodate changes to the stated year's financing requirement resulting from: (i) publication of the previous year's CGNCR outturn; (ii) an increase in the DMO's cash position; and/or (iii) carryover of unanticipated changes to the cash position from the previous year.

[4] The stock change shown for 2012-13 is a planning assumption and measures the change in the level of the Treasury bill stock in issue between end-March 2012 and that currently forecast for end-March 2013. The stock of bills for this purpose comprises both those issued at weekly tenders and those issued separately to individual cash management counterparties. The stock change shown for 2013-14 is that currently required to take the stock of Treasury bills to £68.0 billion by end-March 2014.

[5] Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment; (ii) net Treasury bill sales; and (iii) changes to the level of the Ways and Means Advance.

[6] The change in the short-term cash position for 2012-13 (and the level of the net short term cash position at the end of the financial year) reflects changes to the public finance forecasts, any changes to financing from NS&I and Treasury bills (including those sold directly to counterparties separately from weekly tenders). It will also reflect any differences between the gilt sales outturn and plans. In addition, the change will include any impact on financing arising from other activities carried out within government (e.g. issuance of tax instruments, transfers between central government and other sectors, and foreign exchange transactions). The zero change for the short-term cash position in 2013-14 assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.

[7] The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements.

B OBR's Economic and fiscal outlook: selected tables

B.1 The Office for Budget Responsibility (OBR) has published its March 2013 *Economic and fiscal outlook* alongside Budget 2013. This annex reproduces the OBR's key projections for the economy and public finances. Further detail and explanation can be found in the OBR's report.

Table B.1: Detailed summary of OBR central economic forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2011	2012	2013	2014	2015	2016	2017
UK economy							
Gross domestic product (GDP)	0.9	0.2	0.6	1.8	2.3	2.7	2.8
GDP Level (2011=100)	100.0	100.2	100.8	102.6	105.0	107.8	110.8
Nominal GDP	3.4	1.5	2.7	3.8	4.2	4.4	4.6
Output Gap (per cent of potential output)	- 2.7	- 2.7	- 3.6	- 3.7	- 3.4	- 2.9	- 2.3
Expenditure components of GDP							
Domestic demand	-0.6	1.2	0.5	1.6	2.2	2.5	2.7
Household consumption[1]	-1.0	1.0	0.5	1.2	1.7	2.4	2.8
General government consumption	-0.1	2.6	0.4	-0.7	-0.4	-1.0	-1.8
Fixed investment	-2.9	1.4	2.2	6.7	8.1	7.7	7.8
Business	3.1	4.9	1.9	6.1	8.6	8.6	8.6
General government[2]	-26.2	2.7	2.6	5.0	1.8	-1.5	-1.2
Private dwellings[2]	2.3	-5.4	2.0	8.9	10.0	10.0	9.7
Change in inventories[3]	0.3	-0.2	-0.2	0.0	0.0	0.0	0.0
Exports of goods and services	4.6	-0.3	1.5	4.4	5.1	5.3	5.3
Imports of goods and services	0.5	2.0	1.0	3.8	4.4	4.8	4.9
Balance of payments current account							
Per cent of GDP	-1.3	-3.6	-2.7	-2.2	-1.9	-1.6	-1.4
Inflation							
CPI	4.5	2.8	2.8	2.4	2.1	2.0	2.0
RPI	5.2	3.2	3.2	2.8	3.2	3.6	3.9
GDP deflator at market prices	2.5	1.3	2.1	2.0	1.8	1.8	1.7
Labour market							
Employment (millions)	29.2	29.5	29.8	29.9	30.1	30.3	30.5
Wages and salaries	2.7	2.8	2.4	3.1	4.3	4.8	4.8
Average earnings[4]	2.3	2.1	1.4	2.7	3.6	4.0	4.0
ILO unemployment (% rate)	8.1	7.9	7.9	8.0	7.9	7.4	6.9
Claimant count (millions)	1.53	1.59	1.58	1.63	1.59	1.48	1.38
Household sector							
Real household disposable income	-1.0	1.6	0.2	0.4	1.3	1.8	2.3
Saving ratio (level, per cent)	6.6	7.0	6.6	5.8	5.6	5.4	5.0
House prices	-1.0	1.6	1.3	1.6	3.3	4.0	4.0
World economy							
World GDP at purchasing power parity	3.9	3.1	3.4	4.1	4.4	4.6	4.6
Euro Area GDP	1.5	-0.5	-0.5	1.0	1.3	1.7	1.9
World trade in goods and services	5.7	2.5	3.7	5.6	6.0	6.2	6.3
UK export markets[5]	5.9	1.9	3.4	5.2	5.6	5.7	5.8

[1] *Includes households and non-profit institutions serving households.*

[2] *Includes transfer costs of non-produced assets.*

[3] *Contribution to GDP growth, percentage points.*

[4] *Wages and salaries divided by employees.*

[5] *Other countries' imports of goods and services weighted according to the importance of those countries in the UK's total exports.*

Table B.2: Determinants of the OBR central fiscal forecast

	Percentage change on previous year, unless otherwise stated						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017–18
GDP and its components							
Real GDP	0.7	0.2	0.8	2.0	2.4	2.7	2.8
Nominal GDP (£ billion)[1]	1526	1546	1595	1658	1728	1806	1889
Nominal GDP[1]	3.1	1.3	3.2	4.0	4.2	4.5	4.6
Nominal GDP (centred end-March)	2.1	2.0	3.7	4.1	4.3	4.6	4.6
Wages and salaries[2]	2.4	3.0	2.4	3.3	4.5	4.8	4.8
Non-oil PNFC profits[2,3]	6.4	3.0	1.8	5.8	6.3	6.8	7.4
Non-oil PNFC net taxable income[2,3]	9.4	11.0	-1.2	1.7	4.2	5.2	6.1
Consumer spending[2,3]	3.5	3.7	3.4	3.5	3.8	4.5	4.9
Prices and earnings							
GDP deflator	2.1	1.3	2.3	1.9	1.8	1.7	1.7
RPI (September)	5.6	2.6	3.3	2.8	3.2	3.6	3.9
CPI (September)	5.2	2.2	2.9	2.3	2.1	2.0	2.0
Whole economy earnings growth	2.7	1.7	1.8	2.9	3.8	4.0	4.0
'Triple-lock' guarantee (September)	5.2	2.5	2.9	2.6	3.6	4.0	4.0
Key fiscal determinants							
Claimant count (millions)[4]	1.57	1.57	1.60	1.62	1.56	1.46	1.35
Employment (millions)	29.2	29.6	29.8	29.9	30.1	30.4	30.6
VAT gap (per cent)	9.5	10.7	10.5	10.5	10.5	10.5	10.5
Financial and property sectors							
Equity prices (FTSE All-share index)	2903	3080	3405	3540	3690	3856	4032
HMRC financial sector profits[1,3,5]	-5.0	2.0	1.4	2.3	2.8	3.8	4.7
Financial sector net taxable income[1,3]	3.2	-1.6	5.4	4.5	3.6	6.1	7.3
Residential property prices[6]	-0.9	2.2	0.9	1.9	3.6	4.0	4.0
Residential property transactions ('000's)	915	938	1083	1139	1208	1279	1355
Commercial property prices[7]	4.9	-0.1	-0.1	2.6	3.6	3.8	3.4
Commercial property transactions[7]	-2.8	2.8	-1.6	0.1	2.8	4.4	5.0
Volume of stampable share transactions	-9.7	-18.9	12.0	-1.9	-2.4	-2.6	-2.7
Oil and gas							
Oil prices ($ per barrel)[3]	111	112	113	106	101	97	93
Oil prices (£ per barrel)[3]	69.2	70.6	73.4	68.8	65.2	62.5	60.1
Gas prices (p/therm)	60.6	59.1	68.6	68.0	63.9	60.9	58.3
Oil production (million tonnes)[3,8]	51.9	44.5	44.4	44.3	44.1	44.0	43.9
Gas production (billion therms)[3,8]	16.1	13.8	14.1	14.0	13.9	13.9	13.8
Interest rates and exchange rates							
Market short-term interest rates (%)[9]	1.0	0.7	0.6	0.7	0.9	1.4	2.0
Market gilt rates (%)[10]	2.2	1.8	2.4	2.7	3.3	3.6	3.9
Euro/Sterling exchange rate	1.16	1.23	1.16	1.16	1.16	1.15	1.15

[1] Not seasonally adjusted.

[2] Nominal.

[3] Calendar year.

[4] UK seasonally-adjusted claimant count.

[5] HMRC Gross Case 1 trading profits.

[6] Outturn data from Department for Communities and Local Government (CLG) property prices index.

[7] Outturn data from HMRC information on stamp duty land tax.

[8] Department of Energy and Climate Change (DECC) forecasts available at www.gov.uk/oil-and-gas-uk-field-data.

[9] 3-month sterling interbank rate (LIBOR).

[10] Weighted average interest rate on conventional gilts.

Table B.3: Current Receipts: OBR forecast

	£ billion						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Income tax (gross of tax credits)[1]	152.7	150.5	154.7	165.5	174.4	186.7	198.9
of which: Pay as you earn	*132.0*	*130.7*	*133.7*	*137.7*	*147.8*	*158.0*	*168.6*
Self assessment	*20.3*	*20.6*	*20.3*	*27.4*	*26.4*	*28.2*	*29.9*
Tax credits (negative income tax)	-4.7	-3.1	-2.8	-2.4	-1.3	-0.5	-0.3
National insurance contributions	101.6	103.8	106.7	108.6	113.9	125.5	132.0
Value added tax	98.1	100.7	103.3	107.2	111.2	115.2	119.3
Corporation tax[2]	43.1	40.3	39.3	38.1	36.6	38.2	39.5
of which: Onshore	*33.8*	*35.5*	*34.6*	*33.7*	*33.5*	*34.9*	*36.5*
Offshore	*9.2*	*4.8*	*4.7*	*4.4*	*3.1*	*3.3*	*3.0*
Corporation tax credits[3]	-0.9	-1.0	-1.0	-0.9	-0.8	-0.8	-0.9
Petroleum revenue tax	2.0	1.7	2.1	1.7	1.6	1.5	1.3
Fuel duties	26.8	26.6	26.1	26.3	27.1	28.3	29.3
Business rates	24.9	25.7	26.7	28.1	29.6	30.5	31.2
Council tax	26.0	26.3	27.4	28.3	29.1	30.0	31.0
VAT refunds	14.0	14.0	14.6	14.6	14.7	14.5	14.2
Capital gains tax	4.3	3.9	5.1	6.5	7.2	7.9	8.7
Inheritance tax	2.9	3.1	3.3	3.5	3.6	3.9	4.1
Stamp duty land tax	6.1	6.9	7.7	8.4	9.3	10.5	11.7
Stamp taxes on shares	2.8	2.3	2.9	2.7	2.7	2.8	2.9
Tobacco duties	9.9	9.6	9.8	10.2	10.3	10.5	10.8
Spirits duties	2.9	2.9	2.9	3.1	3.3	3.4	3.6
Wine duties	3.4	3.5	3.6	3.9	4.2	4.6	5.0
Beer and cider duties	3.8	3.7	3.5	3.6	3.6	3.6	3.7
Air passenger duty	2.6	2.8	2.9	3.0	3.3	3.5	3.8
Insurance premium tax	3.0	3.0	3.1	3.1	3.2	3.2	3.3
Climate change levy	0.7	0.7	1.5	2.0	2.5	2.5	2.5
Other HMRC taxes[4]	5.9	5.9	6.3	6.6	7.0	7.2	7.4
Vehicle excise duties	5.9	5.9	5.9	5.7	5.6	5.6	5.5
Bank levy	1.8	1.6	2.7	2.9	2.9	2.9	2.9
Licence fee receipts	3.1	3.1	3.1	3.2	3.2	3.2	3.3
Environmental levies	0.5	2.0	2.3	2.8	3.1	3.5	4.0
Swiss capital tax	0.0	0.0	3.2	0.0	0.0	0.0	0.0
EU ETS auction receipts	0.0	0.3	0.7	0.7	0.8	0.8	0.9
Other taxes	6.2	6.7	6.8	7.0	7.1	7.2	7.1
National Accounts taxes	**549.5**	**553.7**	**574.3**	**594.0**	**619.1**	**655.8**	**686.9**
Less own resources contribution to EU budget	-5.2	-5.4	-5.3	-5.1	-5.3	-5.6	-5.9
Interest and dividends	5.7	14.8	18.9	18.5	17.1	16.3	13.4
Gross operating surplus	23.6	24.2	25.3	26.7	27.8	28.8	29.7
Other receipts	-1.0	-0.6	-0.9	-1.0	-1.0	-1.1	-1.1
Current receipts	**572.6**	**586.8**	**612.4**	**633.1**	**657.6**	**694.1**	**723.0**
Memo: UK oil and gas revenues[5]	*11.3*	*6.5*	*6.8*	*6.1*	*4.7*	*4.8*	*4.3*

[1] Includes PAYE and self assessment and also includes tax on savings income and other minor components.

[2] National Accounts measure, gross of enhanced and payable tax credits.

[3] Includes enhanced company tax credits.

[4] Consists of landfill tax, aggregates levy, betting and gaming duties and customs duties and levies.

[5] Consists of offshore corporation tax and petroleum revenue tax.

Note: Table is on accruals basis in line with National Accounts definitions.

Table 2.8 in the OBR supplementary tables presents receipts on a cash basis.

Table B.4: Total Managed Expenditure: OBR forecast

	£ billion						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Public sector current expenditure (PSCE)							
PSCE in RDEL[1]	**322.6**	**319.5**	**320.8**	**317.2**	**314.2**	**307.4**	**299.1**
PSCE in Annually Managed Expenditure	**321.2**	**337.7**	**352.1**	**362.8**	**380.1**	**396.3**	**413.9**
of which:							
Social security benefits	174.9	182.8	180.4	184.4	189.1	193.1	197.6
Tax credits	27.2	28.6	29.0	29.8	31.3	33.2	34.4
Net public service pension payments	8.0	10.5	11.1	12.4	13.6	14.9	16.2
of which:							
CG unfunded pension schemes	*6.7*	*8.9*	*9.5*	*10.7*	*11.9*	*12.9*	*14.1*
LG police and fire pension schemes	*1.4*	*1.6*	*1.6*	*1.6*	*1.8*	*1.9*	*2.0*
National lottery current grants	1.1	1.1	1.2	1.3	1.5	1.6	1.7
BBC domestic services current expenditure	3.8	3.4	3.5	4.0	3.7	3.8	3.9
Fees associated with financial interventions	-2.0	-0.6	-0.3	-0.2	0.0	0.0	0.0
Other PSCE items in departmental AME	1.1	2.0	1.4	1.2	1.1	1.1	1.2
Expenditure transfers to EU institutions	5.9	7.4	6.5	5.7	6.1	5.9	6.0
Locally-financed current expenditure	21.6	23.8	36.1	38.0	39.5	41.0	43.1
Central government gross debt interest	47.9	46.5	49.5	51.8	57.8	64.4	71.3
Depreciation	16.0	16.9	17.7	18.4	19.2	19.9	20.6
Current VAT refunds	11.7	11.6	12.3	12.3	12.4	12.2	11.8
Single use military expenditure	5.5	4.7	4.7	4.2	4.7	4.7	4.7
Environmental levies	0.5	1.3	1.7	2.1	2.6	3.1	3.8
Other National Accounts adjustments	-2.2	-2.4	-2.6	-2.6	-2.5	-2.5	-2.4
Total public sector current expenditure	**643.8**	**657.2**	**672.9**	**680.0**	**694.2**	**703.7**	**713.0**
Public sector gross investment (PSGI)							
PSGI in CDEL[1]	**34.8**	**3.3**	**33.7**	**36.9**	**36.1**	**36.5**	**36.7**
PSGI in Annually Managed Expenditure	**15.0**	**12.8**	**13.5**	**13.5**	**14.4**	**14.7**	**15.4**
of which:							
National lottery capital grants	0.4	0.4	0.5	0.6	0.6	0.7	0.7
Other PSGI items in departmental AME	-7.0	0.8	0.8	0.9	0.8	0.7	1.3
Locally-financed capital expenditure	16.5	7.1	6.4	6.3	6.8	7.0	6.7
Public corporations capital expenditure	6.7	6.2	5.9	5.9	6.0	6.2	6.4
Other National Accounts adjustments	-1.6	-1.7	-0.1	-0.2	0.2	0.2	0.2
Total public sector gross investment	**49.8**	**16.1**	**47.2**	**50.4**	**50.4**	**51.3**	**52.1**
Less depreciation	-21.1	-22.1	-23.0	-23.8	-24.6	-25.4	-26.3
Public sector net investment	**28.7**	**-6.0**	**24.2**	**26.6**	**25.8**	**25.8**	**25.8**
Total managed expenditure	**693.6**	**673.3**	**720.0**	**730.4**	**744.7**	**754.9**	**765.1**

[1] Implied DEL numbers for 2015-16, 2016-17 and 2017-18. Calculated as the difference between PSCE and PSCE in AME in the case of PSCE in RDEL, and between PSGI and PSGI in AME in the case of PSGI in CDEL.

Table B.5: OBR forecast of the fiscal aggregates

	Per cent of GDP						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Receipts and expenditure							
Public sector current receipts *(a)*	37.5	38.0	38.4	38.2	38.1	38.4	38.3
Total managed expenditure *(b)*	45.5	43.6	45.2	44.0	43.1	41.8	40.5
of which:							
Public sector current expenditure (c)	*42.2*	*42.5*	*42.2*	*41.0*	*40.2*	*39.0*	*37.8*
Public sector net investment (d)	*1.9*	*-0.4*	*1.5*	*1.6*	*1.5*	*1.4*	*1.4*
Depreciation (e)	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*
Deficit							
Public sector net borrowing *(b-a)*	7.9	5.6	6.8	5.9	5.0	3.4	2.2
Surplus on current budget *(a-c-e)*	-6.0	-6.0	-5.2	-4.3	-3.5	-1.9	-0.9
Cyclically-adjusted net borrowing	6.0	3.6	4.3	3.3	2.7	1.3	0.6
Primary balance	-5.1	-3.5	-4.8	-3.8	-2.6	-0.6	0.9
Cyclically-adjusted primary balance	-3.2	-1.5	-2.3	-1.2	-0.3	1.4	2.5
Fiscal mandate and supplementary target							
Cyclically-adjusted surplus on current budget	-4.2	-4.0	-2.8	-1.7	-1.2	0.1	0.8
Public sector net debt[1]	71.8	75.9	79.2	82.6	85.1	85.6	84.8
Financing							
Central government net cash requirement	8.3	6.8	7.1	6.8	5.8	4.6	3.3
Public sector net cash requirement	8.1	6.8	7.0	6.6	5.6	4.4	3.1
Stability and Growth Pact							
Treaty deficit[2]	7.8	5.6	6.8	6.0	5.2	3.5	2.3
Cyclically-adjusted Treaty deficit[2]	5.9	3.6	4.4	3.4	2.8	1.5	0.7
Treaty debt ratio[3]	86.0	90.7	94.9	98.6	100.8	100.8	99.4
	£ billion						
Surplus on current budget	-92	-93	-84	-71	-61	-35	-16
Net investment	29	-6	24	27	26	26	26
Public sector net borrowing	121	86	108	97	87	61	42
Central government net cash requirement	127	105	114	113	100	83	61
Public sector net debt	1104	1189	1286	1398	1502	1580	1637
Underlying PSNB							
PSNB ex. Royal Mail and APF (£ billion)	121	121	120	108	96	67	43
PSNB ex. Royal Mail and APF (per cent of GDP)	7.9	7.8	7.5	6.5	5.5	3.7	2.3
Cyclically-adjusted PSNB ex. Royal Mail and APF (per cent of GDP)	6.0	5.9	5.1	4.0	3.2	1.7	0.7
Memo: Output gap (per cent of GDP)	*-2.7*	*-2.9*	*-3.7*	*-3.6*	*-3.3*	*-2.7*	*-2.1*

[1] Debt at end March; GDP centred on end March.

[2] General government net borrowing on a Maastricht basis.

[3] General government gross debt on a Maastricht basis.

Table B.6: Changes to the OBR fiscal forecast

	£ billion						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Surplus on current budget							
June 2010 forecast	-88	-65	-40	-17	0	–	–
December 2012 forecast	-95	-89	-74	-62	-51	-26	-8
Change	*2*	*-3*	*-9*	*-8*	*-11*	*-9*	*-8*
March 2013 forecast	-92	-93	-84	-71	-61	-35	-16
Net investment							
June 2010 forecast	27	24	20	21	21	–	–
December 2012 forecast	27	-9	25	26	23	23	23
Change	*2*	*3*	*-1*	*1*	*3*	*3*	*3*
March 2013 forecast	29	-6	24	27	26	26	26
Net borrowing							
June 2010 forecast	116	89	60	37	20	–	–
December 2012 forecast	121	80	99	88	73	49	31
Change	*0*	*6*	*8*	*9*	*14*	*12*	*11*
March 2013 forecast	121	86	108	97	87	61	42
	Per cent of GDP						
Net borrowing							
June 2010 forecast	7.5	5.5	3.5	2.1	1.1	–	–
December 2012 forecast	7.9	5.1	6.1	5.2	4.2	2.6	1.6
Change	*0.0*	*0.4*	*0.6*	*0.7*	*0.9*	*0.7*	*0.6*
March 2013 forecast	7.9	5.6	6.8	5.9	5.0	3.4	2.2
Cyclically-adjusted surplus on current budget							
June 2010 forecast	-3.2	-1.9	-0.7	0.3	0.8	–	–
December 2012 forecast	-4.3	-3.6	-2.2	-1.4	-0.8	0.4	0.9
Change	*0.1*	*-0.5*	*-0.6*	*-0.4*	*-0.4*	*-0.3*	*-0.2*
March 2013 forecast	-4.2	-4.0	-2.8	-1.7	-1.2	0.1	0.8
Cyclically-adjusted net borrowing							
June 2010 forecast	5.0	3.4	1.8	0.8	0.3	–	–
December 2012 forecast	6.0	3.0	3.8	2.9	2.0	0.9	0.3
Change	*0.0*	*0.6*	*0.6*	*0.4*	*0.6*	*0.5*	*0.3*
March 2013 forecast	6.0	3.6	4.3	3.3	2.7	1.3	0.6
Net debt[1]							
June 2010 forecast	67.2	69.8	70.3	69.4	67.4	–	–
December 2012 forecast	66.4	74.7	76.8	79.0	79.9	79.2	77.3
Change	*5.5*	*1.2*	*2.3*	*3.7*	*5.1*	*6.4*	*7.5*
March 2013 forecast	71.8	75.9	79.2	82.6	85.1	85.6	84.8

[1] *Debt at end March; GDP centred on end March.*

List of abbreviations

AA	Annual Allowance
AEA	Annual Exempt Amount
AFIP	Armed Forces Independence Payments
AIA	Annual Investment Allowance
AME	Annually Managed Expenditure
APD	Air passenger duty
ATI	Aerospace Technology Institute
ATL	Above the Line
AUT	Authorised Unit Trusts
BIS	Department for Business, Innovation and Skills
CASC	Community Amateur Sports Club
CAT	Competition Appeal Tribunal
CBI	Confederation of British Industry
CCL	Climate change levy
CCS	Carbon capture and storage
CCT	Company car tax
CFC	Controlled foreign company
CGT	Capital gains tax
CGNCR	Central government net cash requirement
CITR	Community Investment Tax Relief
CPI	Consumer Prices Index
CPF	Carbon price floor
CTF	Child Trust Fund
DB	Defined benefit
DCLG	Department for Communities and Local Government
DEL	Departmental Expenditure Limit
DFID	Department for International Development
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
EMI	Enterprise Management Incentives
ESC	Employer Supported Childcare
FBC	Fuel benefit charge
FCA	Financial Conduct Authority
FFS	Fair fuel stabiliser
FPC	Financial Policy Committee
FLS	Funding for Lending Scheme
FSA	Financial Services Authority
FSTIB	Financial Services Trade and Investment Board
FYA	First Year Allowances

GAAR	General Anti-Abuse Rule
G20	A group of 20 finance ministers and central bank governors representing 19 countries plus the European Union
GDP	Gross Domestic Product
GVA	Gross Value Added
HGV	Heavy goods vehicle
HMF	Heritage Maintenance Fund
HMIC	Her Majesty's Inspectorate of Constabulary
HMRC	Her Majesty's Revenue & Customs
HSE	Health and Safety Executive
HVO	High value opportunities
ICB	Independent Commission on Banking
IT	Information technology
IHT	Inheritance tax
IMF	International Monetary Fund
IPS	Industrial and Provident Societies
IUK	Infrastructure UK
LEP	Local Enterprise Partnership
LIBOR	London Inter-Bank Offered Rate
LLP	Limited liability partnership
LTA	Life Time Allowance
MPC	Monetary Policy Committee
NICs	National Insurance contributions
OBR	Office for Budget Responsibility
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OFT	Office of Fair Trading
OEIC	Open ended investment company
ONS	Office for National Statistics
OTS	Office of Tax Simplification
PAYE	Pay As You Earn
PF2	Private Finance Two
PIP	Personal Independence Payments
ppl	Pence per litre
PRA	Prudential Regulation Authority
PSNB	Public sector net borrowing
QROPS	Qualifying recognised overseas pensions schemes
R&D	Research and development
RDEL	Resource Departmental Expenditure Limits
REITs	Real Estate Investment Trusts
RFSCs	Road fund scale charges
RPC	Reduced Pollution Certificates
RPI	Retail Prices Index

SBRI	Small Business Research Initiative
SDLT	Stamp Duty Land Tax
SEIS	Seed Enterprise Investment Scheme
SGP	Stability and Growth Pact
SMEs	Small and medium-sized enterprises
SUME	Single Use Military Equipment
TME	Total Managed Expenditure
TPR	The Pensions Regulator
UKTI	UK Trade and Investment
ULEVs	Ultra low emission vehicles
VAT	Value Added Tax
VBC	Van benefit charge
VCT	Venture Capital Trust

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