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BUDGET 2012

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March 2012

BUDGET 2012

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Mark Hoban
Her Majesty's Treasury
21 March 2012

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The Budget Report is presented persuant to section 2 of the Budget Responsibility and National Audit Act 2011 and in accordance with the proposed 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.

Contents

Executive Summary

This Budget announces wide reaching reforms to the tax system to reward work and support growth. These reforms will lower headline rates, diversify and broaden bases and limit reliefs — based on the principle that the tax system should be fair, efficient and simple.

Budget 2012 also announces the next stages in the Government's plans for the supply side of the economy. The Government is committed to driving through the measures announced in *The Plan for Growth* and Autumn Statement 2011, and is taking further steps in this Budget to stimulate investment, exports, enterprise and the labour market.

The action the Government has taken since the June Budget 2010 has restored and maintained stability and positioned the UK as a relative safe haven, with market interest rates near record lows. Budget 2012 maintains the Government's strategy and sets out the further action the Government will take in three areas:

- a stable economy;
- a fairer, more efficient and simpler tax system; and
- reforms to support growth.

A stable economy

The financial crisis of 2008 and 2009 exposed an unstable and unbalanced model of economic growth. As a result of that crisis, and unsustainable levels of public spending, the Government inherited the largest deficit since the Second World War and the UK experienced the biggest recession of almost any major economy.

Over the course of 2010 and 2011, the UK economy was hit by a series of further shocks — with commodity price driven inflation reducing real incomes, the impact of the euro area debt crisis damaging confidence, and the ongoing structural impact of the financial crisis weakening economic recovery.

The Government has taken decisive action to protect the economy and has set out a comprehensive strategy to achieve strong, sustainable and balanced growth, based on:

- fiscal consolidation to return the public finances to a sustainable position and meet the Government's fiscal mandate;
- monetary activism to support the recovery, focused on meeting the inflation target and increasing the availability of credit;
- financial sector reform to build resilience and reduce risks to taxpayers;
- tax reform to make Britain one of the most competitive places to do business; and
- microeconomic reforms to strengthen the economy in the medium term.

In line with this strategy, **this Budget's policy decisions have a neutral impact on the public finances, implementing fiscal consolidation as planned.** The costs of policy decisions announced in this Budget are offset by measures to reduce borrowing. They result in a reduction in taxation and spending of over £2 billion across the forecast period.

The Government is also taking action to tackle long-term fiscal challenges associated with an ageing population. **Budget 2012 announces that the Government will commit to ensuring the State Pension age is increased in future to take into account increases in longevity and will publish proposals at the time of the Office for Budget Responsibility's (OBR) 2012 *Fiscal sustainability report*.**

Economy and fiscal forecasts

While euro area growth forecasts have been revised down significantly since Autumn Statement 2011, **the OBR forecast for UK growth and inflation is broadly unchanged from its November 2011 forecast. It continues to forecast subdued but positive growth, consistent with experience from past financial crises, with the recovery likely to be particularly uneven this year.** The OBR forecasts the economy will avoid recession, as does the Bank of England's February 2012 *Inflation Report*.

The OBR's fiscal forecasts are also broadly in line with those presented at Autumn Statement 2011:

- **public sector net borrowing will fall from its post-war peak of 11.1 per cent of GDP in 2009–10 to 4.3 per cent in 2014–15 and to 1.1 per cent in 2016–17;**
- **borrowing is £11 billion lower over the forecast period than was predicted at the Autumn Statement 2011.[1] The deficit in the cyclically-adjusted primary balance has been halved over the last two years, falling from -7.0 per cent of GDP in 2009–10 to -3.4 per cent of GDP in 2011–12.** This measure of the deficit is expected to approach balance in 2014–15;
- **public sector net debt is forecast to peak at 76.3 per cent of GDP in 2014–15, falling to 74.3 per cent in 2016–17, lower than forecast in November 2011.**

Implementation of the Government's fiscal consolidation plan is under way and on course. **By the end of 2011–12, almost 40 per cent of the annual fiscal consolidation planned for the Spending Review 2010 period will have been achieved.**

The Government will reduce the Special Reserve to reflect the end of UK combat operations in Afghanistan by the end of 2014. This is funding held over and above the Ministry of Defence budget. The cost of operations will continue to be paid on the same basis. At the same time, **the Government will reinvest £115 million of the reduction in the Special Reserve provision to improve service accommodation and support military personnel and their families.**

As set out in the OBR's March 2012 *Economic and fiscal outlook* the OBR's judgement is that the policies set out in this Budget are consistent with a roughly 60 per cent chance of achieving the Government's fiscal mandate in 2016–17, and with meeting the supplementary target for debt in 2015–16.

Against the backdrop of historically low long-term interest rates and in light of evidence of strong demand for gilts of long maturities, **in 2012–13 the Debt Management Office will consult on the case for issuance of gilts with maturities significantly longer than those currently in issue, that is in excess of 50 years, and/or perpetual gilts.**

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

[1] Excluding the transfer of Royal Mail assets and liabilities. See Chapter 1.

A fairer, more efficient and simpler tax system

The Government is committed to creating a more sustainable tax system that is fair and supports growth. The Government will: reward work and support families; reduce tax rates to increase the competitiveness of the UK tax system; restrict tax reliefs and ensure everyone pays the tax they owe; and make the tax system simpler and more sustainable overall.

Greater rewards for work

The Government has a stated objective to support those on low and middle incomes and reward work by making the first £10,000 of income free from income tax. This Budget announces that **the Government will increase the personal allowance by a further £1,100 in April 2013, taking it to £9,205 in total.** This is the largest increase in the level of the personal allowance in both cash and real terms for the last thirty years and the largest real personal tax cut for the median earner in over a decade.

A proportion of the benefit will be passed on to higher rate taxpayers. Rather than pass on the full benefit, an equivalent amount of funding will be provided to assist in the fair implementation of Child Benefit reform.

Budget 2012 announces that Child Benefit will be withdrawn through an income tax charge, and that the charge will only apply to households where someone has an income over £50,000 a year. For households where someone has an income between £50,000 and £60,000 the charge will apply gradually, preventing a cliff edge effect. Only households where someone has an income in excess of £60,000 a year will no longer gain from Child Benefit.

In addition the Government will:

- **provide additional funding of up to £325 million across the Spending Review 2010 period for the Department for Work and Pensions to implement its strategy for tackling fraud and error in the benefit system;** and
- **reform the State Pension into a single tier pension for future pensioners.** The new system will be set at a level above the means tested standard Guarantee Credit, and all State Pension records will be recognised.

Reducing headline tax rates

The Government's ambition is to create the most competitive tax system in the G20. Budget 2012 announces reforms that will lower headline tax rates to support enterprise, aspiration and growth, while ensuring that tax revenues from the best-off are higher in each year. The Government will:

- **reduce the top rate of income tax from 50 per cent to 45 per cent from April 2013;** and
- **reduce the main rate of corporation tax by an additional one per cent from April 2012. The rate will therefore fall by two per cent, from 26 per cent to 24 per cent in April 2012, to 23 per cent in April 2013 and to 22 per cent in April 2014.**

A fairer tax system

The Government is committed to a fair tax system in which those with the most contribute the most. To ensure it receives more revenues from the highest earners, the Government will:

- introduce a limit on all uncapped income tax reliefs. **For anyone seeking to claim more than £50,000 of relief, a cap will be set at 25 per cent of income.** This will increase effective tax rates and help ensure that those with the highest incomes pay a fairer share;

- increase the tax charged on high value properties, by **introducing a new Stamp Duty Land Tax (SDLT) rate of 7 per cent for residential properties over £2 million.** This will apply from 22 March 2012;

- tackle the 'enveloping' of high value properties into companies to avoid paying a fair share of tax. **The Government will introduce a 15 per cent rate of SDLT to be applied to residential properties over £2 million purchased by non-natural persons, such as companies.** This new rate will take effect on 21 March 2012. In addition, **the Government will consult on the introduction of an annual charge on residential properties valued at over £2 million owned by these persons** with the intention of legislating in Finance Bill 2013 for commencement in April 2013;

- **extend the capital gains tax regime to gains on the disposal of UK residential property by non-resident, non-natural persons, such as companies,** to support these changes. This will commence from April 2013, following consultation on the details of the measure; and

- **accept the recommendation of the Aaronson Report that a General Anti-Abuse Rule (GAAR) targeted at artificial and abusive tax avoidance schemes would improve the UK's ability to tackle tax avoidance** while maintaining the attractiveness of the UK as a location for genuine business investment. The Government will consult with a view to bringing forward legislation in Finance Bill 2013.

A simpler and more sustainable tax system

To simplify the tax system while diversifying the tax base and improving medium-term sustainability the Government will:

- move towards a simpler, single personal allowance regardless of age **by freezing existing age-related allowances (ARAs) from 6 April 2013 at their 2012–13 levels (£10,500 for those born between 6 April 1938 and 5 April 1948, and £10,660 for those born before 6 April 1938) until they align with the personal allowance. From April 2013, ARAs will no longer be available, except to those born on or before 5 April 1948. The higher ARA will only be available to those born on or before 5 April 1938.** These changes will simplify the system and reduce the number of pensioners in Self Assessment;

- **correct certain anomalies in the VAT system that cause very similar products to be taxed differently. The Government will also close loopholes in the VAT system to prevent avoidance and ensure compliance;**

- **introduce from April 2013 a new cash basis for calculating tax for small unincorporated businesses,** following consultation. This will reduce the time it takes for these businesses to calculate their tax;

- **provide from 2014–15, a new Personal Tax Statement for around 20 million taxpayers.** This will detail the income tax and National Insurance contributions (NICs) they have paid, their average tax rates, and how this contributes to public spending; and

- **launch a detailed consultation on integrating the operation of income tax and NICs.** This will be published after the Budget and build on extensive work undertaken with stakeholders through 2011. It will set out a broad range of options for the operation for employee, employer and self-employed NICs.

The second section of Chapter 1 sets out the Government's reforms to the tax system in more detail.

Reforms to support growth

The Government has set out its plan to put the UK on a path to sustainable, long-term economic growth. As part of this, *The Plan for Growth*, Autumn Statement 2011 and *The National Infrastructure Plan 2011* announced a wide-ranging programme of over 250 economic reforms and investment in infrastructure to help achieve the Government's ambitions for the UK economy.

The Government has made significant progress in delivering these reforms. In addition the Government will:

- **take forward many of Alan Cook's recommendations for the roads, including developing a national roads strategy and setting a renewed focus on the level of performance expected from the Highways Agency. The Government will also consider whether to go further and will carry out a feasibility study into new ownership and financing models for the national road network, learning lessons from the water industry, to report on progress by Autumn Statement 2012;**
- **make Belfast, Birmingham, Bradford, Bristol, Cardiff, Edinburgh, Leeds, London, Manchester and Newcastle super-connected cities, as part of the £100 million investment announced at Autumn Statement 2011.** By 2015 this will deliver ultrafast broadband coverage to 1.7 million households and 200,000 businesses in high growth areas as well as high-speed wireless broadband for three million residents. **The Government will also provide an additional £50 million to fund a second wave of ten smaller super-connected cities;**
- **invest £60 million to establish a UK centre for aerodynamics which will open in 2012–13 and support innovation in aerospace technology, commercialise new ideas and spin-off technologies with wider applications in other sectors;**
- **support Network Rail to invest a further £130 million in the Northern Hub rail scheme, subject to value for money, to improve transport links between Manchester and Sheffield, Rochdale, Halifax, Bradford, Bolton, Preston and Blackpool, and to increase capacity on the Hope Valley line between Manchester and Sheffield, which will enable the number of fast trains to double;**
- **support the establishment of a new Pension Infrastructure Platform owned and run by UK pension funds, which will make the first wave of its initial £2 billion investment in UK infrastructure by early 2013.** A separate group of pension fund investors has also presented proposals to the Treasury for increasing pension plan investment in infrastructure in the construction phase;
- **relax Sunday Trading laws from 22 July 2012 to 9 September 2012 inclusive,** recognising that the Olympics and Paralympics represent a unique opportunity for UK business;
- **introduce corporation tax reliefs from April 2013 for the video games, animation and high-end television industries, subject to State aid approval and following consultation, as part of a new ambition to make the UK the technology hub of Europe;**
- **improve and reform the Enterprise Management Incentive scheme (EMI), which helps SMEs recruit and retain talent, by providing additional support to help**

start-ups access the scheme, consulting on amending restrictions that currently prevent the scheme being used by academics employed by start-ups, and more than doubling the individual grant limit to £250,000, subject to State aid approval;

- **introduce an 'above the line' R&D tax credit from April 2013 with a minimum rate of 9.1 per cent before tax.** Loss-making companies will be able to claim a payable credit. The Government will be consulting on the detailed design of the credit shortly and final rates will be decided following consultation;
- **publish a strategy for gas generation in autumn 2012, recognising that gas-fired electricity generation will continue to play a major role in UK energy supplies over the next decade and beyond;**
- **introduce a package of oil and gas tax measures to secure billions of pounds of additional investment in the UK Continental Shelf;**
- later this year, **pilot the best way to introduce a programme of enterprise loans to help young people set up and grow their own businesses,** building on the support already available including the National Enterprise Allowance;
- **accept the Low Pay Commission's recommendation for below inflation increases to the National Minimum Wage** to support employers and help protect jobs;
- **conduct an internal review to examine the role of employee ownership in supporting growth and examine options to remove barriers, including tax barriers, to its wider take-up.** The review will also consider the findings of the work on employee ownership being led by the Minister for Employment Relations, Consumer and Postal Affairs, due to report in summer 2012, and will conclude ahead of Autumn Statement 2012; and
- **consult on simplifying the Carbon Reduction Commitment (CRC) energy efficiency scheme to reduce administrative burdens on business. Should very significant administrative savings not be deliverable, the Government will bring forward proposals in autumn 2012 to replace CRC revenues with an alternative environmental tax, and will engage with business before then to identify potential options.**

The third section of Chapter 1 sets out further information on these and other announcements and on the progress made in implementing the reforms set out in *The Plan for Growth* and Autumn Statement 2011.

Annex A sets out further information on spending in the next spending review period.

Annex B presents further information on the estimated cumulative distributional impact of measures introduced by the Government.

Annex C presents financing information.

Annex D presents selected tables from the OBR's *Economic and fiscal outlook*.

Budget decisions and Government spending and revenue

A summary of Budget policy decisions is set out in the table below. Chapter 2 provides more information on the fiscal impact of the Budget, and sets out all new Budget announcements in full.

Table 1: Summary of Budget policy decisions[1]

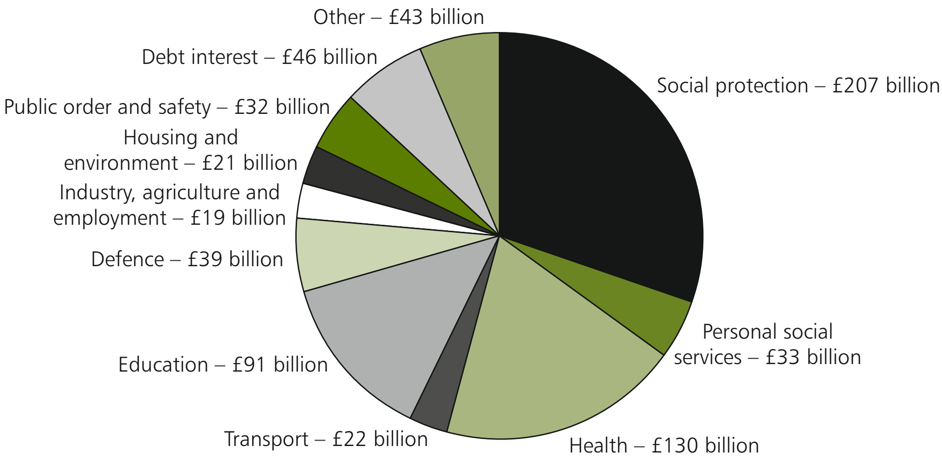
	£ million				
	2012–13	2013–14	2014–15	2015–16	2016–17
Total tax policy decisions	+560	-1,550	-520	-500	-30
Total spending policy decisions	-90	-160	+755	+960	+1,170
TOTAL POLICY DECISIONS[2]	**+470**	**-1,710**	**+235**	**+460**	**+1,140**

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

[2] *Forestalling impact of additional rate reduction and cap on unlimited tax reliefs is set out in Table 2.1.*

Chart 1 presents public spending by function. Total Managed Expenditure (TME) in 2012–13 is expected to be around £683 billion. TME is divided into Departmental Expenditure Limits and Annually Managed Expenditure. TME is reduced by £28 billion in 2012–13 as a result of the one-off transfer of assests from the Royal Mail Pension Plan to the public sector. This is reflected as a reduction in the 'Other' category. For more detail see box 4.1 of the *Economic and fiscal outlook* published alongside Budget 2012.

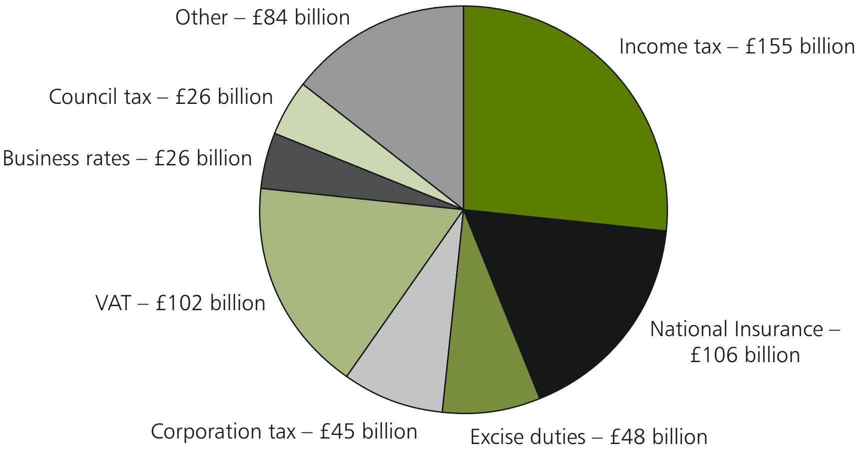
Chart 1: Government spending 2012–13



Source: Office for Budget Responsibility, 2012–13 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 £592 billion in 2012–13.

Chart 2: Government receipts 2012–13



Source: Office for Budget Responsibility, 2012–13 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.

1 Budget Report

A stable economy

1.1 The financial crisis of 2008 and 2009 exposed an unstable and unbalanced model of economic growth in the UK based on ever-increasing levels of public and private sector debt. As a result of that crisis, and unsustainable levels of public spending, the Government inherited the largest deficit since the Second World War and the UK economy experienced the biggest recession of any major economy apart from Japan.

1.2 Over the course of 2010 and 2011, the UK economy was hit by a series of further shocks — with commodity price driven inflation reducing real incomes, the impact of the euro area debt crisis damaging confidence and the ongoing structural impact of the financial crisis weakening economic recovery.

1.3 The Government has taken decisive action to protect the economy in this period of global uncertainty. It has set out a comprehensive strategy to achieve its economic objective for strong, sustainable and balanced growth that is more evenly shared across the country and between industries, based on:

- returning the public finances to a sustainable position, meeting the Government's fiscal targets and ensuring that fiscal credibility underpins low long-term interest rates;
- monetary activism supporting the recovery, focused on meeting the inflation target, increasing the availability of credit to businesses and encouraging private sector investment;
- financial sector reform building the resilience of the system and reducing risks to the taxpayer;
- tax reform to make the UK one of the most competitive places to do business; and
- a comprehensive package of microeconomic reforms to rebalance and strengthen the economy for the future, centred on *The Plan for Growth* and including an ambitious package of infrastructure investment.[1]

1.4 This strategy lays the foundations for a more stable economy, built on enterprise and private sector investment, with UK exporters able to take full advantage of increasing global opportunities and the UK well placed to compete in the knowledge-based world economy.

1.5 The Office for Budget Responsibility's (OBR) March 2012 *Economic and fiscal outlook* demonstrates that clear progress is being made in implementing this strategy. The OBR's forecast, which is broadly unchanged from Autumn Statement 2011, shows:

- growth strengthening over the forecast horizon;
- the economy rebalancing, with net trade continuing to make a positive contribution to growth and business investment making an increasingly strong contribution as confidence builds and credit conditions ease; and

[1] *The Plan for Growth*, HM Treasury and Department for Business, Innovation and Skills, March 2011.

- the deficit falling, with borrowing £11 billion lower over the forecast period than was projected at Autumn Statement 2011 and the deficit in the cyclically-adjusted primary balance halved, from -7.0 per cent of GDP in 2009–10 to -3.4 per cent in 2011–12.[2]

1.6 As a result, the UK is seen as a safe haven from global uncertainty, with market interest rates near record lows — helping keep interest payments lower for families, businesses and the taxpayer.

Recent economic developments and prospects

1.7 Autumn Statement 2011 highlighted three key challenges affecting the UK economy. Although the situation has since stabilised, these challenges continue to be the major factors influencing UK growth prospects:

- the euro area crisis has created increasing instability and uncertainty, undermining confidence and feeding through to tighter credit conditions for households and firms;
- higher inflation associated with the 40 per cent rise in the oil price between 2010 and 2011 has reduced real incomes, increased business costs and weighed on growth around the world; and
- the OBR judges that the lasting impact of the financial crisis has left the economy significantly smaller than its pre-crisis trend.[3] This is consistent with evidence from previous financial crises.[4]

1.8 The UK economy grew by 0.8 per cent in 2011 according to the Office for National Statistics (ONS). Manufacturing output grew more strongly, by 2.0 per cent in 2011. The ONS estimates that GDP fell by 0.2 per cent in the final quarter of 2011, broadly consistent with the OBR's November 2011 forecast. Many countries, particularly in Europe, also experienced negative growth at the end of 2011.

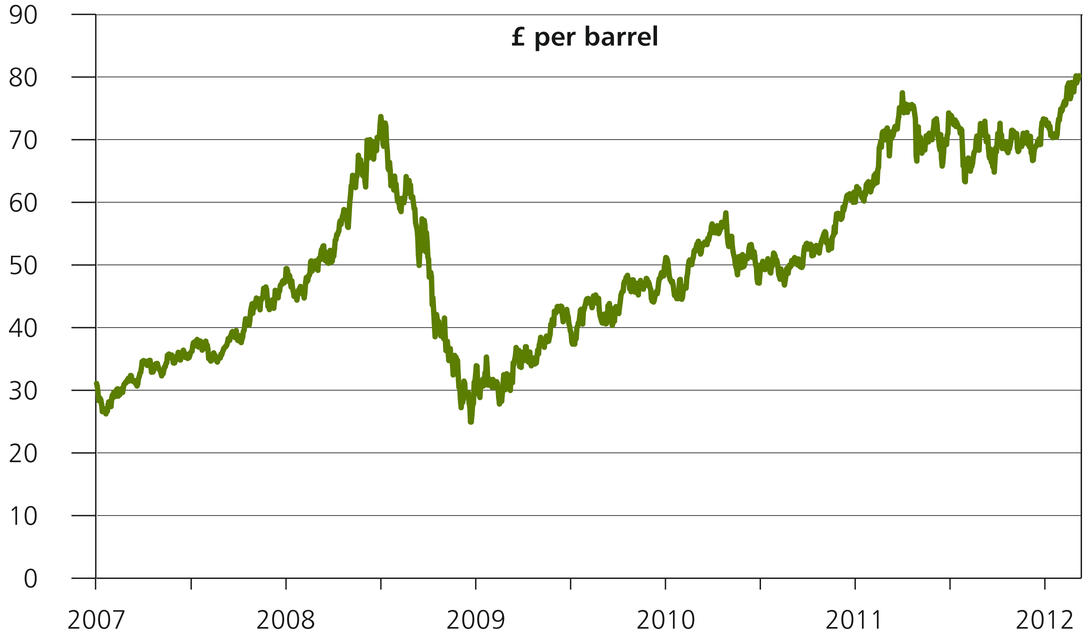
1.9 The latest private sector business surveys point to a pick-up in UK output at the beginning of 2012. Both the OBR and the Bank of England expect growth to resume in the first quarter of this year, but to remain uneven through 2012.

1.10 While the OBR has revised UK growth up slightly in 2012, reflecting evidence of slightly more momentum at the beginning of the year, its forecast for euro area growth has been revised down significantly since Autumn Statement 2011. Many forecasters now expect the euro area to experience a shallow recession. A number of euro area countries have already entered recession following two negative quarters of growth.

1.11 Some risks have receded following the European Central Bank's exceptional three-year liquidity operations in December 2011 and February 2012. The final agreement on the second financial assistance programme for Greece further reduced a key source of uncertainty. The successful implementation of a comprehensive resolution to this crisis remains the immediate priority for the global economy.

[2] Excluding the effect on public sector net investment in 2012–13 of transferring assets from the Royal Mail Pension Plan to the public sector.
[3] As set out in the OBR's March 2012 *Economic and fiscal outlook*, by the end of the forecast period, the OBR assesses trend output to be around 11 per cent below its extrapolation of a pre-crisis trend. The persistent effects of the financial crisis on trend output were also discussed at Autumn Statement 2011.
[4] *This Time is Different: Eight Centuries of Financial Folly*, C. Reinhart and K. Rogoff, Princeton University Press, 2009.

Chart 1.1: Brent oil price



Source: Bloomberg.

1.12 Chart 1.1 shows that global oil prices rose sharply from the middle of 2010. Food prices also increased substantially. These inflationary pressures, which the OBR considers to have been the main drag on UK growth over the past 18 months, have started to abate, easing the pressure on household incomes and improving the outlook for consumers.

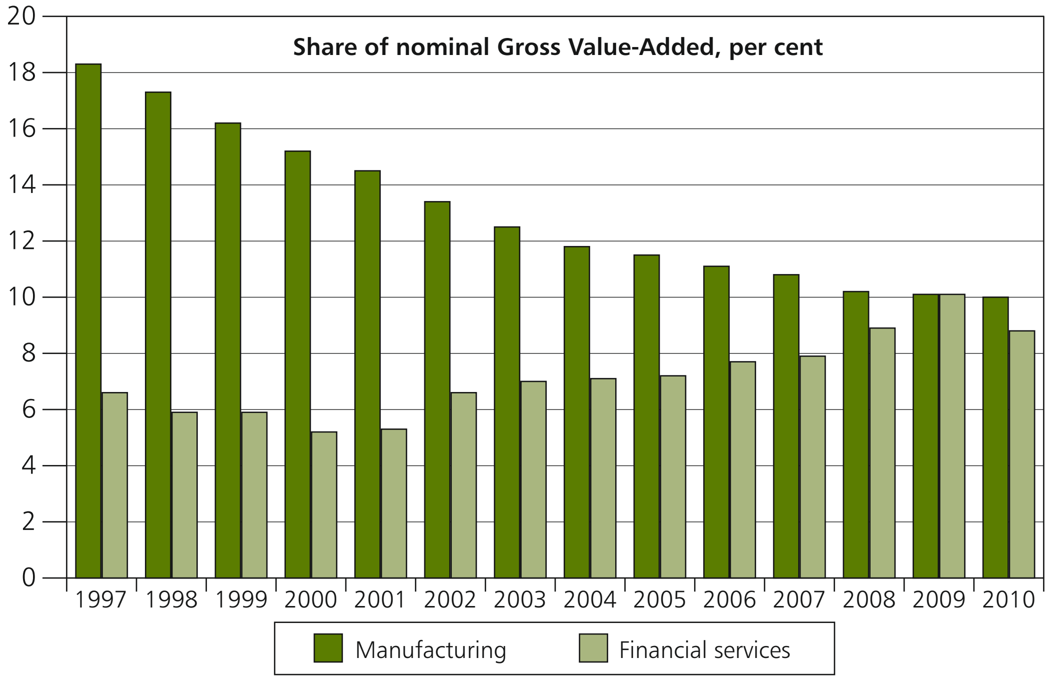
1.13 Oil prices have, however, recently risen to record levels in sterling terms, reflecting the impact of ongoing tensions in the Middle East. If sustained this could renew upward pressure on inflation and dampen recovery in the UK and globally.

Rebalancing of the UK economy

1.14 Increasing reliance on the financial sector and on borrowing in the private and public sectors drove growing imbalances in the UK economy during the pre-crisis decade. As Chart 1.2 highlights, financial services' share of total output increased from 6½ per cent in 1997 to 10 per cent in 2009, while manufacturing's share fell sharply over the same period, from over 18 per cent to 10 per cent. The economy was also unbalanced between the public and private sectors, with state spending amounting to almost 48 per cent of GDP in 2009–10.

1.15 Increasing exports and investment, as companies capitalise on global opportunities, will support more sustainable growth in the medium term. Lower government spending will release resources from the public sector for use by the private sector. Through this process, the economy will rebalance and become more resilient and competitive. As global conditions normalise, private sector investment and UK exports will be further supported by the Government's tax and supply-side reforms, which are set out in more detail later in this chapter.

Chart 1.2: The share of manufacturing and financial services



Source: Office for National Statistics.

Investment and confidence

1.16 Business investment in the UK fell sharply during the recession and remains at historically low levels. The ONS estimates that business investment fell 5.6 per cent in the last quarter of 2011. The OBR attributes the majority of the downward revision to its business investment forecast for 2012 to that weakness, but notes that initial estimates of business investment are prone to significant revision. Recent investment conditions have been challenging and weaker investment could reflect the temporary postponement of projects due to the damage to confidence caused by the euro area crisis.

1.17 At the aggregate level, company finances remain strong. In the year to the third quarter of 2011, UK private non-financial corporations ran a financial surplus equivalent to 5 per cent of GDP. These are resources available for companies to invest as confidence builds.

Export performance

1.18 The value of UK exports has risen by 29 per cent from the trough in the second quarter of 2009 and is now above its pre-crisis peak. For 2011 as a whole, the UK's total trade balance improved by £8.7 billion. Over the past year, there has been a divergence in export performance to different markets. The UK's long-standing large export markets, including the US, Germany and France, have seen continued growth, while euro-periphery markets have been weaker.

1.19 UK exports to major emerging markets have been growing particularly strongly. Over the past year, the value of UK goods exports to India grew by 31 per cent and to China by 15 per cent. As a result, China and India were the destination of almost 5 per cent of UK goods exports in 2011, the share having nearly doubled from five years ago. The IMF forecasts the world economy will grow by more than $20 trillion over the next five years, with almost $13 trillion from emerging markets.[5]

[5] *World Economic Outlook*, IMF, September 2011.

Economy forecast

1.20 Table 1.1 provides a summary of the OBR's central economic forecast. Annex D reproduces key tables from the OBR's March 2012 *Economic and fiscal outlook*, which is published alongside this Budget.

Table 1.1: 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
GDP growth	**0.8**	**0.8**	**2.0**	**2.7**	**3.0**	**3.0**
Main components of GDP						
Household consumption	-0.8	0.5	1.3	2.3	3.0	3.0
Business investment	0.2	0.7	6.4	8.9	10.2	10.1
Dwellings investment[2]	1.8	0.2	10.5	11.6	9.9	9.7
Government[3]	-1.1	0.0	-1.3	-1.9	-2.5	-2.6
Change in inventories[4]	-0.1	-0.1	0.0	0.0	0.0	0.0
Net trade[4]	1.2	0.4	0.5	0.3	0.2	0.1
CPI inflation (Q4)	**4.6**	**2.3**	**1.9**	**2.0**	**2.0**	**2.0**

[1] *All figures in this table are rounded to the nearest one 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] *The sum of public corporations and private sector investment in new dwellings and improvement to dwellings.*

[3] *The sum of government consumption and general government investment.*

[4] *Contribution to GDP, percentage points.*

Source: Office for Budget Responsibility.

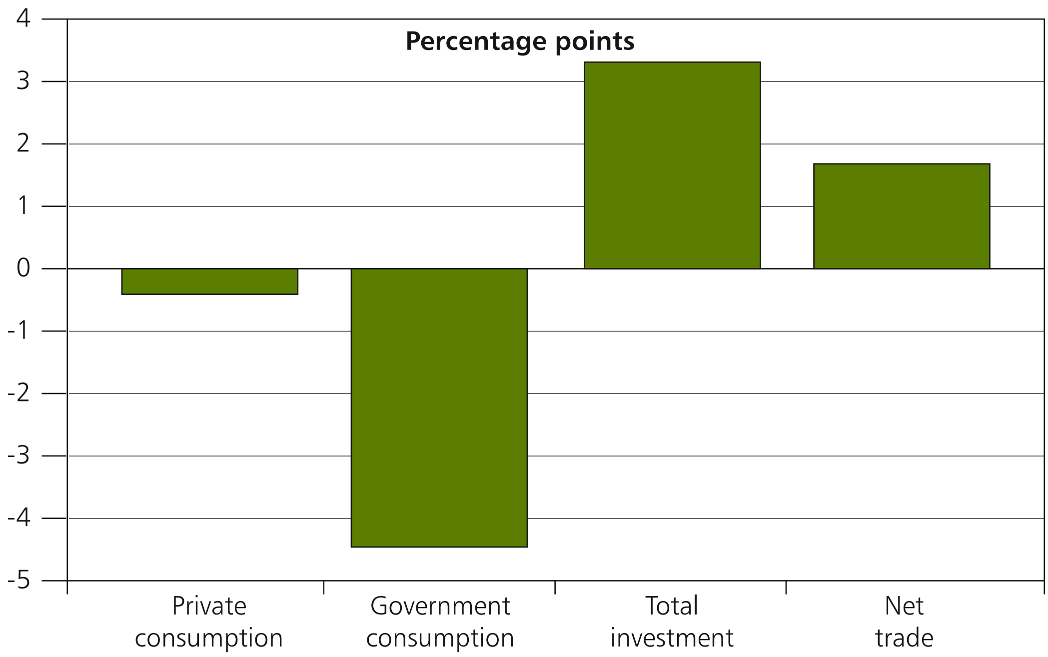
1.21 The OBR's forecast for UK growth and inflation is broadly unchanged from its November 2011 forecast. It continues to forecast subdued but positive growth, consistent with experience from past financial crises, with the recovery likely to be particularly uneven this year. The OBR forecasts that the economy will avoid recession, as does the Bank of England's February *Inflation Report*. It forecasts that quarterly growth will be affected by the additional bank holiday in June 2012 and the Olympic Games later this summer.

1.22 The OBR expects CPI inflation to continue to fall back sharply through the remainder of 2012 and fall further to be close to the 2 per cent target from early 2013, as the upward pressure from commodity prices fades and spare capacity weighs on inflation. This forecast is consistent with those of the Bank of England and other external forecasters.

1.23 Unemployment has risen in recent months, following the euro area crisis and resulting economic slowdown, with labour market conditions particularly challenging for younger people. But the claimant count is now forecast to peak at around 1.67 million by the end of 2012, compared with the peak of 1.8 million in the OBR's November 2011 forecast, in part following better than expected data.[6] Consistent with the OBR's November 2011 assessment, ILO unemployment is forecast to peak at 8.7 per cent in 2012 and fall back to around 6.3 per cent by 2016. The OBR's assumption of a structural unemployment rate of around 5¼ per cent throughout the forecast remains unchanged.

[6] A full explanation of the data and methodological reasons for the OBR's claimant count forecast revision is available in Chapter 3 of the OBR's March 2012 *Economic and fiscal outlook*.

Chart 1.3: OBR forecast change in shares of GDP between 2011 and 2016[1]



[1]Percentage point change in the share of nominal GDP between 2011 and 2016 for each expenditure component.
Source: Office for Budget Responsibility.

1.24 Chart 1.3 and Table 1.1 show that the economy is forecast to rebalance in the coming years. As outlined above, export performance has already picked up. The OBR forecasts that:

- net trade, which made a negative contribution to growth over the pre-crisis decade, will make a positive contribution to growth in each year of the forecast;
- business investment will pick up and make an increasingly strong contribution to growth in each year of the forecast as confidence builds and credit conditions ease; and
- as fiscal consolidation continues, government spending will decline in real terms.

1.25 The OBR's assessment of the broad risks around its central economic forecast are consistent with those identified at Autumn Statement 2011:

- the situation in the euro area remains a major risk to the forecast, with the possibility that further intensification of the crisis could affect the UK economy through trade, financial and confidence channels;
- the potential for externally-driven inflationary pressures, including from further oil price rises; and
- uncertainty over the degree of spare capacity in the economy and the medium-term rate of potential output growth.

The Government's strategy

1.26 The Government has set out a comprehensive strategy to address the economic challenges facing the UK and to restore stability, based on fiscal consolidation, monetary activism, financial sector reform, tax reform and microeconomic reforms to support growth.

Fiscal consolidation

1.27 At Autumn Statement 2011, the Government set out a clear and credible response to the economic and fiscal deterioration in the OBR's November 2011 forecast, meeting its fiscal targets and ensuring that the public finances are returned to a sustainable path. In line with the Government's fiscal strategy, Budget 2012 sets out:

- **a fiscally neutral Budget that maintains the Government's commitment to deficit reduction and continues to meet the fiscal targets;**
- **clear progress in implementing the Government's fiscal consolidation plan and reforms to welfare and public services, with borrowing £11 billion lower over the forecast period than projected at Autumn Statement 2011;[7] and**
- **measures to address the long-term policy challenges resulting from an ageing population.**

1.28 Recognising that all forecasts are subject to a high degree of uncertainty in a period of global instability, the Government is committed to taking further action if necessary to meet its fiscal targets, protect the economy and maintain financial stability.

Maintaining deficit reduction

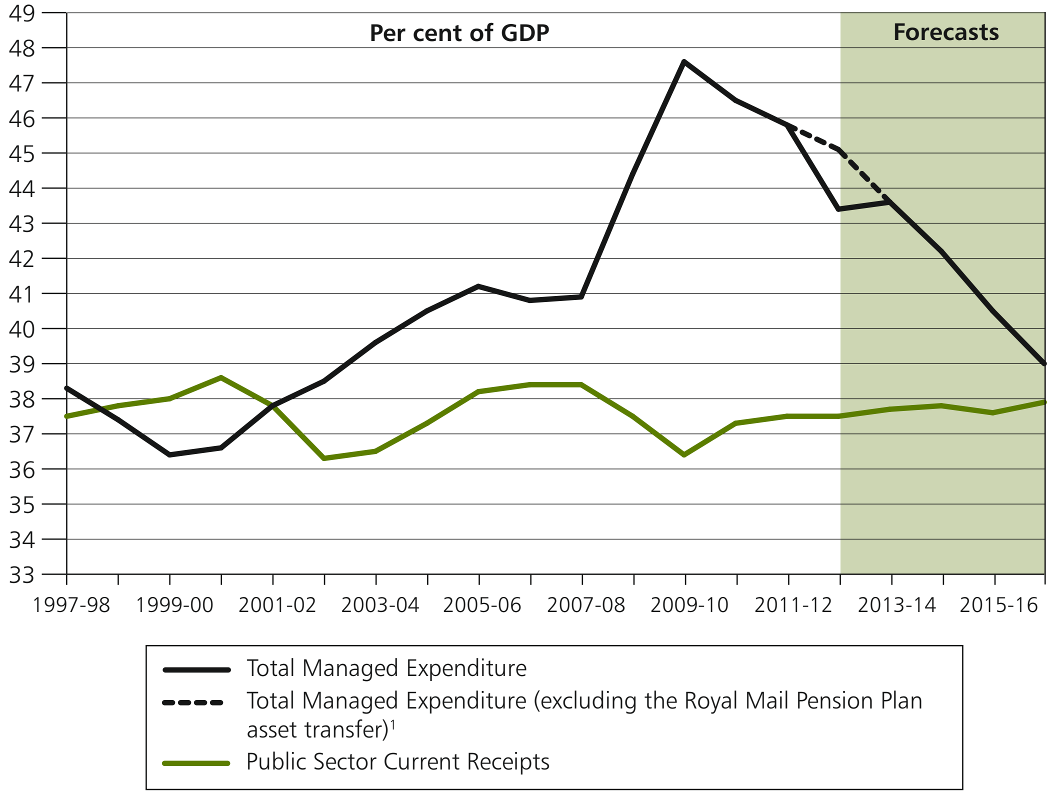
1.29 Budget 2012 policy decisions have a neutral impact on the public finances over the forecast period, with the costs of policy decisions offset by measures to reduce borrowing. As a result, all of the decrease in the OBR's forecast for public sector net borrowing will contribute towards deficit reduction. The impact on borrowing of the measures announced in this Budget is set out in Table 2.1 in Chapter 2.

1.30 Chart 1.4 shows that, as a result of the plans set out in this Budget, the public finances are forecast to return to a sustainable path. Public spending is projected by the OBR to fall from almost 48 per cent of GDP in 2009–10 to around 39 per cent of GDP by 2016–17, around the same level as 2003–04. Public sector current receipts are projected to rise from around 36½ per cent of GDP to around 38 per cent over the same period.

1.31 The Government's fiscal strategy has been endorsed by the IMF, the OECD, the European Commission and UK business organisations.[8] The pace of the Government's planned fiscal consolidation is in line with international practice, given the UK's high budget deficit.[9]

[7] Excluding the effect on public sector net investment in 2012–13 of transferring assets from the Royal Mail Pension Plan to the public sector.
[8] For example, *Article IV Staff Report*, IMF, July 2011; *Economic Outlook*, OECD, November 2011; *European Economic Forecast — Spring 2011*, European Commission, May 2011; and, *A vision for rebalancing the economy — A new approach to growth*, CBI, December 2011.
[9] *Fiscal Monitor Update*, IMF, January 2012.

Chart 1.4: Receipts and expenditure



[1]*Total Managed Expenditure 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 and Office for National Statistics.

Implementing fiscal consolidation

1.32 As set out in Table 1.2, the Government plans a total consolidation of £155 billion per year by 2016–17, consisting of total spending reductions of £126 billion and a net tax increase of £29 billion. Taking the consolidation as a whole, 81 per cent of the total consolidation will be delivered by lower spending in 2016–17. 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.[10]

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

Table 1.2: Total consolidation plans over the forecast period

	£ billion					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Policy inherited by the Government	**25**	**39**	**55**	**68**		
Spending[1]	14	24	37	49		
Tax[2]	11	15	17	19		
Spending share of consolidation (per cent)	*57*	*63*	*68*	*72*		
Total discretionary consolidation	**41**	**59**	**82**	**106**	**134**	**155**
Spending[1,3,4]	23	37	57	79	106	126
Tax[2,3]	18	22	25	27	28	29
Spending share of consolidation (per cent)	*56*	*62*	*69*	*74*	*79*	*81*

[1] Spending consolidation is attributable to three factors: (a) reductions in DEL are calculated by assessing nominal DEL totals against a counterfactual of growing DELs 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 welfare 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 2012 Economic and fiscal outlook.

[2] This takes account of the latest costings, including the additional rate of income tax.

[3] For outer years that have now come into the forecast period, the impacts of tax and welfare AME measures announced previously are grown in line with general inflation in the economy.

[4] The Government has not set DELs for 2015–16 and 2016–17. Figures shown above are based on plans for public spending beyond the Spending Review 2010 period as set out in Table 2.3.

Source: Office for Budget Responsibility and HM Treasury.

1.33 Implementation of the Government's fiscal consolidation plan is on course:

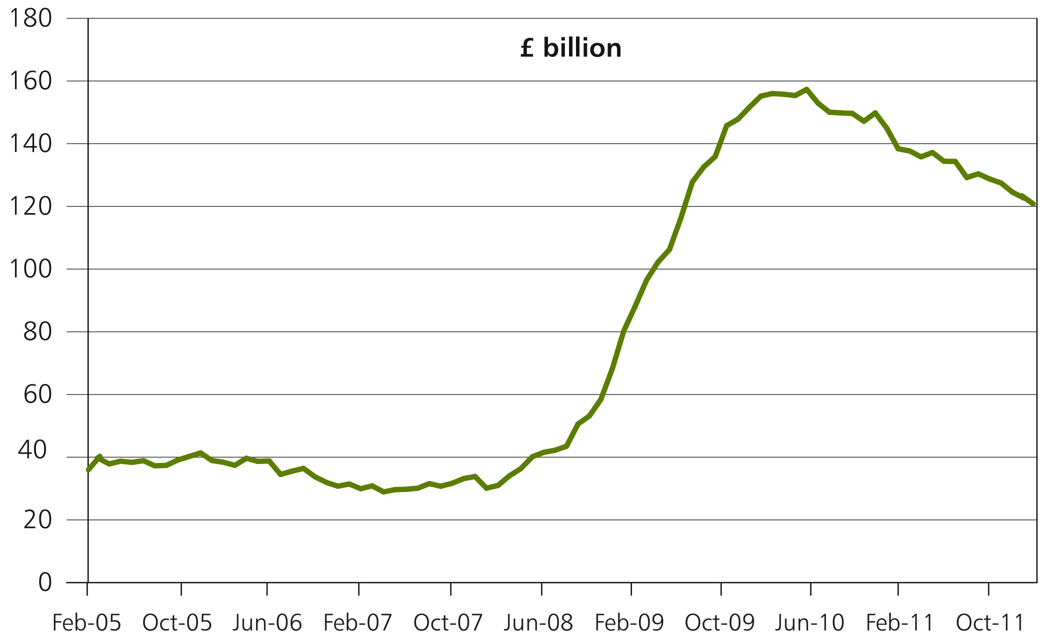
- the OBR forecasts that departments will exceed savings targets and deliver underspends of around £6 billion in 2011–12;
- by the end of 2011–12, almost 40 per cent of the annual fiscal consolidation planned for the Spending Review 2010 period will have been achieved, with almost 30 per cent of the spending and two-thirds of the tax consolidation in place;
- by the end of April 2012, the Government will have implemented measures to deliver almost three-quarters of the total savings expected from reforms to the welfare system;[11] and
- the vast majority of tax consolidation measures will have been legislated by 6 April 2012.

1.34 The Government has made significant progress in reducing the deficit and reversing the unprecedented increase in borrowing between 2008 and 2010:

- the deficit in the cyclically-adjusted primary balance, a measure of the structural deficit excluding debt interest payments, has been halved over the last two years, falling from -7.0 per cent of GDP in 2009–10 to -3.4 per cent of GDP in 2011–12. The OBR forecasts that this measure of the deficit will approach balance in 2014–15;
- borrowing in 2010–11 was £137 billion, £9 billion lower than forecast in Budget 2011;
- borrowing in 2011–12 is forecast to be £126 billion, £1 billion lower than forecast at Autumn Statement 2011; and
- as shown in Chart 1.5, the rolling 12-month total of public sector net borrowing has fallen from a peak of £157 billion in May 2010 to £120 billion in the twelve months to January 2012.

[11] Based on net savings in 2014–15. This estimate is consistent with Table 1.2.

Chart 1.5: Rolling 12-month total of public sector net borrowing[1]



[1]Data up to January 2012.
Source: Office for National Statistics and HM Treasury.

Treasury Special Reserve

1.35 The net additional costs of military operations in Afghanistan are met from the Treasury Special Reserve. This funding is in addition to the Ministry of Defence's core budget. **In line with the process of transition to Afghan-led security and the Government announcement that UK combat operations in Afghanistan will cease by the end of 2014, the Special Reserve provision for military operations will be reduced by £2.4 billion over the Spending Review 2010 period.**

1.36 The Government will continue to fund the full net additional costs of operations in Afghanistan from the Special Reserve, including up to £605 million for urgent operational equipment in 2012–13. **The Government will reinvest £100 million of the reduction in the Special Reserve provision in 2013–14 to improve accommodation for up to 1,275 military personnel. £3 million will be reinvested each year to double the Council Tax Rebate, from 50 per cent to 100 per cent, for around 9,500 deployed military personnel, and £2 million will be reinvested each year to double the rate of the Families Welfare Grant, benefitting the families of around 20,000 deployed personnel.**

Welfare and public service reform

1.37 The Government's legislative programme is continuing to support the implementation of fiscal consolidation, with major reforms and savings being delivered, including through:

- welfare reform, where the Welfare Reform Act received Royal Assent on 8 March. The Act legislates for significant reforms, including to Housing Benefit, Employment and Support Allowance, and the introduction of the household cap. These reforms are expected to deliver Annually Managed Expenditure (AME) savings of around £4.5 billion in 2014–15; and
- changes to legal aid, with reforms going through Parliament expected to contribute towards £450 million of savings in the legal aid budget by 2014–15.

1.38 The Government is introducing Universal Credit from 2013 to help people move off benefits and into work, removing many of the significant barriers within the current welfare system. **Budget 2012 announces that there will be a cap on the additional costs of Universal Credit of up to £2.5 billion a year in the next spending review.** This is in addition to the £2 billion that was provided in the current spending review for implementation. This will help ensure the welfare system encourages people into work wherever possible and remains affordable, both in this spending review period and the next. The final design of Universal Credit will be announced in the autumn.

The next spending review period

1.39 At Autumn Statement 2011, the Government set out plans for public spending growth in 2015–16 and 2016–17 to continue at the same rate as in the Spending Review 2010 period, with a baseline excluding the one-off investments in infrastructure announced at Autumn Statement 2011. Annex A sets out the implications for implied Departmental Expenditure Limits (DEL) and AME. For illustrative purposes, the annex shows that AME savings of £10.5 billion in 2016–17 would need to be delivered to ensure that the average annual rate of real reductions in resource DEL is no greater in 2015–16 and 2016–17 than in the Spending Review 2010 period.

1.40 The Government will be examining the cost drivers on all areas of public spending and identifying the further reforms needed to deliver a sustainable welfare system and public services within the resources available.

Addressing long-term policy challenges

1.41 The Government is also taking further steps to address long-term policy challenges, including those set out in the OBR's 2011 *Fiscal sustainability report*:

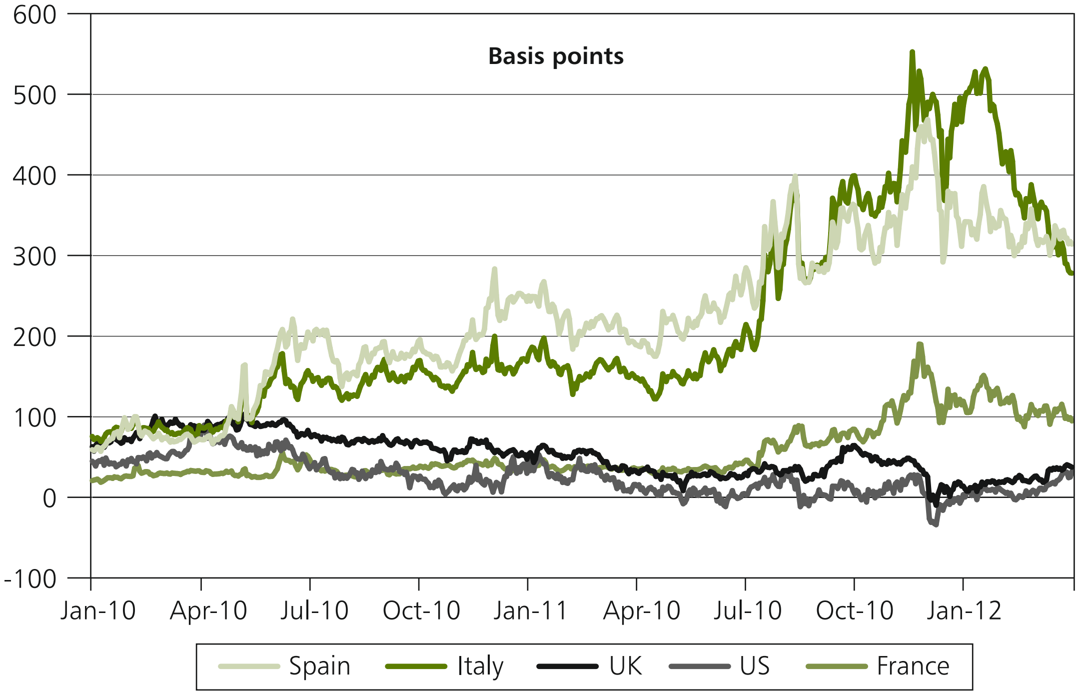
- **announcing that the Government will commit to ensuring the State Pension age is increased in future to take into account increases in longevity** and will publish proposals at the time of the OBR's 2012 *Fiscal sustainability report*; and
- reaching a high-level agreement with public sector unions on long-term reform of public service pensions, including on linking pension ages to the rising State Pension age.

Securing low interest rates

1.42 As Chart 1.6 shows, with UK long-term interest rates reaching record lows in recent months, there is evidence that the Government's fiscal plans are continuing to contribute to the UK being seen as a safe haven:

- in May 2010, the spread between the yields on UK gilts and German bunds were similar to those for Italian and Spanish government bonds. Having seen their bond yields rise well above 6 per cent, Italy and Spain now face interest rates around 5 per cent, while yields on 10-year gilts have fallen below 2½ per cent; and
- some European countries with smaller deficits than the UK have had to specify additional short-term consolidation measures as market pressure has increased as a result of the deterioration in the euro area economy.

Chart 1.6: Spread to 10-year German government bonds



Source: Bloomberg.

1.43 UK interest rates have fallen by more than one percentage point since May 2010. These low market interest rates provide a direct benefit to the economy and help keep interest payments lower for families, businesses and the taxpayer. A sharp rise would be particularly damaging to an economy with the UK's high levels of public and private sector debt. Table 1.3 shows that a one percentage point increase in government bond yields would add around £7.5 billion to debt interest payments by 2016–17. A one 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					
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**Total**
Increase in interest rates[1]						
1 percentage point	0.9	2.6	4.4	6.0	7.5	**21.4**
2 percentage points	1.8	5.3	8.8	12.1	15.2	**43.2**
3 percentage points	2.7	8.0	13.3	18.3	23.1	**65.4**
4 percentage points	3.5	10.6	17.8	24.7	31.3	**88.0**
5 percentage points	4.4	13.3	22.4	31.2	39.8	**111.1**

[1] Above market gilt rates, consistent with the OBR's March 2012 Economic and fiscal outlook. Increases are applied to each gilt maturity from 2012Q2 and are assumed to continue throughout the forecast period.
Source: HM Treasury.

Fiscal policy and growth

1.44 Fiscal consolidation is critical for the UK to maintain market confidence and minimise risks to economic stability. As the IMF has argued, the short-term impact of fiscal consolidation on output is likely to be significantly lower for countries with floating exchange rates and the ability to set their own monetary policy.[12] Fiscal consolidation allows more activist monetary policy to support the economy, while currency flexibility can support net exports.

[12] *World Economic Outlook*, IMF, October 2010.

1.45 Reversing the historic rise in public debt will strengthen the UK's medium-term growth prospects, with recent studies showing that high levels of debt damage growth through a number of channels, including by reducing national savings, increasing levels of taxation and by increasing uncertainty.[13] The Government's fiscal plans ensure that debt as a percentage of GDP is set on a downward trajectory in 2015–16.

Fiscal forecast

1.46 Table 1.4 provides a summary of the OBR's central forecast for the public finances including the measures set out in this Budget.[14] These forecasts are broadly in line with those presented at Autumn Statement 2011:

- public sector net borrowing will fall from its post-war peak of 11.1 per cent of GDP in 2009–10 to 4.3 per cent in 2014–15, the end of the Spending Review 2010 period, and 1.1 per cent in 2016–17; and
- public sector net debt is forecast to peak at 76.3 per cent of GDP in 2014–15, falling to 74.3 per cent in 2016–17.

1.47 In order to secure the future of the universal postal service and facilitate private sector investment into Royal Mail, the Government intends to address the significant deficit in the company's pension scheme under the powers contained in the Postal Services Act 2011, subject to State aid approval.

1.48 On 1 April 2012, around £37.5 billion of liabilities will be transferred from the Royal Mail Pension Plan, a private sector pension scheme, to a newly established unfunded public pension scheme. These score as contingent liabilities in the National Accounts, leaving public sector net debt unaffected, but will score alongside other unfunded pension liabilities in the Whole of Government Accounts. Alongside these liabilities, an estimated £28 billion of assets will transfer to Government.

1.49 The asset transactions have significant impacts on the public finances:

- the transfer of the scheme's assets to the public sector is expected to be scored as a capital grant, reducing public sector net investment and public sector net borrowing by £28 billion in 2012–13. This large, one-off capital grant distorts flow measures of the fiscal position. Table 1.4 includes figures excluding this effect; and
- the transfer of assets, and the sale of the majority of non-gilt assets, reduces public sector net debt by £23 billion by 2013–14. As a result, public sector net debt is around one and a half per cent of GDP lower than forecast at Autumn Statement 2011 from 2013–14.

1.50 The immediate impact on the public finances would appear to be significantly beneficial. However, the expected value of the liabilities exceeds the current value of the assets, resulting in a net cost to Government over the lifetime of the pension scheme. The estimated net cost will be around £0.2 billion per year in the current spending review period. The Government has chosen to offset this forecast net cost through a reduction in DEL reserves, leaving public sector net borrowing unchanged. The Government is taking responsible action to safeguard the public finances by using the proceeds from asset sales to pay down debt now and prepare for future costs. Further details on this transfer and its impact on the public finances are set out in Box 4.1 of the OBR's March 2012 *Economic and fiscal outlook.*

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[13] *Fiscal Consolidation: Part 1. How Much is Needed and How to Reduce Debt to a Prudent Level?*, D. Sutherland, P. Hoeller and R. Merola, OECD Economics Department Working Papers, No. 932, OECD Publishing, January 2012.
[14] All the fiscal aggregates in this chapter exclude the temporary effects of financial interventions.

Table 1.4: Overview of the OBR's central fiscal forecast

	Per cent of GDP							
	Outturn		Forecasts					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Deficit								
Public sector net borrowing	11.1	9.3	8.3	5.8	5.9	4.3	2.8	1.1
Surplus on current budget	-7.7	-6.7	-6.5	-6.0	-4.5	-3.0	-1.6	0.1
Primary balance	-9.2	-6.5	-5.3	-3.2	-3.3	-1.5	0.0	1.7
Cyclically-adjusted net borrowing	8.9	7.0	6.4	4.0	4.1	2.9	1.9	0.7
Cyclically-adjusted surplus on current budget	-5.5	-4.4	-4.6	-4.2	-2.7	-1.5	-0.7	0.5
Cyclically adjusted primary balance	-7.0	-4.2	-3.4	-1.3	-1.6	-0.1	1.0	2.1
Treaty deficit[1]	11.5	9.4	8.3	5.9	6.0	4.4	2.9	1.2
Cyclically-adjusted Treaty deficit	9.3	7.1	6.4	4.0	4.2	3.0	2.0	0.8
Debt								
Public sector net debt[2]	52.5	60.5	67.3	71.9	75.0	76.3	76.0	74.3
Treaty debt ratio[3]	71.2	76.4	84.0	89.0	91.9	92.7	91.4	88.6
Output gap	-4.1	-2.9	-2.6	-2.7	-2.4	-1.9	-1.1	-0.4
Memo: fiscal aggregates excluding the effect on public sector net investment in 2012–13 of transferring assets from the Royal Mail Pension Plan to the public sector:								
Public sector net borrowing	*11.1*	*9.3*	*8.3*	*7.6*	*5.9*	*4.3*	*2.8*	*1.1*
Surplus on current budget	*-7.7*	*-6.7*	*-6.5*	*-6.0*	*-4.5*	*-3.0*	*-1.6*	*0.1*
Cyclically-adjusted net borrowing	*8.9*	*7.0*	*6.4*	*5.7*	*4.1*	*2.9*	*1.9*	*0.7*
Cyclically-adjusted surplus on current budget	*-5.5*	*-4.4*	*-4.6*	*-4.2*	*-2.7*	*-1.5*	*-0.7*	*0.5*
Cyclically-adjusted primary balance	*-7.0*	*-4.2*	*-3.4*	*-3.1*	*-1.6*	*-0.1*	*1.0*	*2.1*
Memo: Total fiscal impact of policy decisions[4]				*-0.1*	*-0.1*	*0.1*	*0.0*	*0.1*

[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 fiscal impact of policy decisions' line in Table 2.1.
Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

1.51 Excluding the impact in 2012–13 of transferring assets from the Royal Mail Pension Plan to the public sector, borrowing is forecast to be £11 billion lower across the forecast period than projected at Autumn Statement 2011.

Fiscal framework

1.52 The Government's fiscal strategy is underpinned by clear targets that ensure the public finances are set on a sustainable path. As announced in the June Budget 2010, the Government has set a forward-looking fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period. This fiscal mandate is based on:

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

1.53 The fiscal mandate is supported by a supplementary target for debt that requires public sector net debt as a percentage of GDP to be falling at a fixed date of 2015–16, ensuring that the public finances are restored to a sustainable path.

Performance against the mandate

1.54 Including all measures set out in this Budget, the OBR's March 2012 *Economic and fiscal outlook* concludes that the Government remains on course to meet the fiscal mandate and the supplementary debt target. The OBR's judgement is that the Government's policies are consistent with:

- a roughly 60 per cent chance of achieving the Government's fiscal mandate in 2016–17; and
- meeting the supplementary target for debt in 2015–16.

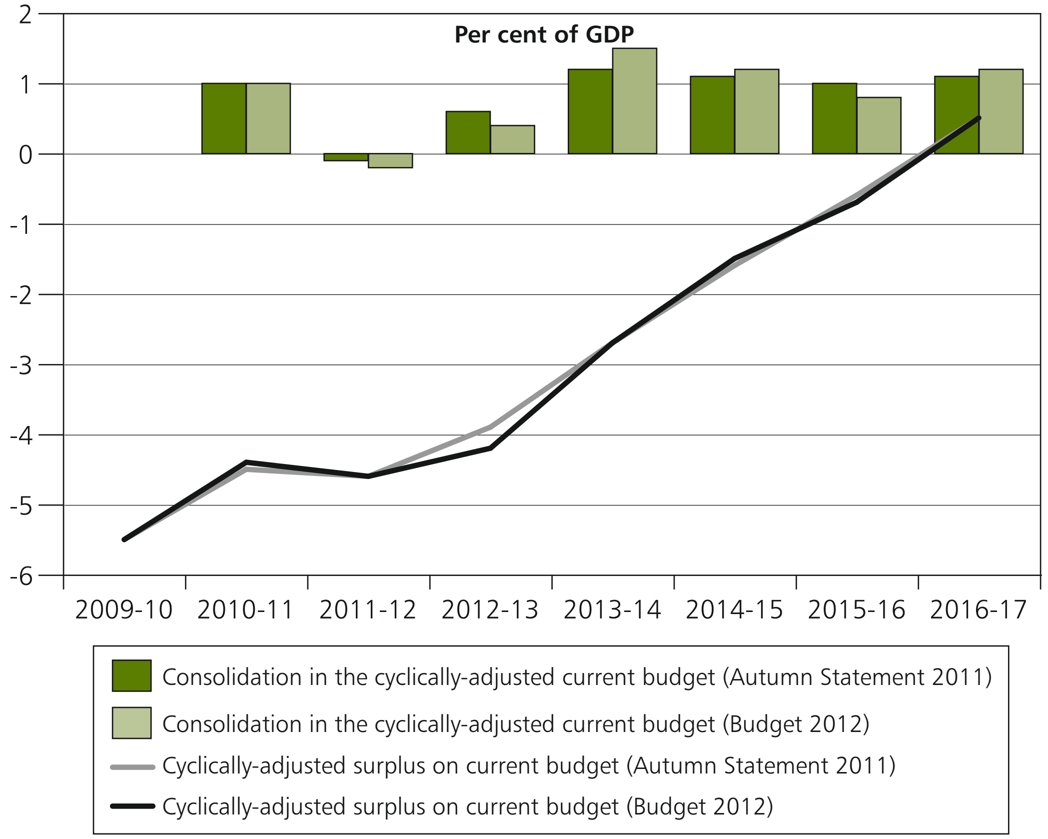
1.55 Charts 1.7 and 1.8 show performance against the Government's fiscal mandate and the supplementary debt target.

1.56 The deficit in the cyclically-adjusted current balance rises in 2011–12. This reflects the impact of the OBR's revisions to the output gap at Autumn Statement 2011, which mean more of the deficit in that year is estimated to be structural. In the same year, cyclically-adjusted net borrowing falls by 0.6 per cent of GDP and the cyclically-adjusted primary balance falls by 0.8 per cent of GDP.

Performance against EU targets

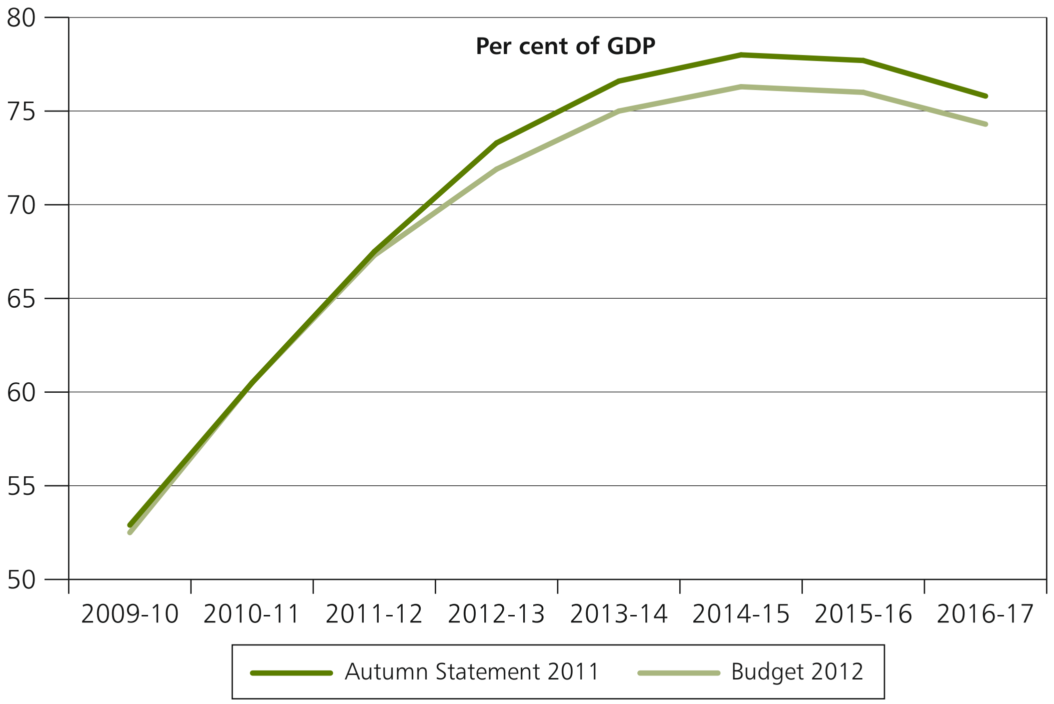
1.57 The Government remains committed to bringing the UK's Treaty deficit in line with the 3 per cent target set out in the Stability and Growth Pact (SGP). The UK is forecast to meet the European Union SGP target for the Treaty deficit in 2015–16. As set out in Table 1.4, the cyclically-adjusted Treaty deficit is forecast to be 3.0 per cent of GDP in 2014–15.

Chart 1.7: Consolidation in the cyclically-adjusted current budget



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

Chart 1.8: Public sector net debt



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

Debt management

1.58 The Government's financing plans for 2012–13 are set out in full in the *Debt and reserves management report 2012–13*, published alongside the Budget and summarised in Annex C. It is anticipated the gross financing requirement of £166.4 billion will be met through gilt issuance of £167.7 billion, a reduction of £1.3 billion in the stock of Treasury bills and a zero net contribution to financing from National Savings and Investments.

1.59 The financing arithmetic provides for £6 billion of sterling finance for the Official Reserves in 2012–13. The Government continues to envisage sterling financing being held, on average, at a similar level up to 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.

1.60 In light of evidence of strong demand for gilts of long maturities and against the backdrop of historically low long-term interest rates, **in 2012–13 the Debt Management Office will consult on the case for issuance of gilts with maturities significantly longer than those currently in issue, that is in excess of 50 years, and/or perpetual gilts.** Any subsequent decision about whether to proceed with issuance will be informed by the responses received to the consultation and assessed with reference to the Government's debt management objective.

Monetary activism

Monetary policy

1.61 Monetary policy has a critical role in supporting the economy as the Government delivers on its commitment to necessary fiscal consolidation. The credibility of the Government's fiscal plan allows the independent Monetary Policy Committee (MPC) to keep Bank Rate lower than it would otherwise have been and to deliver additional monetary stimulus through quantitative easing.

1.62 The MPC of the Bank of England has full operational independence to set policy to meet the inflation target. **In this Budget, the Government reaffirms the inflation target of 2 per cent for the 12-month increase in the Consumer Prices Index (CPI), which applies at all times.**

1.63 In February 2012, the MPC decided to extend its programme of asset purchases financed by the issuance of central bank reserves through the Asset Purchase Facility by £50 billion. The MPC judged that given the weak near-term growth outlook and associated downward pressure from spare capacity, this policy action was appropriate to meet the 2 per cent inflation target in the medium term. The Chancellor authorised an increase in the ceiling on these asset purchases to £325 billion. **The Government confirms in Budget 2012 that the Asset Purchase Facility will remain in place for the financial year 2012–13.**

Credit easing implementation

1.64 As bank funding remains constrained, small businesses are facing higher costs of finance. To address this, at Autumn Statement 2011 the Government announced a package of credit easing schemes for small businesses.

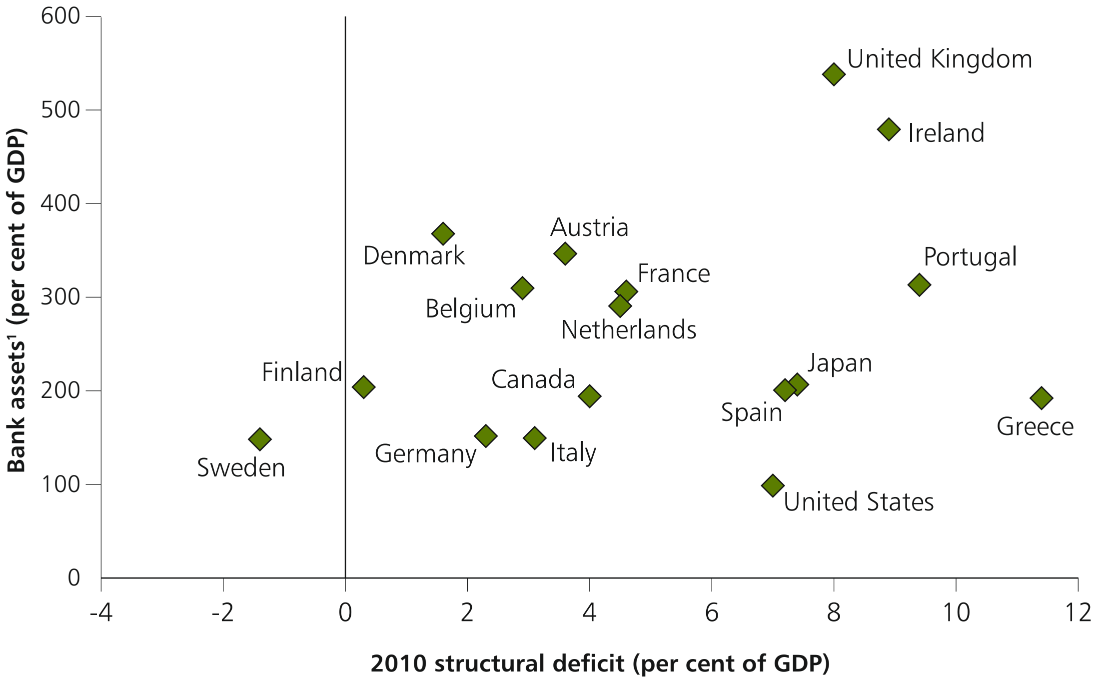
1.65 On 20 March 2012, the Government launched the National Loan Guarantee Scheme (NLGS). Under this scheme the Government will provide up to £20 billion of guarantees to banks on their unsecured debt in return for a fee; this makes it cheaper for the participating banks to borrow. Banks will pass on the entire benefit they receive to smaller businesses. Businesses that take out an NLGS loan will receive a discount on their loan of one percentage point compared to the interest rate they would otherwise have received from that bank outside the scheme.

1.66 At Autumn Statement 2011 the Government also announced that it would help businesses raise funds from non-bank sources by making available an initial £1 billion through a Business Finance Partnership. **The Government is increasing the funds available to invest through the Business Finance Partnership to £1.2 billion.** Further details on the implementation of these schemes are set out later in this chapter.

Financial sector regulation

1.67 As Chart 1.9 shows, the UK has a very large financial system relative to the size of its economy, meaning any loss of investor confidence in the UK's fiscal position would not only affect the UK, but also the global economy. Fiscal consolidation reduces the risk of negative feedback loops between weak public finances and a strained financial sector. As the IMF has stated *"the stability and efficiency of the UK financial system is a global public good due to potential spillovers"*.[15] It is the IMF's view that the UK's economic and financial sector policies have a systemic impact on the global economy.[16]

Chart 1.9: Relative size of banking sector and fiscal position



[1] *Total assets of commerical banks, including subsidiaries. For Austria, the data is from Austria National Bank. For Ireland, the data are from Central Bank of Ireland. For Portugal, the data are from Bank of Portugal.*
Source: World Economic Outlook, IMF, September 2011 and Global Financial Stability Report, *IMF, September 2011.*

1.68 The Government's reforms to financial sector regulation will help build the resilience of the system and reduce risks to the taxpayer.

[15] *United Kingdom: IMF Article IV Staff Report*, IMF, July 2011.
[16] *United Kingdom: Spillover Report for the 2011 Article IV*, IMF, July 2011.

Financial Policy Committee and Prudential Regulation Authority

1.69 The Government is implementing its plans to overhaul the tripartite system of financial regulation. It will provide the Bank of England with control of macro-prudential regulation, through the Financial Policy Committee, and oversight of micro-prudential regulation, with the establishment of the Prudential Regulation Authority as a subsidiary of the Bank. The new Financial Conduct Authority will regulate conduct of business matters. A Bill to implement these reforms is currently being considered by Parliament.

The Independent Commission on Banking

1.70 The Government will publish a White Paper on the recommendations of the Independent Commission on Banking, chaired by Sir John Vickers, in spring 2012. Primary and secondary legislation related to the ring-fence will be completed by the end of this Parliament in May 2015 and banks will be expected to be compliant as soon as practically possible thereafter.

A fairer, more efficient and simpler tax system

1.71 The Government is committed to creating a more sustainable tax system that is fair and supports growth. This Budget announces wide-reaching reforms that further this goal. These reforms will: reward work and support families; reduce tax rates to increase competiveness; restrict tax reliefs and ensure everyone pays the tax they owe; and make the tax system simpler and more sustainable overall.

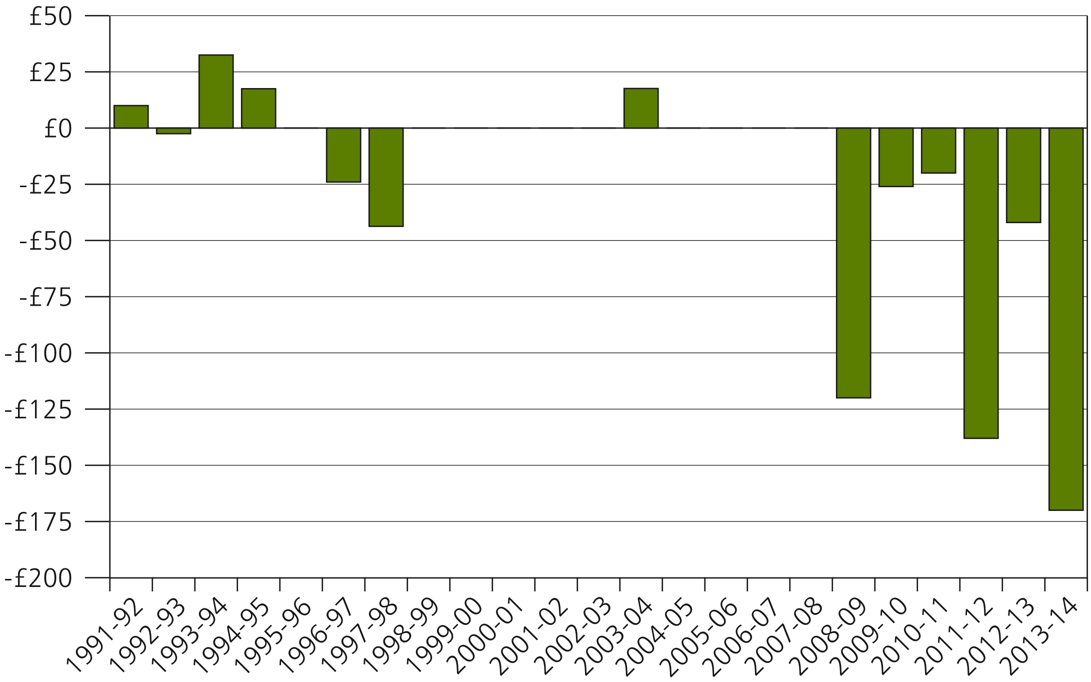
Greater rewards for work

Personal allowance

1.72 The Government has a stated objective to support those on low and middle incomes and reward work by making the first £10,000 of income free from income tax. The Government is committed to taking clear steps towards this goal every year, and has already increased the personal allowance from £6,475 in 2010, to £7,475 in 2011, and has committed to raise it further to £8,105 in April 2012.

1.73 Budget 2012 announces that the Government will increase the personal allowance by a further £1,100 in April 2013, taking it to £9,205 in total. The basic rate limit will be reduced, from £34,370 to £32,245 in 2013–14, so most higher rate taxpayers will get one quarter of the benefit a typical basic rate taxpayer will receive. This will affect those earning more than £41,450. Rather than pass on the full benefit of the personal allowance to higher rate taxpayers, an equivalent amount of funding will be provided to assist in the fair implementation of Child Benefit reform. The personal allowance increase will provide a real terms gain of £170 to most basic rate taxpayers and £42.50 to most higher rate taxpayers in 2013–14. It will benefit an estimated 23.6 million individuals and lift an additional 840,000 people out of income tax altogether.

Chart 1.10 Changes in tax paid by a basic rate taxpayer as a result of changes to the personal allowance



Notes: Chart shows changes above indexation; where the change is zero the personal allowance was increased in line with indexation.

The increase in the personal allowance in 2008–09 was introduced as part of a package of measures after the 10 per cent income tax rate was withdrawn.

Source: HM Treasury.

1.174 Chart 1.10 shows that the combined changes to the personal allowance made under this Government since 2010–11 will reduce the tax paid by a typical basic rate taxpayer by £350 a year in real terms (£546 in cash terms). This is the largest increase in the level of the personal allowance in both cash and real terms for the last thirty years. It also represents the largest real personal tax cut for the median earner in over a decade. By April 2013, the cumulative effect of the Government's increases in the personal allowance will lift two million people out of the income tax system.

Child Benefit

1.175 At Spending Review 2010, the Government announced that it would withdraw Child Benefit through the tax system for households with a higher rate taxpayer from January 2013 so that people on lower incomes do not subsidise those who are better off, and would set out details on how this would be implemented at a later date.

1.176 Budget 2012 announces that Child Benefit will be withdrawn through an income tax charge, and that the charge will only apply to households where someone has an income over £50,000 a year.

1.177 For households where someone has an income between £50,000 and £60,000 the charge will apply gradually, preventing a cliff edge effect. Only households where someone has an income in excess of £60,000 a year will no longer gain from Child Benefit.

1.178 This means that Child Benefit will continue to be paid universally to all those who claim it and are entitled to it, typically mothers, and that 90 per cent of all families with children will continue to gain from receiving Child Benefit.

Reducing headline rates

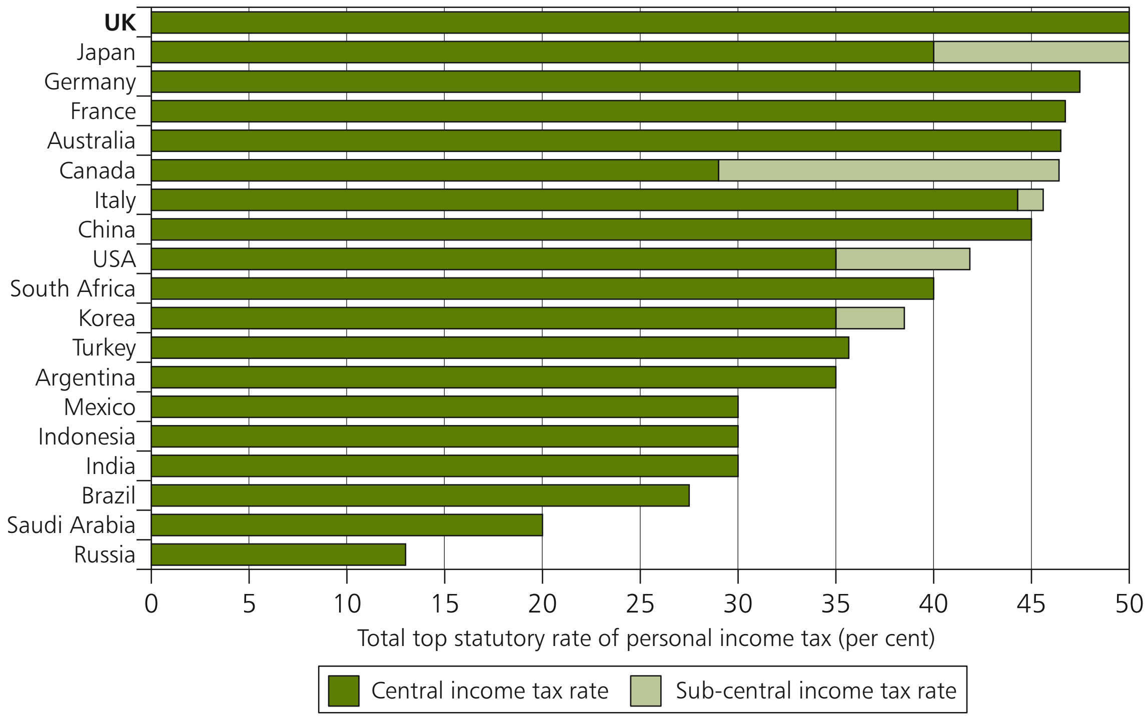
1.179 The Government's ambition is to create the most competitive tax system in the G20. This means the tax system must be both effective at raising revenue and internationally competitive for individuals and business. This Budget announces a package of measures that will lower headline tax rates to support enterprise, aspiration and growth.

Personal tax

1.180 The Government inherited the highest top income tax rate in the G20, as Chart 1.11 shows. Top tax rates can differ within countries. For example, the federal top income tax rate in the United States is 35 per cent, but additional taxes can be levied at state level meaning, for example, that New York's top rate of tax is 44 per cent.

1.181 The comparatively high top rate of income tax in the UK risks damaging the attractiveness of the UK as a place to work relative to other countries, particularly as a significant number of those affected by the additional rate are internationally mobile.

Chart 1.11: Top statutory rates of personal income tax in the G20 (2011)



Source: OECD and HM Treasury.

1.182 At Budget 2011, the Chancellor announced that HM Revenue & Customs (HMRC) would review the effectiveness of the 50 per cent additional rate of income tax. HMRC has published its analysis, *The Exchequer effect of the 50 per cent additional rate of income tax,* alongside this Budget.[17]

1.183 HMRC's report shows that the additional rate is a distortive and economically inefficient way of raising revenue, and that the behavioural response has been larger than expected. The report also looks at the wider economic impacts of increasing the highest rates of tax and concludes high tax rates in the UK make its tax system less competitive and the UK a less attractive place to start, finance and grow a business. Over time, the wider economic impacts might reduce the yield from income tax and other tax bases so that the dynamic revenue effect is negative.

[17] *The Exchequer effect of the 50 per cent additional rate of income tax*, HMRC, March 2012.

1.184 The Government believes it is neither efficient nor fair to maintain a tax rate that is not effective at raising revenue from high earners and risks damaging growth. To improve competitiveness, encourage entrepreneurship and support growth, **the Government will reduce the top rate of tax from 50 per cent to 45 per cent from April 2013.** This will put the UK's top statutory rate of personal income tax below that of Australia, Canada, France, Germany, Italy and Japan.

Corporate tax

1.185 The Government set out its plan to improve the competitiveness of the UK's corporate tax system in the Corporate Tax Road Map, which included four annual 1 per cent reductions in the main rate of corporation tax.[18] Budget 2011 announced the Government would reduce the main rate by a further 1 per cent, so that it would fall to 23 per cent by April 2014.

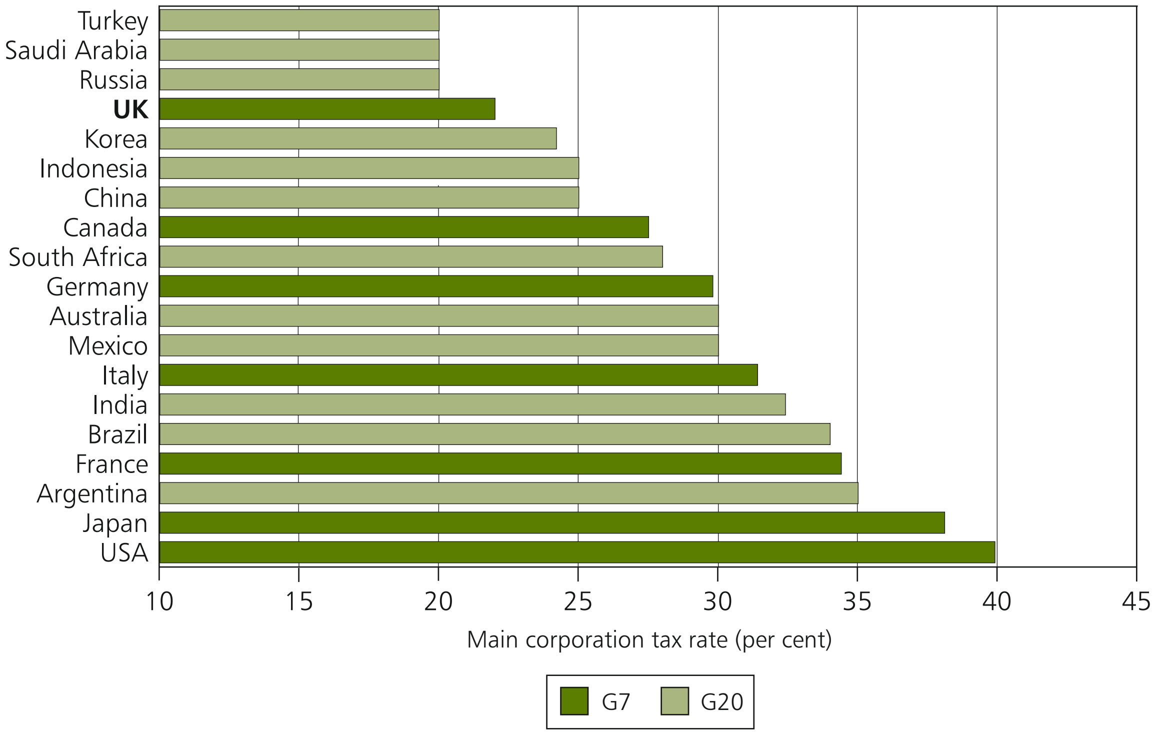
1.186 Budget 2012 announces that the Government will reduce the main rate of corporation tax by an additional 1 per cent from April 2012. Therefore, the rate will fall by 2 per cent from 26 per cent to 24 per cent in April 2012, to 23 per cent in April 2013 and to 22 per cent in April 2014.

1.187 As a result, the UK will have the lowest main corporation tax rate in the G7 and the fourth lowest in the G20, as Chart 1.12 shows. The OBR's assessment is that the reduction announced in the Budget will increase the level of business investment by around 1 per cent by the end of the forecast period. This is equivalent to an increase in the total amount of business investment of £3.4 billion between now and 2016.

1.188 To ensure the Bank Levy raises at least £2.5 billion each year, and takes account of the benefit to the banking sector from the additional reductions in corporation tax, **the full rate of the Bank Levy will increase to 0.105 per cent from 1 January 2013.**

[18] *Corporate Tax Reform: delivering a more competitive system*, HM Treasury, November 2010.

Chart 1.12: Main corporation tax rates in the G7 and G20 (2014 based on announced plans)



Source: International Bureau of Fiscal Documentation database and Deloitte Global Tax Rates 2012.

1.189 Further details on the Government's reforms to corporate tax are set out in the *Reforms to support growth* section of this Chapter.

A fairer tax system

1.190 The Government is committed to a fair tax system in which those with the most contribute the most. The top 1 per cent of earners now account for almost 30 per cent of all income tax receipts.[19] To ensure that the Government increases revenues from the highest earners, this Budget limits use of tax reliefs and tackles avoidance.

Capping tax reliefs

1.191 Tax reliefs exist for good reasons, to promote activities such as business investment and philanthropy. But it is unfair that reliefs can be used without limit to reduce tax liabilities, so that some taxpayers with very high incomes have very low tax rates.

1.192 To curtail this excessive use of reliefs **the Government will introduce a limit on all uncapped income tax reliefs. For anyone seeking to claim more than £50,000 of reliefs, a cap will be set at 25 per cent of income.** This will increase effective tax rates and help ensure that those with the highest incomes pay a fairer share. This will not be extended to those reliefs that are already capped, as to do so would reduce the amount of support the tax system gives, for example, to enterprise and pension contributions.

1.193 The Government will explore with philanthropists ways to ensure that this measure will not impact significantly on charities that depend on large donations.

[19] *The Exchequer effect of the 50 per cent additional rate of income tax*, HMRC, March 2012.

Tax avoidance

1.194 Budget 2012 announces that the Government accepts the recommendation of the Aaronson Report that a General Anti-Abuse Rule (GAAR) targeted at artificial and abusive tax avoidance schemes would improve the UK's ability to tackle tax avoidance while maintaining the attractiveness of the UK as a location for genuine business investment.[20] The Government will consult with a view to bringing forward legislation in Finance Bill 2013.

1.195 To ensure that individuals and companies pay a fair share of tax on residential property transactions and to tackle avoidance, the Government will:

- increase the tax charged on high value properties, **by introducing a new Stamp Duty Land Tax (SDLT) rate of 7 per cent for residential properties over £2 million.** This will apply from 22 March 2012;
- tackle the 'enveloping' of high value properties into companies to avoid paying a fair share of tax. **The Government will introduce a 15 per cent rate of SDLT to be applied to residential properties over £2 million purchased by non-natural persons, such as companies.** This new rate will take effect on 21 March 2012. In addition, **the Government will consult on the introduction of an annual charge on residential properties valued at over £2 million owned by these persons,** with the intention of legislating in Finance Bill 2013 for commencement in April 2013; and
- to support this measure, **the Government will extend the capital gains tax regime to gains on the disposal of UK residential property and shares or interests in such property by non-resident, non-natural persons.** This will commence from April 2013, following consultation on the details of the measure.

1.196 A package of further avoidance measures is set out in Chapter 2.

Council tax

1.197 On 3 October 2011, the Government announced a new grant for local authorities in England that freeze or reduce their council tax in 2012–13. In response, 85 per cent of local authorities have taken up the Government's grant and will be freezing or reducing their council tax again next year.

A simpler and more sustainable tax system

1.198 This Budget announces a package of reforms to diversify the tax base and simplify the system to increase its medium term sustainability.

Age-related allowances

1.199 The Office of Tax Simplification's (OTS) interim report on pensioner taxation identified age-related allowances (ARAs) as a source of complexity in the tax system.[21] Changes to the personal allowance made by this Government mean that the difference between existing ARAs and the personal allowance is reducing. In 2010 the difference was £3,015 and it will fall to £2,395 in 2013.

1.200 To support the goal of a single personal allowance for taxpayers regardless of age, and to spread the tax relief fairly across working age people and pensioners, **from 6 April 2013 existing ARAs will be frozen at their 2012–13 levels (£10,500 for those born between 6 April 1938 and 5 April 1948, and £10,660 for those born before 6 April 1938) until**

[20] *GAAR Study: A study to consider whether a general anti-avoidance rule should be introduced into the UK tax system*, Graham Aaronson QC, November 2011.
[21] *Review of pensioners' taxation: Interim Report*, OTS, March 2012.

they align with the personal allowance. From April 2013, ARAs will no longer be available, except to those born on or before 5 April 1948. The higher ARA will only be available to those born before 6 April 1938. These changes will simplify the system and reduce the number of pensioners in Self Assessment.

VAT

1.201 Over time, significant anomalies have developed in the VAT system. These cause very similar products to be taxed very differently. **Budget 2012 announces that the Government will take steps to correct certain anomalies. From 1 October 2012, VAT will be extended to reduce anomalies, including the use of self storage (to align it with other forms of storage) and alterations to listed buildings (to align with the existing VAT treatment of repairs).**

1.202 The Government will also close loopholes in the VAT system to prevent avoidance and ensure compliance. **From 1 October 2012, VAT will be extended to close loopholes, including by applying it to hairdressers' chairs (to make clear that their rental is already subject to VAT), static holiday caravans (to bring in line with mobile caravans) and certain hot food (because most hot food is already subject to VAT).**

1.203 A full list of the products to which VAT will be applied is set out in Chapter 2.

Gambling taxation

1.204 The current taxation regime for remote gambling has allowed operators to avoid paying UK gambling duties by basing their operations abroad. To broaden the tax base and provide a fairer basis for competition between UK and overseas remote gambling operators, **Budget 2012 announces that the Government will move to a tax regime that ensures operators anywhere in the world pay gambling duties on gross profits generated from customers based in the UK.** This is in line with the actions of several other European countries.

Motoring taxation

1.205 Budget 2012 announces that vehicle excise duty (VED) rates will increase in line with the Retail Price Index (RPI) only from April 2012, and rates for heavy goods vehicles will be frozen.

1.206 The Government will consider whether to reform VED over the medium term, to ensure that all motorists continue to make a fair contribution to the sustainability of the public finances, and to reflect continuing improvements in vehicle fuel efficiency. In addition, **the Government aims to develop a direct debit system to allow motorists to spread their VED payments.** The Government will seek the views of motoring groups on these measures.

1.207 To ensure that company car tax continues to reflect changes in fuel efficiency and to support the sustainability of the public finances, **Budget 2012 sets out company car tax rates from 2014–15 to 2016–17, including the removal of the diesel supplement in 2016.** In addition, **Budget 2012 announces changes to the capital allowance regime for business cars** to strengthen the environmental incentive for businesses to purchase fuel efficient cars. Further details are set out in Chapter 2.

Transparency

1.208 The Government is committed to creating a tax system which is simple and transparent. Taxpayers should be able to easily understand their tax. **Budget 2012 announces that from 2014–15, around 20 million taxpayers will receive a new Personal Tax Statement.** This will detail the income tax and National Insurance contributions (NICs) they have paid, their average tax rates, and how this contributes to public spending.

Simplification

1.209 The Government is exploring long-term reforms to simplify personal taxes. **Budget 2012 announces that the Government will launch a detailed consultation on integrating the operation of income tax and NICs.** This will be published after the Budget and build on extensive work undertaken with stakeholders through 2011. It will set out a broad range of options for the operation of employee, employer and self-employed NICs.

Small business

1.210 The Government is also responding to the OTS reports on small businesses taxation.[22] **From April 2013 the Government will introduce a new cash basis for calculating tax for small unincorporated businesses. The Government will consult shortly after Budget on the details of the scheme including on extending eligibility to businesses with turnover up to the VAT registration threshold of £77,000.** This will benefit up to three million small businesses, reducing the time it takes for them to calculate their tax. HMRC have set out administrative improvements for small business in *Making tax easier, quicker and simpler for small business*, published alongside this Budget.[23]

A fair welfare system

1.211 The Government's vision for the tax, benefit and pensions system is that it should be fair, simple and reward work. Reforms to the tax system announced in Budget 2012 will complement reforms to the pensions and benefit system.

Single tier pension

1.212 The Government will reform the State Pension into a single tier pension for future pensioners. The new system will be introduced early in the next Parliament and will be set at a level above the means tested standard Guarantee Credit and all State Pension records will be recognised. As set out in the Green Paper published by the Department for Work and Pensions (DWP), the single tier will cost no more than the current State Pension system in every year.[24] The Government will bring forward further detail in a White Paper in the spring, with final decisions on the detailed implementation of the policy being taken at the next spending review.

Fraud and error

1.213 The Government will provide additional funding of up to £325 million across the Spending Review period for DWP to implement its strategy for tackling fraud and error in the benefit system. Through this strategy, the Government plans to reduce annual fraud and error overpayments in benefits and tax credits by £1.4 billion by 2015.

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[22] *Small business tax review final reports (HMRC administration; simpler income tax for the smallest businesses; and Disincorporation relief),* OTS, February 2012.
[23] *Making tax easier, quicker and simpler for small business*, HMRC, March 2012.
[24] *A state pension for the 21st century*, DWP, April 2011.

Reforms to support growth

1.214 The Government has set out its plan to put the UK on a path to sustainable, long-term economic growth. As part of this, *The Plan for Growth*, Autumn Statement 2011 and the *National Infrastructure Plan 2011* announced a wide-ranging programme of over 250 economic reforms and investment in infrastructure to help build a stronger and more balanced economy in the medium term.

1.215 This section sets out the progress made in implementing these reforms and the further action the Government will take to achieve the four ambitions set out in *The Plan for Growth*:

- encouraging investment and exports as a route to a more balanced economy;
- making the UK the best place in Europe to start, finance and grow a business;
- creating a more educated workforce that is the most flexible in Europe; and
- creating the most competitive tax system in the G20.

1.216 Figure 1.1 shows the timeline of progress already achieved against the Government's ambitions. Further detail on the implementation of previously announced growth and infrastructure measures is being published alongside the Budget.[25]

[25] See www.hm-treasury.gov.uk.

Figure 1.1: Implementation timeline for the Government's economic reforms

	COMMITMENTS ANNOUNCED BUDGET 2011 AND AUTUMN STATEMENT 2011	PROGRESS ALREADY ACHIEVED BUDGET 2012	FORTHCOMING IMPLEMENTATION BY BUDGET 2013 AND BEYOND
COMPETITIVE TAX SYSTEM	■ Reduce main corporation tax rate from 28 per cent to 23 per cent by 2014 ■ Introduce Foreign Branch Exemption, Patent Box and reformed Controlled Foreign Companies (CFC) rules ■ Commitments to raise SME rate of R&D tax credit and introduce an 'above the line' credit ■ Office of Tax Simplification review of small businesses taxation launched	■ Main corporation tax rate cut to 26 per cent in April 2011 and 24 per cent from April 2012 ■ Foreign Branch Exemption introduced in 2011 ■ Consultation on Patent Box and CFC rules completed ■ SME rate of R&D tax credit increased to 225 per cent from April 2012 ■ Consultation on simpler small business tax published at end of March 2012	■ By 2014 the main corporation tax rate will be cut even further to 22 per cent ■ Patent Box and modernised CFC rules will be enacted in 2012 ■ Above the line R&D tax credit in place from April 2013 ■ Measures to simplify income tax for up to three million small businesses in place from April 2013
INVESTMENT AND EXPORTS	■ Publication of *National Infrastructure Plan 2011* ■ £6 billion of additional infrastructure investment ■ Creation of 24 Enterprise Zones (EZs) ■ Commitment to increase local control of growth decisions, including creation of £500 million Growing Places fund ■ UK Trade and Investment to help UK exporters target high value international projects	■ Four gigawatts of energy projects unblocked by solving radar interference issues ■ Ten cities granted funding for superfast broadband ■ Tax incentives for all EZs and 20 Local Development Orders (LDOs) to simplify planning in place from April 2012 ■ Existing Growing Places fund fully allocated, and additional £270 million announced ■ Ten exports projects worth £800 million secured for UK businesses	■ Preferred package for A14 upgrade to be chosen in July 2012 ■ Study on new ownership and financing models for the roads to report on progress by Autumn Statement 2012 ■ Up to 50 more LDOs coming forward in 2012 ■ All local authorities will be able to undertake Tax Increment Financing from 2013–14 ■ Number of SMEs receiving UKTI support each year to double to 50,000 by 2014–15
EDUCATED, FLEXIBLE WORKFORCE	■ £180 million allocated to create more apprenticeships and improve their quality ■ Youth Contract to support up to 500,000 young people into employment and education ■ Fund at least 24 University Technical Colleges (UTCs) ■ New, flexible Jobcentre Plus regime introduced ■ Review of employment law to maximise flexibility	■ £20 million awarded to support 19,000 degree level apprenticeships ■ Youth Contract goes live from 2 April 2012 ■ Two UTCs open – in Staffordshire and in Walsall ■ Work Programme helping 332,000 people ■ Call for evidence on dismissal processes launched in March 2012 and unfair dismissal qualifying period increased from one to two years from April 2012	■ 40,000 incentive payments to employers taking on their first apprentice by April 2013 ■ Contracts for £126 million targeted support for 55,000 NEETs to be awarded in June 2012 ■ 17 more UTCs opening by September 2013. Second round to be announced in May 2012 ■ 2.4 million people to receive support through the Work Programme over next five years ■ Improved portability of criminal records checks to be introduced by 2013
BEST PLACE FOR BUSINESS	■ Produce a shorter, more focused, pro-growth National Planning Policy Framework (NPPF) ■ Review stock of existing regulation to scrap unnecessary regulation and reduce business burdens ■ Launch a credit easing programme worth £20 billion ■ Roll out business coaching for high growth potential small businesses	■ NPPF published and in force by end of March 2012 ■ Examined around 1,500 regulations, over half of which will be scrapped or improved ■ Regulatory burdens reduced by £3.3 billion since January 2011 ■ National Loan Guarantee Scheme launched ■ Shortlisted up to £700 million of Business Finance Partnership (BFP) investment	■ Implement reduced information requirements and measures to make changing the use of buildings easier by April 2013 ■ Measures to rationalise environmental regulation will save businesses £1 billion over the next five years ■ BFP to invest £100 million in non-traditional lending channels, requesting proposals in May 2012 ■ Business Coaching for Growth service to launch in May 2012

Encouraging investment and exports as a route to a more balanced economy

1.217 The Government is taking action to attract investment in energy, infrastructure, technology and housing, to help businesses make the most of export opportunities, and to attract inward investment.

Energy

1.218 To attract investment in energy, ensure energy security, meet the UK's carbon reduction targets, and make the best use of the nation's natural resources, the Government:

- **will publish a strategy for gas generation in autumn 2012,** and continue implementing electricity market reform, recognising that gas-fired electricity generation will continue to play a major role in UK energy supplies over the next decade and beyond;
- **will introduce a package of oil and gas measures to secure billions of pounds of additional investment in the UK Continental Shelf.** These include: a contractual approach to offer long term certainty on decommissioning relief; extending the amount and scope of the existing small field allowance; introducing a new field allowance targeted at the West of Shetland area; and introducing primary legislation to allow the potential introduction of measures to support investment in brown-fields;
- has established the Green Investment Bank, which will make its first set of green investments in April 2012; and
- has introduced further measures including: setting out plans for the Green Deal to support energy efficiency; introducing the Renewable Heat Incentive; providing £1 billion to support the commercialisation of Carbon Capture and Storage; taking forward the Renewables Obligation Banding Review; and developing five new Centres for Offshore Renewable Engineering.

Infrastructure

1.219 As announced in the *National Infrastructure Plan 2011*, the Government is taking action to facilitate greater private investment in the UK's infrastructure. The Government:

- **will take forward many of Alan Cook's recommendations for the roads, including developing a national roads strategy and setting a renewed focus on the level of performance expected from the Highways Agency.[26] The Government will also consider whether to go further and will carry out a feasibility study into new ownership and financing models for the national road network, learning lessons from the water industry, to report on progress by Autumn Statement 2012;** and
- **has identified a shortlist of options to increase capacity and improve performance on the A14 between Huntingdon and Cambridge, some of which could be part-funded through tolling.** These include widening some sections, rationalising access to the route, and improving the route of the southern bypass for Huntingdon. In addition, the Government is considering measures to shift more freight from road to rail and to enhance public transport. The preferred package will be finalised by July 2012.

1.220 The Government is also delivering on the other commitments made in the *National Infrastructure Plan 2011* to target investment where it is most needed and facilitate delivery of major projects. In particular, the Government:

- **will support Network Rail to invest a further £130 million in the Northern Hub rail scheme, subject to value for money, to improve transport links between**

[26] *A fresh start for the Strategic Road Network*, Department for Transport, November 2011.

Manchester and Sheffield, Rochdale, Halifax, Bradford, Bolton, Preston and Blackpool, including increasing capacity on the Hope Valley line between Manchester and Sheffield, which will enable the number of fast trains to double. This will build on previously announced investments to electrify the Transpennine railway route from Manchester to Leeds and build the Ordsall Chord between Manchester Piccadilly and Manchester Victoria stations;

- is committed to tackling congestion, improving connectivity and supporting cycling in and around London. **The Government will explore the case for using the Planning Act 2008 to streamline the planning process for the proposed additional river crossings in East London,** for example at Silvertown, which will reduce peak period delays and congestion in the area. **The Government is also working with the railway industry, Transport for London (TfL) and the Mayor of London to consider further investments to improve rail journeys into and within London,** including longer trains and increased capacity at stations. Further details will be announced in summer 2012. In addition, **the Government will grant £15 million to TfL for investments in cycle safety,** which will include improved provision for cyclists at junctions across the capital under consideration in TfL's cycle safety junction review;[27]
- **will continue to work with the Welsh Government to consider electrification of the Welsh Valley lines, subject to value for money and an agreement on financing.** A final decision will be announced in summer 2012;
- has made significant progress on the £1.7 billion package of investment in major local transport projects. Work has already started on the Midland Metro and Rochdale interchange, and in December 2011 the Government approved a further 21 schemes. As part of this package, **the Government can also confirm it will provide £56 million of support for the Bexhill to Hastings link road to facilitate economic regeneration in a deprived area of the South East;** and
- has helped 16 energy generation projects all over the country to proceed since the beginning of 2011 by granting development consent. These are expected to support over 4,000 construction jobs and produce over eight gigawatts of electricity, which is enough to power eight million homes.[28] In addition, working with industry the Government has resolved radar interference issues affecting four gigawatts of wind energy developments.

Housing

1.221 The Government is implementing the actions set out in *Laying the Foundations: A Housing Strategy for England*, published in November 2011, to increase house building, stabilise the housing market and enable more people to own their own home. The Government:

- launched New Buy on 12 March 2012, making mortgages available for people to buy a new home with a five per cent deposit. The Government has made a provision to support up to 100,000 households through the scheme;
- has announced a reinvigorated Right To Buy for two million tenants in council housing, replacing the current range of regional caps on discounts with a higher single cap of £75,000, effective from 2 April 2012. The receipts will be used to pay down the outstanding housing debt on the units sold and replace, on a one-for-one basis, the additional properties sold with new affordable homes for rent;
- has published the shortlist of sites to receive £420 million of funding through the Get Britain Building Fund, as announced on 19 March 2012, which will deliver over 12,000 new homes by supporting construction firms in need of development finance. **Budget 2012**

[27] See www.tfl.gov.uk.
[28] Estimates by the Department of Energy and Climate Change.

announces that the Government will increase the fund by £150 million, which will help deliver over 3,000 more homes;

- is accelerating the release of public sector land and has now identified sufficient land to meet its ambition to dispose of land with the capacity to build over 100,000 homes and support as many as 25,000 jobs by April 2014. A progress report setting out further details will be published before summer 2012; and
- is taking forward pilots of land auctions for public sector land, with the aim of having two sites ready for market by the end of 2012.

1.222 In addition, **the Government will consult on the potential role a social housing Real Estate Investment Trust could play to support investment in the social housing sector.**

1.223 The Government is also implementing reform of the Housing Revenue Account subsidy system to give local authorities responsibility for managing their own council housing businesses. The OBR currently forecasts that this reform will increase public borrowing more than originally estimated. These estimates are very uncertain but if they do not change then the Government will take action to address the increase in public debt.

Technology

1.224 The Government is setting an ambition to make the UK the technology hub of Europe. To support technological innovation and help the digital, creative and other high technology industries, the Government:

- **will introduce corporation tax reliefs from April 2013 for the video games, animation and high end television industries, subject to State aid approval and following consultation;**
- **has selected Belfast, Birmingham, Bradford, Bristol, Cardiff, Edinburgh, Leeds, London, Manchester and Newcastle to become super-connected cities, as part of the £100 million investment announced at Autumn Statement 2011.** By 2015 this will deliver ultrafast broadband coverage to 1.7 million households and 200,000 businesses in high growth areas as well as high speed wireless broadband for three million residents. **The Government will also provide an additional £50 million to fund a second wave of ten smaller super-connected cities;**
- **will extend mobile coverage to 60,000 rural homes and along at least ten key roads by 2015,** including the A2 and A29 in Northern Ireland, the A57, A143, A169, A352, A360 and A591 in England, the A82(T) in Scotland and the A470(T) in Wales, subject to planning permission, using the £150 million investment announced at Autumn Statement 2011. **The Government will also consider whether direct intervention is required to improve mobile coverage for rail passengers;**
- **will invest £60 million to establish a UK centre for aerodynamics which will open in 2012–13 and support innovation in aerospace technology, commercialise new ideas and spin-off technologies with wider applications in other sectors.** This is in addition to the £125 million Advanced Manufacturing Supply Chain Initiative that will help improve the global competitiveness of advanced manufacturing supply chains, such as in the aerospace sector;
- **will set up a new £100 million fund to support investment in major new university research facilities, including through additional provisions.** The fund will allocate its first bids in 2012–13 and will attract additional co-investment from the private sector;

- **will set up Transport Systems and Future Cities Catapult Centres by 2013. These will bring together world leading IT companies, innovative SMEs and leading universities to commercialise technologies that will increase efficiency and improve the quality of life for transport users and city residents.** These centres will work closely with the new Future Cities Demonstrator to be created in 2012-13; and
- **will transform the quality of digital public services by committing that from 2014 new online services will only go live if the responsible minister can demonstrate that they themselves can use the service successfully.** The Government will also ensure that all information is published on a single 'gov.uk' domain name by the end of 2012 and will move to a 'digital by default' approach to its transactional services by 2015.

Supporting investment across the UK

1.225 To support investment across the English regions, the Government:

- is working with the eight core cities on a package of measures to decentralise decision-making power away from central Government. **The Government has agreed proposals with the Greater Manchester Combined Authority to pilot an innovative new Earn Back Model that is set to unlock £1.2 billion of infrastructure investment across the city region.**[29] This follows the agreement reached with Liverpool in February 2012, which established a new local development board. Proposals from Bristol, Birmingham, Leeds, Newcastle, Nottingham and Sheffield will be finalised over the course of 2012;
- **will make up to £150 million available from 2013–14, including through additional funding, for larger scale projects in core cities to be financed through Tax Increment Financing (TIF 2), which enables local authorities to borrow against future growth in business rates.** Further details on a competition for allocating funding will be announced in the coming months;
- **will increase the Growing Places fund by £270 million to empower local communities and businesses to lead development in their own areas, including £70 million for the Greater London Authority, in recognition of London's position as the largest regional economy in the UK and unique devolution arrangements.** This will be funded from within existing departmental budgets;
- **has supported the establishment of a new Pension Infrastructure Platform owned and run by UK pension funds, which will make the first wave of its initial £2 billion investment in UK infrastructure by early 2013.** A separate group of pension fund investors has also presented proposals to the Treasury for increasing pension plan investment in infrastructure in the construction phase; and
- **will make enhanced capital allowances available from 1 April 2012 for a designated site in the London Royal Docks Enterprise Zone, which has the potential to deliver 7,500 jobs.**[30]

1.226 The UK-wide measures announced in this Budget will support economic development in the Devolved Administrations, including the funding for Edinburgh, Cardiff and Belfast to become super-connected cities, and measures to expand mobile coverage on key roads across the UK. In addition, the Government:

- **has agreed to make enhanced capital allowances available from 1 April 2012 at designated sites in enterprise areas in Scotland, including Irvine, Nigg and Dundee, and at Deeside in North Wales, with the potential to deliver more**

[29] Estimate for programme finance provided by Greater Manchester Combined Authority.
[30] Estimates from the Greater London Authority.

than 9,000 new jobs in total.[31] In Northern Ireland, the Ministerial Working Group on Rebalancing the Northern Ireland Economy is considering this issue alongside a range of other measures; and

- is devolving to the Northern Ireland Assembly the power to set Air Passenger Duty rates for direct long haul flights departing from Northern Ireland. This will protect the vital direct air service to the US and offers a chance for the development of new long haul services, supporting business and tourism.

1.227 In addition, **Lord Heseltine will undertake an independent review of how spending departments and other relevant public sector bodies interact with the private sector, and assess their capacity to deliver pro-growth policies.** This will include a benchmarking exercise comparing how other competing economies implement their industrial strategies. The review should conclude in early autumn 2012.

Exports and inward investment

1.228 The Government is setting an ambition to more than double annual UK exports to £1 trillion by 2020. In addition to measures previously announced to help UK businesses export, the Government:

- **will expand the overseas role of UK Export Finance to enable it to develop finance packages that could help UK exporters secure opportunities identified through UK Trade and Investment's High Value Opportunities programme;**
- **will help secure temporary private sector office space overseas for new UK exporters in high growth countries where such services are difficult to obtain;** and
- is continuing to increase UK Export Finance's regional presence in the UK to support small and medium sized businesses seeking trade finance.

1.229 The Government has also helped attract additional investment into the UK from sovereign wealth funds. The Government:

- organised the UK–China summit in January 2012, shortly after which China Investment Corporation acquired a nine per cent stake in Thames Water; and
- launched the London–Hong Kong forum to support development of the offshore renminbi market.

Making the UK the best place in Europe to start, finance and grow a business

1.230 Bank lending to smaller businesses has been constrained since the financial crisis, the planning system is widely regarded as a barrier to growth, and the burden of regulation has risen substantially over the past decade. To address these challenges, the Government is: implementing its credit easing programme and expanding the finance channels available to smaller business; radically reforming the planning system; and introducing further deregulation.

Access to finance

1.231 To help small businesses raise finance, the Government has launched the National Loan Guarantee Scheme (NLGS), under which the Government will provide up to £20 billion of guarantees to banks, allowing them to borrow at a cheaper rate. The benefit banks receive will be passed through in its entirety to smaller businesses. Businesses that take out an NLGS loan

[31] Estimates from the Scottish Government and the Welsh Government.

will receive a discount on their loan of one percentage point compared with the interest rate that they would otherwise have received from that bank outside the scheme.

1.232 The Government has also invited the first round of proposals to help businesses access non-bank finance through the Business Finance Partnership (BFP). **The Government intends to invest up to £700 million of the £1 billion initially allocated to the BFP with some or all of a shortlist of seven fund managers, subject to further due diligence and the completion of private sector fundraising.**[32] **The Government has also allocated an additional £200 million to the BFP, making a total of £1.2 billion, and will invite further proposals later this year.**

1.233 In addition, the Government:

- **will allocate £100 million of the BFP to invest through non-traditional lending channels that can reach smaller businesses, which could include peer-to-peer platforms and supply chain financing. The Department for Business, Innovation and Skills will request proposals from these channels in May;**
- **will incentivise lenders to lend more to smaller businesses under the Enterprise Finance Guarantee (EFG) scheme, by raising the level of lenders' EFG portfolios to which the Government guarantee applies from 13 per cent to 20 per cent for 2012–13;**
- **welcomes the report of the industry review of non-bank lending chaired by Tim Breedon and will take forward its recommendations over the course of this year, including: considering how to simplify access to Government support for smaller businesses; encouraging prompt payment by larger firms; and supporting industry work to remove barriers to alternative sources of finance; and**
- welcomes commitments by the banks to: publish an independent review of the lending appeals process; improve training for relationship managers; review the effect of credit ratings on start-ups and businesses switching banks; establish a system for referring unsuccessful loan applicants to Community Development Finance Institutions; and extend their national mentoring scheme. These measures build on the work of the British Bankers' Association's Better Business Taskforce.

Planning

1.234 The Government is reforming the planning system so that it supports growth. **The Government will publish the National Planning Policy Framework (NPPF) by the end of March 2012, coming into force for plan-making and decisions from that point onwards, with appropriate implementation arrangements for local authorities with pro-growth policies in local plans.** There will be support to help local authorities get plans up to date quickly.

1.235 The NPPF will refocus planning policy to better support growth, will include a powerful presumption in favour of sustainable development to underpin all local plans and decisions, and will localise choice about the use of previously developed land, ending nationally imposed targets. The Government will also work with key statutory consultees to ensure that they support the delivery of sustainable development in line with the NPPF and are held to account for doing so.

1.236 In addition, the Government:

- **will introduce further measures to deregulate and simplify the planning system. The Government will shortly consult on reducing information requirements**

[32] Alcentra Limited, Ares Management Limited, Cairn Capital, Haymarket Financial, M&G Investment Management, Palio Capital Partners and Pricoa Capital.

and on proposals to amend the Use Class Order and the associated permitted development rights to make changing the use of buildings easier, for implementation by April 2013. In addition, new permitted development rights for micro-renewable energy installations will come into force in April 2012;

- **will remove duplication in the consenting regime for major infrastructure development by bringing forward legislation to adjust the scope of Special Parliamentary Procedure, and will shortly publish draft revised guidance to make the regime clearer and easier to use;**
- has implemented major reforms to the key consenting and advisory agencies involved in planning applications to give certainty to developers, including ensuring they adhere to a 13 week maximum timescale for most non-planning consents and are improving their performance in dealing with planning applications; and
- has helped make progress on habitats issues that were holding up development for Chiltern Railways and Able Marine Energy Park, so that final decisions can be taken within a year. The Government has also completed a review of the implementation in England of the Habitats and Wild Birds Directives, to be published on 22 March 2012. **Following this review, the Government will reduce unnecessary cost and delay to developers by: setting up a Major Infrastructure and Environment Unit; streamlining guidance; setting clearer standards for evidence; and changing the culture of statutory bodies.**

Reducing burdens on business

1.237 To reduce the costs and barriers that regulation and administrative burdens impose on businesses, the Government:

- **will improve and reform the Enterprise Management Incentive scheme (EMI), which helps SMEs recruit and retain talent, by providing additional support to help start-ups access the scheme; by consulting on amending restrictions that currently prevent the scheme being used by academics employed by start-ups, and by more than doubling the individual grant limit to £250,000, subject to State aid approval;**
- **will consult on simplifying the Carbon Reduction Commitment (CRC) energy efficiency scheme to reduce administrative burdens on business. Should very significant administrative savings not be deliverable, the Government will bring forward proposals in autumn 2012 to replace CRC revenues with an alternative environmental tax, and will engage with business before then to identify potential options;**
- **will scrap or improve 84 per cent of health and safety regulation, including legislating in 2012 so that 'strict liability' provisions in health and safety law will no longer hold employers to be in breach of their duties when they have done everything that is reasonably practicable and foreseeable to protect their employees;**
- **will rationalise environmental regulation to reduce costs to business by at least £1 billion over five years without reducing environmental protections, including introducing new contaminated land guidance in April 2012, which will save business £140 million per year;**
- **will launch sector-based reviews of regulation from April 2012 to ensure regulation is enforced at the lowest possible cost to business, starting with chemicals manufacturing, volunteer events and small businesses in food manufacturing;** and

- has examined around 1,500 regulations through the Red Tape Challenge, over half of which will be scrapped or improved. The Government has also achieved a cumulative net reduction of regulation since January 2011 worth £3.3 billion to business, with 19 deregulatory measures taking effect in the first half of 2012.

1.238 In addition, recognising that the Olympics and Paralympics represent a unique opportunity for UK businesses, **the Government will relax Sunday Trading laws from 22 July 2012 to 9 September 2012 inclusive, to allow retailers to make the most of the occasion.**

Creating a more educated workforce that is the most flexible in Europe

1.239 Low skills and excessive burdens on employers can act as barriers to creating jobs and achieving growth in the medium term. The Government is taking further action to tackle youth unemployment, raise skills, and support employers.

Youth unemployment and skills

1.240 The Government has implemented previously announced measures to help young people and jobseekers. The Government has:

- developed the Youth Contract to help 500,000 young people most in need of support into employment and education, which will go live from 2 April 2012;
- launched the Work Programme, which offers specialist support to the longer term unemployed and most vulnerable jobseekers. After the first five months of the programme, 332,000 people are receiving help to move back to work;
- introduced a new, more flexible regime that allows Jobcentre Plus advisors to tailor support to the needs of the individual; and
- committed to increase adult apprenticeship funding by £250 million a year by 2014–15, compared with the previous Government's level of spending.

1.241 The Government also recognises that the best route out of unemployment for some young people will be starting up in business, but that it can be difficult to obtain the skills and capital required. Building on the support already availible, including the New Enterprise Allowance, later this year **the Government will pilot the best way to introduce a programme of enterprise loans to help young people set up and grow their own business.**

Supporting employment

1.242 To reduce barriers to businesses taking on new staff the Government:

- **has accepted the Low Pay Commission's recommendation for below inflation increases to the National Minimum Wage;**
- has announced significant deregulation of employment law, including increasing the unfair dismissal qualifying period from one to two years from 6 April 2012 and publishing a call for evidence on dismissal processes on 15 March 2012, which includes consideration of introducing compensated no fault dismissal for micro businesses;
- has completed a consultation on proposals to introduce fees for employment tribunals, which closed on 6 March 2012, and is now considering the responses. The Government intends to publish the response to the consultation before summer recess 2012; and
- has provided evidence to the Pay Review Bodies on the economic case for reforming public sector pay to better reflect local labour markets, following the announcement at Autumn

Statement 2011. The Review Bodies are due to report from July 2012. In addition, a number of civil service departments that entered the pay freeze in advance of other workforces will exit it from April 2012. These departments will be able to introduce more local, market-facing pay reform from this year, following further work with the Cabinet Office to develop proposals for local pay, as set out in the pay guidance issued by the Treasury.[33]

1.243 In addition, **HM Treasury will conduct an internal review to examine the role of employee ownership in supporting growth and examine options to remove barriers, including tax barriers, to its wider take-up.** The review will also consider the findings of the work on employee ownership being led by the Minister for Employment Relations, Consumer and Postal Affairs, due to report in summer 2012, and will conclude ahead of Autumn Statement 2012.

Creating the most competitive tax system in the G20

1.244 The Government is committed to creating a tax system that supports UK competitiveness, reduces burdens on business and incentivises investment and enterprise.

1.245 As important new steps to achieve this objective, **the Government will reduce the additional rate of income tax from 50 per cent to 45 per cent from April 2013 and will reduce the main rate of corporation tax by an additional 1 per cent from April 2012. The rate will therefore fall by 2 per cent from 26 per cent to 24 per cent in April 2012, to 23 per cent in April 2013 and to 22 per cent in April 2014.** These reforms will make the tax system more competitive, encourage business investment and support growth.

Corporate tax road map

1.246 In addition to reductions in the main rate of corporation tax, the Government is delivering a number of corporate tax reforms which will provide businesses with the confidence to invest and expand in the UK.

1.247 As part of the Corporate Tax Road Map,[34] the Government is:

- reforming the Controlled Foreign Companies rules in Finance Bill 2012 to better reflect the way that businesses operate in a globalised economy;
- introducing a Patent Box from April 2013, which will apply a reduced 10 per cent rate of corporation tax for profits attributed to patents and similar types of intellectual property; and
- introducing an 'above the line' R&D tax credit from April 2013 with a minimum rate of 9.1 per cent before tax. Loss making companies will be able to claim a payable credit. The Government will be consulting on the detailed design of the credit shortly and final rates will be decided following consultation.

1.248 These reforms are making the UK one of the most competitive locations in the G20. This builds on the UK's existing competitive advantages, including the highest number of double tax treaties in the G20, no withholding tax on dividends and a full dividend exemption.

1.249 Together, the Government's reforms to corporate tax will save businesses over £6 billion a year by 2015–16.[35]

[33] *Civil service pay guidance 2012–13,* HM Treasury, March 2012.
[34] *Corporate Tax Reform: delivering a more competitive system*, HM Treasury, November 2010.
[35] Based on cumulative exchequer impacts since Budget 2010, with updates where available.

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, measures that affect Annually Managed Expenditure (AME), changes to Departmental Expenditure Limits (DEL), and new supply-side measures. Unless stated otherwise, measures in this chapter are measures announced at this Budget.[1] The tables in this chapter set out the cost or yield of all Budget policy decisions with a fiscal impact in the years to 2016–17.[2]

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 policy decisions with a direct effect on public sector net borrowing (PSNB). This includes tax measures, NICs measures, measures affecting AME and changes to DEL. Table 2.2 shows the cost or yield of all measures with a fiscal impact announced at or before the publication of Autumn Statement 2011 which take effect from April 2012 or later. 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 2012 policy costings*, published alongside this Budget.[3] This document also explains in detail the underlying indexation assumption for each tax and benefit.

[1] For the sake of clarity, all tax measures to be legislated for in Finance Bill 2012 are included in this chapter.
[2] The number or lower case letters in brackets after each measure refers to the line in Table 2.1 or Table 2.2 where its cost or yield is shown. For measures which will be legislated in future Finance Bills, the text in brackets after each measure indicates which Finance Bill will, under current plans, contain the legislation.
[3] *Budget 2012 policy costings*, HM Treasury and HM Revenue & Customs (HMRC), March 2012.

Table 2.1: Budget 2012 policy decisions[1]

	Head	£ million				
		2012–13	2013–14	2014–15	2015–16	2016–17
Personal and Property tax						
1 Personal allowance: increase by £1,100 in 2013-14, with a proportion passed to higher rate tax payers	Tax	0	–3,320	–3,450	–3,510	–3,580
2 Child Benefit: threshold at £50,000 and taper to £60,000	Spend	–185	–690	–630	–	–
3 Income tax: reduce additional rate to 45p in 2013-14	Tax	0	–50	–100	–100	–110
4 Income tax: cap on unlimited tax reliefs[2]	Tax	0	*	+490	+240	+300
5 Stamp Duty Land Tax: avoidance on residential property and associated CGT changes	Tax	*	+65	+65	+65	+75
6 Stamp Duty Land Tax: 7% on residential properties over £2million	Tax	+150	+180	+225	+260	+300
Growth and Enterprise						
7 Corporation tax: decrease main rate to 24% in 2012-13, 23% in 2013-14, 22% from 2014-15	Tax	–405	–730	–820	–880	–920
8 Bank Levy	Tax	+10	+420	+455	+455	+455
9 North Sea oil and gas: decommisioning certainty	Tax	–115	+245	+385	+340	+290
10 North Sea oil and gas: securing new fields and other measures	Tax	–45	–90	+65	+30	+30
11 Capital allowances: Enterprise Zones (Yorkshire and Humber, Scotland, London and Wales)	Tax	*	–5	–20	–15	*
12 R&D tax credits: above the line	Spend	0	+5	–205	–	–
13 Video games and animation: tax relief[3]	Spend	0	–15	–35	–	–
14 Enterprise Management Incentive	Tax	*	–5	–10	–20	–25
Environment						
15 Climate change levy: levy exemption certificates removal	Tax	0	+110	+125	+145	+165
16 Carbon price floor: combined heat and power relief and other changes	Tax	0	–45	–90	–115	–145
17 Aggregates levy: freeze	Tax	–15	–10	–10	–10	–10
18 Landfill communities fund: freeze	Tax	0	+5	+5	+10	+10
19 Capital allowances: energy and water efficient technologies	Tax	+5	+20	+15	+10	+5
20 Company car tax	Tax	0	0	+120	+375	+350
21 Capital allowances: company cars	Tax	0	+25	+115	+185	+250
22 Fuel benefit charge	Tax	+5	+10	+10	+5	+5
Duties						
23 Tobacco duty: RPI +5% from 21 March 2012	Tax	+70	+50	+50	+45	+45
24 Gambling: place of consumption	Tax	–15	–20	+55	+240	+270
25 Vehicle Excise Duty: freeze rates for Heavy Goods Vehicles in 2012-13	Tax	–10	–10	–10	–10	–10
Simplification						
26 Age-related allowances: freeze amount and restrict to existing recipients from 6 April 2013	Tax	0	+360	+670	+1,010	+1,250
27 VAT: correcting anomalies	Tax	+50	+115	+125	+145	+160
28 VAT: closing loopholes	Tax	+75	+155	+165	+170	+190

Avoidance and administration						
29 Capital allowances: avoidance	Tax	+25	+45	+45	+45	+45
30 Settlor-interested trusts: avoidance	Tax	0	+15	+10	+10	+10
31 IHT: spouse relief	Tax	0	*	–5	–5	–5
Other spending measures						
32 Working Tax Credit: extend exemptions for Carers Allowance	Spend	–5	–5	–5	–	–
33 DWP fraud and error initiatives	Spend	–140	–105	–80	–	–
34 Armed forces: housing, council tax relief and Families Welfare Grant	Spend	–5	–105	–5	–	–
35 Local Authorities: Tax Increment Financing	Spend	0	–20	–20	–	–
36 Aerodynamics centre	Spend	–25	–35	0	–	–
37 Science capital investment fund for universities	Spend	0	–25	0	–	–
38 Public works loan board	Spend	+5	+15	+25	–	–
39 Smaller cities broadband	Spend	0	–50	0	–	–
40 Right to Buy: paying down housing debt	Spend	+55	+115	+175	–	–
Changes to spending forecasts						
41 Special Reserve	Spend	+100	+800	+1,500	–	–
42 Consequential changes to current spending	Spend				+255	+450
43 Consequential changes to capital spending	Spend				+705	+725
Previously announced measures						
44 Corporation tax: confirmation of announced Controlled Foreign Company rules	Tax	+210	+365	+320	+150	+35
45 Capital allowances: feed-in tariffs and renewable heat incentive	Tax	+20	+45	+60	+80	+100
46 Debt buybacks: avoidance	Tax	+395	+210	+55	0	0
47 Transfer of assets	Tax	0	*	*	*	–5
48 Pensions: delay to auto-enrolment	Tax	0	0	+5	+35	+340
49 Insurance tax: Solvency II	Tax	0	+55	+30	–65	+30
50 Insurance tax: stop loss and quota share insurance	Tax	+170	+250	+260	+110	+25
51 Insurance tax: Claims Equalisation Reserves	Tax	0	*	+85	+90	+80
52 Capital allowances: fixtures mandatory pooling	Tax	*	+15	+20	+30	+35
53 Life assurance premium relief	Tax	0	0	0	+5	+5
54 Stamp Duty Land Tax: area based reliefs	Tax	0	+30	+40	+40	+40
55 Welfare Reform Bill: amendments	Spend	+90	–80	–20	–	–
56 Support for free advice services	Spend	0	–20	–20	–	–
TOTAL POLICY DECISIONS		**+470**	**–1,710**	**+235**	**+460**	**+1,140**
Forestalling impact of additional rate reduction and cap on unlimited tax reliefs		**–2,400**	**+760**	**+1,750**	**–370**	**0**
TOTAL FISCAL IMPACT OF POLICY DECISIONS		**–1,930**	**–950**	**+1,985**	**+90**	**+1,140**

[*] Negligible.

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

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

[2] The effect on tax liabilities underlying the Exchequer receipts is £0 in 2012/13, £350 million in 2013/14, £270 million in 2014/15, £290 million in 2015/16 and £310 million in 2016–17. There is a lag between the tax liability arising and the tax revenue being collected via Self Assessment.

[3] Tax reliefs for creative industries total £40 million by 2015–16.

Table 2.2: Measures announced at Autumn Statement 2011 or earlier which take effect from April 2012 or later[1]

		Head	£ million				
			2012–13	2013–14	2014–15	2015–16	2016–17
Measures announced at Autumn Statement 2011							
a	VAT: low value consignment relief	Tax	+90	+95	+100	+105	+110
b	Capital gains tax: freeze annual exempt amount	Tax	0	+25	+30	+35	+40
c	Air passenger duty: business jets	Tax	0	+5	+5	+5	+5
d	Small business rate relief: extend holiday	Tax	–210	+5	0	0	0
e	Business rates: deferral of payments	Tax	–85	+45	+40	0	0
f	Climate change levy: increase electricity relief to 90%	Tax	0	–15	–20	–20	–20
g	Seed Enterprise Investment Scheme: scheme and 2012 CGT holiday	Tax	0	–45	–20	–20	–20
h	VAT: cost sharing exemption	Tax	–25	–50	–75	–100	–125
i	Capital allowances: Enterprise Zones	Tax	–25	–40	–25	–5	*
j	Gifts of pre-eminent objects	Tax	–15	–15	–15	–15	–15
k	Working Tax Credit: freeze	Spend	+260	+265	+275	+285	+295
l	Pension Credit: changes	Spend	*	–5	–10	–10	–10
Measures announced at Budget 2011							
m	Corporation tax: decrease to 25% in 2012–13, 24% in 2013–14 and 23% in 2014–15	Tax	–670	–720	–785	–845	–890
n	Corporation tax: taxation of foreign branches reform	Tax	–30	–70	–80	–80	–100
o	Corporation tax: full reform to Controlled Foreign Company rules	Tax	–210	–540	–770	–840	–840
p	Capital allowances: extension of Business Premises Renovation Allowance	Tax	–5	–35	–30	–35	–40
q	Business rates: Enterprise Zones	Tax	–65	–90	–120	–100	–75
r	Personal allowance: increase by £630 in 2012–13, with adjustment to basic rate limit and no change to higher rate threshold	Tax	–930	–1,080	–1,080	–1,070	–1,130
s	Direct taxes: switch default index assumption to CPI from 2012–13	Tax	+130	+120	+250	+390	+780
t	Direct taxes: over-index employer NICs threshold, age related allowances and other allowances	Tax	0	0	0	0	0
u	NICs: implement Government Actuary's best estimate approach on contracted-out rebates from 2012–13	Tax	+640	+630	+620	+610	+610
v	Non-domicile taxation: reform	Tax	0	+110	+70	+50	+50
w	Carbon price floor: introduce from 2013–14 with £30 per tonne of CO_2 target	Tax	0	+615	+1,085	+1,330	+1,585
x	Climate Change Agreements: reform	Tax	0	–25	–25	–30	–30
y	Company car tax: adjustment to rates for 2013–14	Tax	0	+115	+120	+125	+130
z	VAT: Fraud on imported road vehicles	Tax	0	+115	+100	+100	+95
aa	Protection life insurance	Tax	0	+60	+90	+120	0
ab	Qualifying Time Deposit Accounts: change to tax treatment	Tax	*	+20	+20	+25	+35
ac	PAYE: holding securities	Tax	+5	+5	+5	+5	+5
ad	Inheritance tax: reduce rate to 36% for estates with charitable donations of more than 10% from 2012–13	Tax	–15	–30	–45	–70	–105
ae	Gift Aid: small donations scheme	Spend	0	–50	–85	–105	–115
af	Employment and Support Allowance: abolish National Insurance concession	Spend	+10	+10	+15	+15	+20
ag	Benefit fraud: sanctions and debt recovery	Spend	+25	+45	+65	+65	+65
Measures announced at Spending Review 2010							
ah	Contributory Employment and Support Allowance: time limit for those in the Work Related Activity Group to one year from 2012–13	Spend	+330	+835	+1,230	+1,475	+1,440

ai	Total household benefit payments capped on the basis of average take-home pay for working households from 2013–14	Spend	0	+290	+330	+330	+330
aj	Disability Living Allowance: remove mobility components for claimants in residential care from April 2013	Spend	0	+155	+160	+160	+160
ak	Council Tax Benefit: 10 per cent reduction in expenditure and localisation	Tax	0	+485	+485	+480	+480
al	Child Benefit: remove from families with a higher rate taxpayer from January 2013	Spend	+545	+2,225	+2,370	+2,445	+2,525
am	Working Tax Credit: increase working hours requirement for couples with children to 24 hours	Spend	+550	+545	+540	+550	+550
an	Child and Working Tax Credits: use Real Time Information	Spend	0	0	+355	+330	+325
ap	Public service pensions: increase in employee contribution rates	Spend	+160	+1,270	+1,760	+1,850	+1,930
Measures announced at June Budget 2010							
aq	Corporation tax: decrease to 26% in 2012–13, 25% in 2013–14 and 24% in 2014–15	Tax	–1,000	–1,710	–2,590	–3,210	–3,545
ar	Capital Allowances: decrease main rate to 18% and special rate to 8% from 2012–13	Tax	+695	+1,180	+1,115	+1,075	+1,070
as	Annual Investment Allowance: decrease to £25,000 from 2012–13	Tax	+155	+605	+570	+575	+595
at	Basic rate limit: freeze in 2013–14	Tax	0	+330	+640	+630	+660
au	Disability Living Allowance: reform gateway from 2013–14	Spend	0	+355	+1,055	+1,415	+1,495
av	Lone parent benefits: extend conditionality to those with children aged 5 and above from May 2012	Spend	+115	+265	+305	+355	+350
aw	Social sector: limit working age entitlements to reflect size of family from 2013–14	Spend	0	+490	+490	+490	+490
ax	Switch to CPI indexation for Local Housing Allowance from 2013–14	Spend	+20	+90	+265	+465	+670
ay	Child Tax Credit: taper the family element immediately after the child element from 2012–13	Spend	+465	+440	+420	+400	+380
az	Working Tax Credit: remove the 50 plus element from 2012–13	Spend	+30	+35	+35	+35	+40
ba	Child Tax Credit: reverse the supplement for children aged one and two from 2012–13	Spend	+180	+180	+180	+180	+180
bb	Tax credits: introduce an income disregard of £2,500 for falls in income from 2012–13	Spend	+445	+720	+695	+690	+700
bc	Tax credits: new claims and changes of circumstances: reduce backdating from 3 months to 1 month from 2012–13	Spend	+345	+355	+360	+360	+360
Measures announced before June Budget 2010							
bd	Freeze higher rate threshold in 2012–13 (2009 Pre-Budget Report)	Tax	+610	+1,250	+1,230	+1,360	+1,500
be	Auto-enrolment: slower introduction (2009 Pre-Budget Report)	Tax	+100	+700	+1,700	+2,000	+1,600
bf	Alcohol duty: increase in rates in 2013–14 and 2014–15 (March Budget 2010)	Tax	0	+125	+250	+250	+250
bg	Patent box from 2013–14 (2009 Pre-Budget Report)	Tax	0	–350	–720	–820	–910
bh	Landfill tax: increase in 2014–15 (2009 Pre-Budget Report)	Tax	0	0	+80	+85	+85
bi	Company car tax: extend bands from 2012–13 (Budget 2009)	Tax	+130	+145	+175	+175	+180

Negligible

[*] Negligible

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

2.4 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.[4]

Public spending

Total Managed Expenditure

2.5 Table 2.3 sets out the path for Total Managed Expenditure (TME), Public Sector Current Expenditure (PSCE) and Public Sector Gross Investment (PSGI) to 2016–17. At Autumn Statement 2011 the Government set plans for Total Managed Expenditure to grow, in real terms, at the same rate in 2015–16 and 2016–17 as in the Spending Review 2010 period, from a baseline that excludes the one-off investment in infrastructure announced at Autumn Statement 2011.

Table 2.3: Total Managed Expenditure

	£ million					
			Forecasts			
	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
CURRENT EXPENDITURE						
Resource Annually Managed Expenditure	303.6	320.0	325.3	340.1	356.8	370.7
Resource Departmental Expenditure Limits excluding depreciation[1]	322.5	327.2	330.2	327.0	321.0	317.7
Ring-fenced depreciation	21.2	17.5	18.1	19.2	19.7	20.2
Public sector current expenditure	**647.3**	**664.6**	**673.6**	**686.4**	**697.5**	**708.6**
CAPITAL EXPENDITURE						
Capital Annually Managed Expenditure[2]	7.1	-25.0	5.6	5.7	6.1	6.5
Capital Departmental Expenditure Limits	42.0	43.8	40.9	41.3	40.4	41.1
Public sector gross investment	**49.1**	**18.8**	**46.4**	**47.0**	**46.5**	**47.7**
TOTAL MANAGED EXPENDITURE	**696.4**	**683.4**	**720.0**	**733.5**	**744.0**	**756.3**
Total Managed Expenditure (%GDP)	*45.8%*	*43.4%*	*43.6%*	*42.2%*	*40.5%*	*39.0%*

[1] Resource DEL excluding ring-fenced depreciation is the Treasury's primary control within resource budgets and the basis on which Spending Review 2010 settlements were agreed. The Government will set the precise envelope for the next spending review in due course, so numbers beyond 2014-15 are implied. The OBR shows forecast PSCE in DEL and AME, and PSGI in DEL and AME. A reconciliation table is published by the OBR.

[2] Capital AME in 2012-13 is temporarily reduced by a £28 billion capital grant to the public sector resulting from the transfer of assets from the Royal Mail Pension Plan to the public sector in April 2012.

Departmental Expenditure Limits

2.6 Spending Review 2010 announced departmental spending allocations for 2011–12 to 2014–15. The detailed allocation of DEL is shown in Table 2.4. In line with previous practice, DEL figures for 2011–12 reflect the latest available information and include the OBR's allowance for shortfall reflecting anticipated underspends against departmental provisions.

2.7 The DEL budgets shown in Table 2.4 reflect:

- policy decisions contained in this Budget, which are set out in more detail later in this chapter;
- Reserve claims voted in 2011–12;
- Reserve claims expected to be voted in the Main Estimates for 2011–12, including £3.1 billion (excluding depreciation) for the Ministry of Defence with respect to the net additional cost of military operations;
- the impact of Budget Exchange, which allows departments to carry forward underspends from one year to the next; and
- other classification or budgetary changes, which have no impact on National Accounts definitions.

[4] *Overview of tax legislation and rates*, HM Treasury and HMRC, March 2012.

Table 2.4: Departmental Expenditure Limits

	£ billion			
	Estimate	Plans		
	2011–12	2012–13	2013–14	2014–15
Departmental Programme and Administration Budgets (Resource DEL excluding depreciation[1])				
Education	51.2	52.5	53.1	54.2
NHS (Health)	101.1	104.3	106.9	109.8
Transport	4.8	5.1	4.9	4.5
CLG Communities	1.8	1.8	2.0	1.4
CLG Local Government	26.6	23.9	23.8	22.2
Business, Innovation and Skills	16.3	15.9	14.9	13.9
Home Office	8.7	8.6	8.0	7.7
Justice	8.5	7.7	7.3	7.0
Law Officers' Departments	0.6	0.6	0.6	0.5
Defence[2]	28.6	27.6	24.7	24.5
Foreign and Commonwealth Office	2.1	1.8	1.4	1.2
International Development	6.2	6.8	9.1	8.9
Energy and Climate Change	1.1	1.4	1.4	1.0
Environment, Food and Rural Affairs	2.0	2.0	1.9	1.8
Culture, Media and Sport[3]	1.5	2.0	1.2	1.1
Work and Pensions	7.4	7.8	7.7	7.8
Scotland	24.9	25.2	25.4	25.5
Wales	13.2	13.4	13.5	13.5
Northern Ireland	9.5	9.5	9.5	9.6
Chancellor's Departments	3.6	3.7	3.6	3.4
Cabinet Office	2.1	2.1	2.0	2.2
Small and Independent Bodies	1.7	1.5	1.4	1.3
Reserve[4]	0.0	1.9	2.3	2.4
Special Reserve[5]	0.0	0.6	2.5	1.8
Green Investment Bank	0.0	0.0	1.0	0.0
Adjustment for Budget Exchange[6]	0.0	-0.6	0.0	0.0
OBR allowance for shortfall	-1.0	0.0	0.0	0.0
Total Resource DEL excluding depreciation[1]	**322.5**	**327.2**	**330.2**	**327.0**
Capital DEL				
Education	5.0	4.5	3.7	3.8
NHS (Health)	3.9	4.5	4.4	4.6
Transport	7.5	8.0	7.9	8.2
CLG Communities	3.8	2.8	2.2	2.2
CLG Local Government	0.0	0.0	0.0	0.0
Business, Innovation and Skills	1.2	1.3	1.0	1.2
Home Office	0.5	0.5	0.4	0.5
Justice	0.4	0.3	0.3	0.3
Law Officers' Departments	0.0	0.0	0.0	0.0
Defence[2]	9.1	9.9	9.3	8.8
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1
International Development	1.7	1.6	1.9	2.0
Energy and Climate Change	1.4	2.0	2.4	2.7
Environment, Food and Rural Affairs	0.4	0.4	0.4	0.4
Culture, Media and Sport[3]	1.3	0.7	0.3	0.1
Work and Pensions	0.3	0.3	0.4	0.2
Scotland	2.7	2.6	2.4	2.5
Wales	1.4	1.2	1.1	1.2
Northern Ireland	1.0	0.9	0.8	0.9
Chancellor's Departments	0.3	0.2	0.1	0.1
Cabinet Office	0.4	0.4	0.4	0.4
Small and Independent Bodies	0.1	0.1	0.1	0.1
Reserve	0.0	0.9	0.7	0.6
Special Reserve[5]	0.0	0.0	0.5	0.3
Green Investment Bank	0.0	0.8	0.0	0.0
Adjustment for Budget Exchange[6]	0.0	-0.2	0.0	0.0
OBR allowance for shortfall	-0.3	0.0	0.0	0.0
Total Capital DEL	**42.0**	**43.8**	**40.9**	**41.3**

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

[2] *The Defence budget for 2012–13 reflects the likely initial allocation of funding from the Special Reserve for the net additional cost of military operations. No such allocation has yet been made for 2013–14 onwards; the funding remains within the Special Reserve for these years.*

[3] *Includes the Olympics budget which falls to £0 billion after 2012–13.*

[4] *The Reserve has been reduced by £0.2 billion per annum to offset the costs of bringing the Royal Mail Pension Plan into the public sector.*

[5] *The Special Reserve has been reduced by £2.4 billion over the spending review period to reflect the reduction in the net additional costs of military operations in Afghanistan.*

[6] *Departmental budgets in 2012–13 include £0.6 billion RDEL excluding depreciation and £0.2 billion capital DEL carried forward from 2011–12 through the system of Budget Exchange, which will be voted at Main Estimates. These increases will be offset at Supplementary Estimates and so are excluded from spending totals.*

Financial transactions and contingent liabilities

2.8 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 (PSND), and transactions likely to be recorded as contingent liabilities. Table 2.5 shows the effects of financial transactions on CGNCR.

Table 2.5: Financial Transactions: impact on central government net cash requirement[1,2]

		£ million				
		2012–13	**2013–14**	**2014–15**	**2015–16**	**2016–17**
i	Business Finance Partnership (additional £200 million invested)	-100	-100	0	0	0
ii	Get Britain Building	-110	-70	+20	+20	+20
iii	Transfer of Royal Mail Pension Plan assets: sale of liquid assets	+4,500	+4,500	0	0	0
	TOTAL POLICY DECISIONS	**+4,290**	**+4,330**	**+20**	**+20**	**+20**

[1] *Costings reflect the Office for Budget Responsibility's latest economic and fiscal determinants.*

[2] *Following convention, a negative figure shows an increase in the central government net cash requirement.*

Pay, pensions and employment

2.9 Public sector pay – The Government has provided evidence to the Pay Review Bodies on the economic case for reforming public sector pay to better reflect local labour markets, following the announcement at Autumn Statement 2011. The Review Bodies are due to report from July 2012. In addition, a number of civil service departments that entered the pay freeze in advance of other workforces will exit it from April 2012. These departments will be able to introduce more local, market-facing pay reform from this year, following further work with Cabinet Office to develop proposals for local pay, as set out in the pay guidance issued by the Treasury.[5]

2.10 State Pension reform – The Government will reform the State Pension into a single tier pension for future pensioners. The new system will be introduced early in the next Parliament and will be set at a level above the means-tested standard Guarantee Credit and all State Pension records will be recognised. As set out in the Green Paper published by the Department for Work and Pensions (DWP), the single tier will cost no more than the current State Pension system in every year. The Government will bring forward further detail in a White Paper in spring 2012, with final decisions on the detailed implementation of the policy being taken at the next spending review.

2.11 State Pension age – The Government will commit to ensuring the State Pension age is increased in future to take into account increases in longevity and will publish proposals at the time of the OBR's 2012 *Fiscal sustainability report*.

2.12 Auto-enrolment – As announced by DWP in November 2011, the timetable for pension auto-enrolment will be adjusted so that no small employers (fewer than 50 employees) are affected by the reforms before the end of this Parliament. (48)

2.13 National Minimum Wage (NMW) rates – As announced by the Department for Business, Innovation and Skills on 19 March 2012, the Government accepts the Low Pay Commission's recommendation for below inflation increases to the adult NMW rate, to £6.19 per hour, and the apprenticeship rate, to £2.65 per hour, and to freeze the youth rates. These changes will take effect from October 2012.

[5] *Civil service pay guidance 2012–13*, HM Treasury, March 2012.

Housing

2.14 Get Britain Building fund – The Government published the shortlist of sites to receive £420 million of funding through the Get Britain Building Fund on 19 March 2012, supporting firms in need of development finance and delivering over 12,000 new homes. The Government will now go further and provide an additional £150m, delivering over an additional 3,000 homes. This is expected to be recorded as a financial transaction. (ii)

2.15 New Buy – The Government launched New Buy on 12 March 2012, making mortgages available for people to buy a new home with a five per cent deposit. The Government has made a provision to support up to 100,000 households through the scheme.

2.16 Right to Buy – The Government has announced a reinvigorated Right To Buy for the two million tenants in council housing. From 2 April 2012, the current range of regional caps on discounts will be replaced by a higher single cap of £75,000. The receipts will be used to pay down the outstanding housing debt on the units sold and replace, on a one-for-one basis, the additional properties sold with new affordable homes for rent. (40)

2.17 Public Land – The Government is accelerating the release of public sector land, and sufficient land has been identified to meet the Government's ambition to dispose of land with the capacity to build over 100,000 homes and support as many as 25,000 jobs by April 2014. A progress report setting out further details will be published before summer 2012.

2.18 Housing Revenue Account (HRA) subsidy system – From 28 March 2012 the Government will reform the council housing finance system, replacing the current HRA subsidy system with a self-financing model.

Other spending measures

2.19 Special Reserve – The Government will reduce the Special Reserve to reflect the end of UK combat operations in Afghanistan by the end of 2014. This is funding held over and above the Ministry of Defence (MoD) budget. The costs of operations will continue to be paid on the same basis. (41)

2.20 Accommodation and council tax and family welfare for military personnel – The Government will reinvest £100 million of the reduction in the Special Reserve provision in 2013–14 to improve accommodation for up to 1,275 military personnel. £3 million will be reinvested each year to double the rate of council tax rebate, from 50 per cent to 100 per cent, for around 9,500 deployed military personnel, and £2 million will be reinvested each year to double the rate of the Families Welfare Grant. (34)

2.21 Royal Mail Pension Plan (RMPP) – On 1 April 2012 the Government intends, subject to State aid approval, to transfer the historic liabilities of around £37.5 billion from the RMPP, a private sector pension scheme, to a newly established unfunded public pension scheme, the Royal Mail Statutory Pension Scheme. The liabilities will be treated as contingent in the National Accounts, but will feature in Whole of Government Accounts. An estimated £28 billion of assets will also be transferred to Government. These assets will be disposed of in a measured fashion, subject to achieving value for money for the taxpayer. The Government intends that the gilt holdings will be cancelled in 2012–13. The proceeds from sale of other assets will be transferred to the Consolidated Fund. (iii)

2.22 Universal Credit – The Government will place a cap on the additional costs of Universal Credit of up to £2.5 billion a year in the next spending review.

2.23 DWP fraud and error programme – The Government will provide up to £325 million additional funding for DWP to implement its strategy for tackling fraud and error in the benefit system. (33)

2.24 Local authority borrowing – The Government will introduce in 2012-13, a 20 basis points (bps) discount on loans from the Public Works Loan Board (PWLB) under the prudential borrowing regime for those principal local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. The Government will also work with the local authority sector to consider the potential for an independent body to facilitate the provision of PWLB lending at a further reduced rate, to authorities demonstrating best quality and value for money. (38)

2.25 Growing Places Fund – The Government will increase the Growing Places fund by £270 million to empower local communities and businesses to lead development in their own areas, including £70 million for the Greater London Authority.

2.26 Manchester Earn Back Model (EBM) – The Government will provide up to £30 million a year of funding from 2015–16, to support Manchester's EBM, a new pilot for infrastructure investment.

2.27 Tax Increment Financing (TIF) – The Government will make up to £150 million available from 2013–14, including through additional funding, to support TIF 2 in core cities. Further details on a competition for allocating funding will be announced later in 2012. (35)

2.28 Transport for London – The Government intends, in principle, that Transport for London (TfL) should receive funding from a locally-retained share of London's business rates that will allow the Mayor of London to continue sustainable investment in transport and is considering options for how this might be achieved.

2.29 Local council tax support schemes – The Government will provide £30 million to local authorities in England towards the transitional costs to new local support schemes for council tax.

2.30 Super-connected cities – The Government has selected Belfast, Birmingham, Bradford, Bristol, Cardiff, Edinburgh, Leeds, London, Manchester and Newcastle as super-connected cities as part of the £100 million investment announced at Autumn Statement 2011. The Government will also be making available £50 million for super-fast broadband in smaller cities. (39)

2.31 Aerodynamics centre – The Government will invest £60 million to establish a UK centre for aerodynamics to open in 2012–13 to support innovation in aerospace technology, commercialise new ideas and spin-off technologies with wider applications in other sectors. (36)

2.32 University research facilities – The Government will set up a new £100 million fund, including through additional provisions, to support investment in major new university research facilities. The fund will allocate its first bids in 2012–13 and will attract additional co-investment from the private sector. (37)

2.33 Not-for-profit advice sector – The Government will make £20 million available to the not-for-profit advice sector in 2013–14, and again in 2014–15 to support the sector as it adapts to changes in the way that it is funded. (56)

Personal tax, National Insurance contributions and welfare

Income tax and National Insurance contributions

2.34 Income tax rates and thresholds (including personal allowance) – The main income tax rates for 2012–13 will remain at their 2011–12 levels. As announced at Budget 2011, the income tax personal allowance will increase by £630 in cash terms to £8,105 in 2012–13. There will be a corresponding £630 cash decrease in the basic rate limit, taking it to £34,370. The higher rate threshold, which equals the sum of the personal allowance and the basic rate limit, will therefore remain unchanged in 2012–13 at £42,475. (Finance Bill 2012) (r)

2.35 From April 2013, the income tax personal allowance will increase by £1,100 in cash terms to £9,205. There will be a £2,125 cash decrease in the basic rate limit, taking it to £32,245. The National Insurance Upper Earnings/Profits Limit will also be reduced to align it with the higher rate threshold. The higher rate threshold will be £41,450, meaning that one quarter of the total gain will be passed on to higher rate taxpayers. (Finance Bill 2013) (1)

2.36 Income tax: additional rate – The additional rate of income tax will be reduced from 50 per cent to 45 per cent from April 2013. The basic and higher income tax rates for 2013–14 will remain at their 2012–13 levels. (Finance Bill 2012) (3)

2.37 Income tax additional rate: consequential changes – In line with the reduction in the additional rate of income tax, from April 2013, the dividend additional rate will be reduced from 42.5 per cent to 37.5 per cent. The trust rate of tax will be reduced from 50 per cent to 45 per cent and the dividend trust rate will be reduced from 42.5 per cent to 37.5 per cent.

2.38 In addition to this, the charge on benefits paid to trusts or companies under an employer-financed retirement benefits scheme will reduce from 50 per cent to 45 per cent.[6] The notional tax credit on capital sums paid out by a trust and treated as income of a settlor will be similarly reduced. (Finance Bill 2012)

2.39 Income tax age-related allowances – From 6 April 2013, the Government will restrict the availability of the income tax age-related allowances to existing recipients. The allowance available to those aged 65-74 will in future be limited to those born between 6 April 1938 and 5 April 1948, and the higher allowance available to those aged 75 and over will be limited to those born before 6 April 1938. In addition, from 6 April 2013 the age-related allowances will be frozen at their 2012–13 levels (£10,500 for those born between 6 April 1938 and 5 April 1948, and £10,660 for those born before 6 April 1938) until they align with the personal allowance, at which point age-related allowances will be removed. From 2013–14, everyone born on or after 6 April 1948, will receive the personal allowance, which will be increased to £9,205 from 6 April 2013. The Blind Person's Allowance will continue. (Finance Bill 2012) (26)

2.40 Cap on unlimited reliefs – The Government will, from 6 April 2013, introduce a new cap on income tax reliefs to ensure that those on higher incomes cannot use income tax reliefs excessively. For anyone seeking to claim more than £50,000 of relief, a cap will be set at 25 per cent of income (or £50,000, whichever is greater). The Government will explore with philanthropists ways to ensure this new limit of uncapped reliefs will not impact significantly on charities that depend on large donations. (Finance Bill 2013) (4)

2.41 Income tax and National Insurance contributions (NICs) reform – The Government will consult on integrating the operation of income tax and NICs after Budget 2012.

2.42 Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) – From April 2012 the EIS annual investment limit for individuals will be increased to £1 million. The qualifying company limits will be increased to companies with fewer than 250 employees and gross assets before investment of £15 million and a post-investment gross assets limit of £16 million, and the annual investment limit for qualifying companies will increase to £5 million under both EIS and VCTs, subject to State aid approval. (Finance Bill 2012)

2.43 From April 2012, the Government will remove some restrictions on qualifying shares and types of investor for EIS and the £1 million limit on investment by a VCT in a single company (except for companies in a partnership or a joint venture). For both EIS and VCTs the Government will also introduce a new disqualifying purpose test to exclude companies set up for the purpose of accessing relief, exclude acquisition of shares by a qualifying company in another company and exclude investment in some Feed-in Tariff businesses. (Finance Bill 2012)

[6] And other non-individuals.

2.44 Seed Enterprise Investment Scheme (SEIS) – From April 2012, the Government will introduce the new Seed Enterprise Investment Scheme (SEIS), providing income tax relief of 50 per cent for individuals who invest in shares in qualifying seed companies. The Government will also offer a capital gains tax (CGT) holiday: gains realised on the disposal of assets in 2012–13 that are invested through SEIS in the same year will be exempt from CGT. (Finance Bill 2012) (g)

2.45 Government response to Office of Tax Simplification (OTS) employee share schemes review – The Government will consider the recommendations of the OTS's review of the Government's tax advantaged share schemes, and consult shortly on how to take these proposals forward. (Finance Bill 2013)

2.46 Employee ownership – HM Treasury will conduct an internal review to examine the role of employee ownership in supporting growth and examine options to remove barriers, including tax barriers, to its wider take-up. The review will also consider the findings of the work on employee ownership being led by the Minister for Employment Relations, Consumer and Postal Affairs, due to report in the summer, and will conclude ahead of Autumn Statement 2012.

2.47 Enterprise Management Incentive (EMI) scheme – The Government will more than double the individual grant limit from £120,000 to £250,000, to commence at the earliest opportunity following State aid approval and provide enhanced guidance to support start-ups. Entrepreneurs' Relief will be extended to gains on shares acquired through EMI, and the Government will consult on extending the scheme to academics employed by a qualifying company, from April 2013 subject to State aid approval. (Finance Bill 2013) (14)

2.48 Community Investment Tax Relief (CITR) – From April 2013, 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. (Finance Bill 2013)

2.49 Social investment – HM Treasury will also conduct an internal review looking into the financial barriers to social enterprise.

2.50 Reform of non-domicile taxation – As announced at Budget 2011, the Government will introduce reforms to the taxation of non-domiciled individuals from 6 April 2012. These are an increase to the annual charge to £50,000 for non-domiciles who have been UK resident for 12 or more years, a new incentive for business investment and technical simplifications to some aspects of the tax regime for non-domiciles. (Finance Bill 2012) (v)

2.51 Statutory residence test – As announced at Budget 2011, the Government will introduce a statutory definition of tax residence for individuals. As announced on 6 December 2011, introduction of this test will take place on 6 April 2013. The Government will publish a summary of responses and draft legislation for consultation after Budget 2012. (Finance Bill 2013)

2.52 Reform of ordinary residence – The Government will abolish ordinary residence for tax purposes from 6 April 2013 but will retain overseas workday relief and put it on a statutory footing. A summary of responses will be published with draft legislation for consultation after Budget 2012. (Finance Bill 2013)

2.53 Statement of Practice (SP1/09) – As announced in the consultation on reform of non-domicile taxation in June 2011, the Government will put SP1/09 on a statutory footing. SP1/09 provides an administrative easement for employees who are resident but not ordinarily resident in the UK and have a single contract of employment covering duties carried out in the UK and overseas. The Government will consult on draft legislation after Budget 2012 which will be effective from 6 April 2013. The existing SP1/09 will remain in force for the 2012–13 tax year. (Finance Bill 2013)

2.54 Resettlement payments to Members of Parliament – The existing exemption from income tax for the first £30,000 of any resettlement payments made to an MP will be amended to ensure that it applies to similar payments made by the Independent Parliamentary Standards Authority (IPSA) under the new MPs' expenses scheme. This will have effect in relation to any resettlement payment made by IPSA on or after 1 April 2012. (Finance Bill 2012)

2.55 Expenses of devolved assembly members – The Government will legislate to formalise aspects of the existing income tax treatment of travel and accommodation expenses incurred by members of devolved assemblies on parliamentary or assembly duties. It will also introduce a new tax exemption for expenses incurred on travel by spouses or partners of devolved assembly members where they share caring responsibilities for a dependent. These changes will have effect from 6 April 2013. (Finance Bill 2013)

2.56 EU Status of Forces Agreement – As announced on 6 December 2011, the Government will legislate to provide members of EU forces and their civilian staff with the tax treatment to which they are entitled under the EU Status of Forces Agreement. This legislation will have effect from 6 April 2012. (Finance Bill 2012)

2.57 Continuity of Education Allowance: income tax exemption – As announced on 6 December 2011, the Government will introduce an income tax exemption for payments of the Continuity of Education Allowance to service personnel and for payments in respect of the children of deceased service personnel. This will have effect for payments made from 6 April 2012. (Finance Bill 2012)

2.58 Champions League Final 2013 – As announced 6 December 2011, legislation will be introduced in Finance Bill 2012 to effect an exemption from UK taxation for money earned by non-resident footballers and team officials in relation to this event, which will be held at Wembley Stadium. (Finance Bill 2012)

2.59 Commonwealth Games 2014 – As announced in a joint statement with the Scottish Government on 26 January 2012, the Government will provide an exemption from UK taxation for money earned by non-resident athletes in relation to a performance at this event. (Finance Bill 2013)

2.60 Taxation of non-resident sports people – HMRC will revise its practice on the taxation of non-resident sports people to take training days into account when calculating the proportion of worldwide endorsement income subject to UK tax.

Taxation of pensions

2.61 Commuting small personal pension funds – As announced at Autumn Statement 2011, the Government will extend the existing pensions tax commutation rules to allow individuals aged 60 or over to commute funds of £2,000 or less held in personal pensions into a lump sum regardless of their other pension savings, subject to a maximum of two such commutations in a lifetime. Draft legislation was published for consultation on 6 December 2011 and the final legislation will take effect from 6 April 2012.

2.62 Unfunded workplace pension arrangements – As announced on 14 October 2010, in the summary of responses to the discussion document on restricting pensions tax relief, the Government is ready to act to prevent additional fiscal risk from changes in patterns of pension saving behaviour using unregistered pension saving arrangements, including unfunded workplace pensions. The Government has since introduced legislation implementing restrictions on pensions tax relief through existing allowances and on disguised remuneration in Finance Act 2011. The Government will continue to monitor the use of unfunded pension arrangements, and remains ready to act as necessary to prevent new and extensive use of these arrangements from creating a significant fiscal risk and undermining its objective of a more affordable pensions regime.

2.63 Lifetime Allowance – Following changes made in Finance Act 2011 to restrict the cost of pensions tax relief by reducing the Lifetime Allowance from £1.8 million to £1.5 million from April 2012, a regulation-making power will be made. Regulations will then be made to ensure the rules surrounding fixed protection work as intended. (Finance Bill 2013)

2.64 Annual Allowance – Following changes made in Finance Act 2011 to restrict the cost of pensions tax relief by reducing the Annual Allowance from £255,000 to £50,000 for the 2011-12 tax year, technical amendments to the legislation will be made through regulations to ensure the rules surrounding scheme pays and deferred members work as intended.

2.65 Contracting out – The Government will amend pensions tax legislation to remove references to tax relief on employee contracted-out contributions to defined contribution pension schemes. This will align tax legislation with the DWP legislation, under which contracting out through a defined contribution pension scheme will be abolished from 6 April 2012. (Finance Bill 2013)

2.66 Asset-backed pension contributions – On 29 November 2011, the Government announced that legislation would be introduced to change the tax rules in relation to employer asset-backed pension contributions, with effect from the date of the announcement. On 22 February 2012, the Government published further legislation, with immediate effect, to limit the circumstances in which up-front relief can be given to asset-backed arrangements in line with the original policy aim. Further changes to the previously published legislation and structured finance legislation have been announced with effect from 21 March 2012. (Finance Bill 2012)

2.67 Contributions paid to spouses or family members – The Government will legislate to ensure that 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 cannot be used to obtain tax and NIC advantages for the employee or the employer. (Finance Bill 2013)

2.68 Bridging pensions – The Government will legislate to align the tax rules on the payment of bridging pensions with forthcoming DWP changes to the state pension age. (Finance Bill 2013)

2.69 Qualifying Recognised Overseas Pension Schemes (QROPS) – The Government will introduce changes in primary legislation to strengthen reporting requirements and powers of exclusion relating to QROPS. They support the changes in secondary legislation published for consultation on 6 December 2011. The Government also announced that where the country or territory in which a QROPS is established makes legislation or otherwise creates or uses a pension scheme to provide tax advantages that are not intended to be available under the QROPS rules, the Government will act so that the relevant types of pension scheme in those countries or territories will be excluded from being QROPS. (Finance Bill 2013)

Taxation of savings

2.70 Individual Savings Account (ISA) market improvements – The Government will work with industry to improve competitiveness and transparency in the ISA market. Building on the positive changes made since the Office of Fair Trading report on the cash ISA market in 2010, the Government encourages industry to reduce transfer periods as far as possible, making use of technological advances in how funds are transferred and how information is exchanged between providers.[7] Alongside this, the Money Advice Service, which provides free and impartial advice on financial matters, will develop and introduce web-based resources to show consumers when ISA bonus rates are ending.

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[7] *Cash ISAs: response to supercomplaint by Consumer Focus*, Office of Fair Trading, June 2010.

2.71 Income tax rules on interest – The Government will consult shortly after Budget 2012 on proposals for possible changes to the income tax rules on the taxation of interest and interest-like returns, and rules on the deduction of tax at source from such amounts. (Finance Bill 2013)

2.72 Qualifying Time Deposits – As announced at Budget 2011, and following consultation, legislation will be introduced to require deduction of income tax at source from interest paid on Qualifying Time Deposits made on or after 6 April 2012. (Finance Bill 2012) (ab)

Capital gains tax and inheritance tax

2.73 Capital gains tax (CGT): annual exempt amount – As announced at Autumn Statement 2011, the CGT annual exempt amount (AEA) will remain at its 2011–12 level of £10,600 for 2012–13. From 6 April 2013 the AEA will rise in line with the CPI instead of the RPI, as announced at Budget 2011. (Finance Bill 2012) (b)

2.74 Withdrawals from foreign currency bank accounts – As announced in the consultation on the reform of non-domicile taxation in June 2011, the Government will legislate to remove the CGT liability from capital gains which arise on withdrawals of money in foreign currency bank accounts. This will take effect from 6 April 2012. (Finance Bill 2012)

2.75 CGT regime and non-residents – As part of the Budget 2012 measures on residential property, the Government will extend the CGT regime to gains on disposals by non-resident non-natural persons of UK residential property and shares or interests in such property, commencing from April 2013, following consultation on the details of the measure. (Finance Bill 2013) (5)

2.76 Heritage Maintenance Funds (HMFs) – Applying with effect from April 2012, the Government will legislate to 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. (Finance Bill 2013)

2.77 Single payment scheme (SPS) and CGT roll-over relief – As announced at Budget 2011, the Government will legislate to preserve the availability of CGT roll-over relief for farmers and companies carrying on a farming business who dispose of or acquire entitlements under the EU SPS. (Finance Bill 2012)

2.78 Transfer of assets abroad and gains on assets held by foreign companies – As announced in December 2011 the Government will amend two pieces of legislation designed to protect the UK tax base. These are contained in sections 714 to 751 of the Income Tax Act 2007 (transfer of assets abroad) and section 13 of the Taxation of Chargeable Gains Act 1992 (gains on assets held by foreign companies closely controlled by UK participators). The Government will consult on draft legislation after Budget 2012 and will implement changes in Finance Bill 2013. The changes, which are unlikely be to a taxpayer's disadvantage, will have retrospective effect to 6 April 2012 but, exceptionally, a taxpayer may elect for the new rules to apply from 6 April 2013. (Finance Bill 2013) (47)

2.79 Inheritance tax (IHT): spouses and civil partners domiciled outside the UK – The Government intends to increase the IHT-exempt amount that a UK-domiciled individual can transfer to their non-UK domiciled spouse or civil partner. The Government similarly intends to 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. These proposals will be subject to a technical consultation. (Finance Bill 2013) (31)

2.80 IHT: periodic charges on trusts – The Government will consult 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.

2.81 IHT: reduced rate for charitable donations – As announced at Budget 2011, for deaths on or after 6 April 2012, the Government will introduce legislation to provide for a lower rate of IHT of 36 per cent where 10 per cent or more of a deceased person's net estate is left to charity. (Finance Bill 2012)

2.82 IHT: thresholds – The IHT nil-rate band (NRB) will be frozen until April 2015. As announced at Budget 2011, from April 2015 the NRB will rise in line with the CPI. (Finance Bill 2012)

Gift Aid and charitable giving

2.83 Community Amateur Sports Clubs (CASCs) – The Government will legislate to amend CASC legislation to ensure it operates as originally intended. (Finance Bill 2012)

2.84 Charity Shop Donations – The Government will work with the charity sector to simplify the administration of Gift Aid in the context of charity shops.

2.85 Self Assessment Donate – As announced at Budget 2011, from April 2012 the Government will withdraw Self Assessment Donate for tax returns for 2011–12 onwards. (Finance Bill 2012)

2.86 In-year repayments of tax to charities – The Government will legislate to amend CASC and Gift Aid legislation to ensure it operates as originally intended and to put on a statutory footing the practice by certain charities and CASCs of making claims for repayment of income tax including Gift Aid outside a tax return. (Finance Bill 2012)

2.87 Gifts of pre-eminent objects – As announced at Budget 2011, from April 2012 where taxpayers donate a pre-eminent object or collection of objects to the nation and that object is accepted, the taxpayer will receive a reduction in their tax liability based on a set percentage of the value of the object they are donating. For individuals the tax reduction will be 30 per cent and for companies 20 per cent. (Finance Bill 2012)

2.88 Gift Aid Small Donations Scheme – As announced at Budget 2011, the Government will introduce a new Gift Aid small donations scheme from April 2013 to enable charities to claim a Gift Aid style top-up payment on up to £5,000 of small donations, without the need to collect Gift Aid declarations. Charities will be able to claim the new payment on donations of £20 or less. (ae)

Tax credits and benefits

2.89 Child Benefit – From January 2013, Child Benefit will be withdrawn through an income tax charge, and that charge will only apply to households where someone has an income over £50,000 a year. For households where someone has an income between £50,000 and £60,000 the charge will apply gradually, preventing a cliff-edge effect. Only households where someone has an income in excess of £60,000 a year will no longer gain from Child Benefit. (Finance Bill 2012) (2) (al)

2.90 Housing Benefit: Local Housing Allowance up-rating – As announced by DWP on 6 December 2011, Local Housing Allowance rates will be frozen for one year from April 2012. (55)

2.91 Housing Benefit: benefit reductions for under-occupation – As announced at Budget 2010, from April 2013 the Government will limit Housing Benefit payments to working age social-rented-sector tenants who under-occupy their properties. As announced by DWP on 14 December 2012, percentage reductions of 14 per cent will be applied to those under-occupying by one bedroom and 25 per cent to those under-occupying by two or more bedrooms. (55)

2.92 Discretionary Housing Payments – As announced by DWP on 14 December 2011, the Government is making available an additional £30 million per annum in Discretionary Housing Payments from 2013-14. (55)

2.93 Household benefit cap: amendments to implementation plans – As announced on 1 February 2012, the Government will make the following changes to the implementation of the household benefit cap:

- people who lose their jobs having been in work for the previous twelve months will be exempt from the household benefit cap for a period of nine months;
- those households who will be affected by the introduction of the household benefit cap will have early access to the Work Programme from April 2012;
- the Government will provide £120m of short-term, temporary relief through Discretionary Housing Payments to some households affected by the cap; and
- households with people who receive the support component of Employment and Support Allowance will be exempt from the cap. (55) (ai)

2.94 Disability Living Allowance (DLA) and Personal Independence Payment (PIP) – As announced by DWP on 1 December 2011, the Government will no longer remove the mobility component of DLA or PIP for people in residential care. (55) (aj)

2.95 Working Tax Credit (WTC): working hours rules for carers – From 2012-13, a couple where at least one partner is entitled to Carer's Allowance may qualify for WTC, including the childcare element, where at least one partner works at least 16 hours per week. (32)

Corporate taxes

Corporation tax

2.96 Corporation tax: main rate – The Government will reduce the main rate of corporation tax to 24 per cent from April 2012, rather than 25 per cent as had been announced at Budget 2011. The rate will then be reduced by a further 1 per cent in each of the following two years, and as a result will be 22 per cent from April 2014. (Finance Bill 2012 and Finance Bill 2013) (7) (m) (aq)

2.97 Controlled Foreign Company (CFC) rules – As announced in the Corporate Tax Road Map in November 2010,[8] the Government will introduce new CFC rules that better reflect the way that businesses operate in a global economy. They include a finance company partial exemption that in broad terms will result in an effective UK tax rate of one quarter of the main rate on profits derived from overseas group financing arrangements. The new rules will be effective for CFCs with accounting periods beginning on or after 1 January 2013. (Finance Bill 2012) (44) (o)

2.98 Patent Box – As announced in the Corporate Tax Road Map in November 2010, the Government will introduce a reduced 10 per cent rate of corporation tax for profits attributed to patents and certain other similar types of intellectual property. The regime will be phased in over five years from 1 April 2013. (Finance Bill 2012) (bg)

2.99 Research and Development (R&D) tax credits – As announced in Budget 2011, with effect from 1 April 2012 the rate of R&D tax credits for small and medium enterprises (SMEs) will increase from 200 per cent to 225 per cent; the limit of SME payable credit, based on their PAYE/NICs liability, will be removed; and the £10,000 minimum expenditure requirement for

[8] *Corporate Tax Reform: delivering a more competitive system*, HM Treasury and HMRC, November 2010.

large companies and SMEs will be abolished. The Vaccine Research Relief for SMEs will also be removed. (Finance Bill 2012)

2.100 R&D tax credit: 'Above the Line' (ATL) – From April 2013, the Government will introduce an ATL credit for R&D, with a minimum rate of 9.1 per cent before tax. Loss-making companies will be able to claim a payable credit. The Government will consult on the detailed design of the credit shortly after Budget. Final rates, including for the payable credit, will be decided following consultation. (Finance Bill 2013) (12)

2.101 Corporation tax reliefs for the creative sector – Following consultation on the design, the Government will introduce corporation tax reliefs for the video games, animation and high-end television industries from April 2013, subject to State aid approval. (Finance Bill 2013) (13)

2.102 Business Premises Renovation Allowance (BPRA) – As announced at Budget 2011, from April 2012 the BPRA scheme will be extended for a further five years to April 2017. Changes will also be made to the scheme to ensure continuing compliance with State aid rules. (p)

2.103 Enhanced Capital Allowances (ECAs) in Enterprise Zones – The Government will offer 100 per cent capital allowances on plant and machinery investment made in designated areas of the London Royal Docks Enterprise Zone, three Scottish Enterprise Zones in Irvine, Nigg and Dundee, and Deeside in North Wales. This follows announcements of ECAs in English Enterprise Zones in 2011, and in an additional zone in Humber announced in February 2012. A full list of current zones and maps will be published on the Treasury website shortly. Allowances in all zones will be available from 1 April 2012. (Finance Bill 2012) (11) (i)

2.104 Capital allowances: feed-in tariffs (FITs) and Renewable Heat Incentives (RHIs) – As announced at Budget 2011, from April 2012, expenditure on plant and machinery for which tariff payments are received under the renewable energy schemes introduced by DECC (FITs or RHIs) will not be entitled to enhanced capital allowances. In addition, expenditure on solar panels will be designated as special rate expenditure for capital allowances purposes from April 2012. (Finance Bill 2012) (45)

2.105 Capital allowances: fixtures – As announced at Budget 2011, from April 2012 the availability of capital allowances to a purchaser of fixtures will be conditional on businesses following a new statutory mechanism for fixing a value for fixtures within two years of a sale. A technical amendment to the legislation will also enable plant and machinery capital allowances to be claimed by a new owner on any fixtures expenditure that has not been relieved under the BPRA scheme. (Finance Bill 2012) (52)

2.106 Capital allowances: gas refuelling equipment – From April 2013, the Government will extend the existing 100 per cent first-year capital allowance for gas refuelling equipment for two years to 31 March 2015. (Finance Bill 2013)

2.107 Capital allowances: business cars first-year allowances (FYAs) – From April 2013, the Government will extend the 100 per cent FYA for businesses purchasing low emissions cars for a further two years to 31 March 2015. The carbon dioxide emissions threshold below which cars are eligible for the FYA will also 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) (21)

2.108 Capital allowances: business cars main rate – From April 2013, the carbon dioxide emissions threshold for the main rate of capital allowances for business cars will reduce from 160 grams/kilometre to 130 grams/kilometre. The threshold above which the lease rental restriction applies will also reduce from 160 grams/kilometre to 130 grams/kilometre. (Finance Bill 2013) (21)

2.109 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 2012, subject to State aid approval. (19)

2.110 First-year tax credits for plant or machinery – From April 2013, the Government will extend the availability of first-year tax credits for expenditure on certain environmentally beneficial plant or machinery that generates a loss for a further five years to 31 March 2018. (Finance Bill 2013)

2.111 Company distributions – As announced on 6 December 2011, the Government will ensure that certain transactions involving transfers of assets or liabilities between UK resident companies are not excluded from being treated as distributions for the purposes of corporation tax. It will also clarify the interface between two overlapping provisions in the distributions rules. (Finance Bill 2012)

2.112 Generally Accepted Accounting Practice (GAAP) – As announced on 6 December 2011, the Government will ensure that existing tax rules dealing with tax adjustments arising on a change in accounting policy continue to apply following the expected changes to UK GAAP in 2012. The legislation will apply to changes in accounting policy where accounts are prepared after 1 January 2012. (Finance Bill 2012)

2.113 Amendments to the tax treatment of financing costs and income – As announced at Budget 2011, the Government will introduce legislation to allow businesses to apply the debt cap rules more easily. (Finance Bill 2013)

2.114 Corporate capital gains simplification: foreign currency assets and capital gains rules – The Government will consult in summer 2012 on whether to introduce a rule allowing companies with a non-sterling functional currency to compute their capital gains and losses in their functional currency.

2.115 Lease premium relief – Subject to consultation, the Government will introduce legislation to amend lease premium relief as it applies to long leases treated as short leases. (Finance Bill 2013)

Taxation of financial services

2.116 Bank Levy rate – As announced at Autumn Statement 2011, the full rate of the Bank Levy will be set at 0.088 per cent from 1 January 2012. Budget 2012 announces, from 1 January 2013, the Government will set the full rate of the Bank Levy at 0.105 per cent. (Finance Bill 2012) (8)

2.117 Bank Levy: liabilities of joint ventures – The Government will amend Bank Levy legislation to ensure that the liabilities of joint ventures are correctly aggregated into a foreign banking group or a relevant non-banking group's chargeable equity and liabilities. (Finance Bill 2012) (8)

2.118 Tax treatment of regulatory capital – As announced at Budget 2011, and following further consultation in 2011, legislation will be introduced in Finance Bill 2012 to introduce a power to determine the tax treatment of regulatory capital instruments issued in accordance with the Basel III and EU Capital Requirements Directive IV (CRD IV) proposals. Regulations will be made under this power and will take effect from the commencement of the CRD IV provisions. (Finance Bill 2012)

2.119 Grouping rules: change to equity rules – Legislation will be introduced in Finance Bill 2012 to ensure that the group status of a company will be unaffected where it issues loan notes carrying a right to conversion into shares or securities of quoted unconnected companies. (Finance Bill 2012)

2.120 Tax transparent fund – As announced at Budget 2011, the Government will introduce legislation to make available a UK tax transparent fund vehicle, mainly by amending the Financial Services and Markets Act 2000. Legislation will also be introduced in Finance Bill 2012 to facilitate appropriate tax treatment for these funds and it is expected that the new vehicle will be put in place over summer 2012. (Finance Bill 2012)

2.121 Solvency II and the taxation of life insurance companies – As announced in Budget 2011, legislation will be introduced to establish a new regime for the taxation of life insurance companies. This measure is effective from 1 January 2013 and represents a wide-ranging and fundamental revision of both the basis on which life companies' taxable profits are computed and the detailed rules by which those profits are taxed. The legislation will include a targeted anti-avoidance rule to address cases where companies enter into arrangements with a main purpose of securing a tax advantage in connection with the transitional rules. This anti-avoidance rule, which has been modified in light of consultation and which is being published on 21 March 2012, may apply to arrangements entered into from 21 March 2012. (Finance Bill 2012) (49)

2.122 General insurance Claims Equalisation Reserves (CERs) – As announced in December 2011, the Government will repeal the current legislation for the tax treatment of CERs from the date the Solvency II Directive capital requirements come into force. Regulations will be made to cover equivalent reserves maintained by corporate and partnership members of Lloyd's. (Finance Bill 2012) (51)

2.123 Lloyd's stop-loss insurance – As announced in December 2011, the Government will amend the timing of the tax deduction for all premiums payable by corporate members of Lloyd's in respect of member-level stop-loss insurance. The legislation aligns the timing of the tax deduction for the premiums with the recognition of the profits to which they relate. (Finance Bill 2012) (50)

2.124 Life insurance Qualifying Policies – The Government will limit the premiums that can be paid into Qualifying Policies issued from 6 April 2013, to £3,600 a year. Income tax relief will continue to apply to benefits from Qualifying Policies issued from 21 March 2012 and before 6 April 2013, but only in respect of the premiums paid in this period and premiums paid up to the limit thereafter. The Government will consult on the implementation of these changes during 2012. (Finance Bill 2013)

Oil and gas taxes

2.125 Decommissioning certainty – Following its commitment at Budget 2011 regarding greater certainty on decommissioning tax relief, the Government will introduce legislation in 2013 giving it statutory authority to sign contracts with companies operating in the UK and UK Continental Shelf, to provide assurance on the relief they will receive when decommissioning assets. The Government will consult further on the precise form and details of such contracts in the coming months. (Finance Bill 2013) (9)

2.126 Oil and gas field allowances – Following its commitment at Budget 2011, the Government will introduce a package of measures on field allowances for oil and gas production in the UK and UK Continental Shelf. The Government will:

- introduce a new £3 billion field allowance for particularly deep fields with sizeable reserves targeted at the West of Shetland, and will continue to work with industry to encourage further investment in the region;
- increase the allowance for small fields to £150 million and increase the size of field qualifying for the maximum allowance to 6.25 million tonnes (approximately 45 million barrels), tapering to no allowance at 7 million tonnes (approximately 50 million barrels);

- introduce legislation in Finance Bill 2012 giving the Government the power to introduce targeted measures to support investment in brown fields, and will engage further with industry on how any such allowance could be structured to unlock investment while protecting Exchequer revenues; and
- continue to consider potential changes to the existing allowance for High Pressure High Temperature fields. (10)

2.127 Fair Fuel Stabiliser – As announced at Budget 2011, the Government will introduce a Fair Fuel Stabiliser. Further details of how the stabiliser will operate are set out in an accompanying Written Ministerial Statement.

2.128 Supplementary Charge – As announced on 6 December 2011, and with effect from the same date, the Government will introduce legislation to ensure that the Supplementary Charge applies to ring fence chargeable gains, and to confirm that the scope of the Supplementary Charge matches the scope of Ring Fence Corporation Tax. (Finance Bill 2012) (10)

2.129 Oil and gas decommissioning tax relief – As announced at Budget 2011, the Government will introduce legislation restricting the rate of decommissioning tax relief to 20 per cent for Supplementary Charge purposes. Legislation will also broaden the scope of the extended loss carry back rules that apply to companies with ring fence trades so that they apply to losses arising from mineral extraction allowances in respect of decommissioning expenditure, consistent with the definition of decommissioning expenditure used in the restriction of relief. (Finance Bill 2012)

Other business taxes

2.130 Cash basis: tax calculations – Following the Office of Tax Simplification (OTS) review of small business tax, the Government will introduce a new cash basis for calculating tax for small unincorporated businesses from April 2013. The Government will consult shortly after Budget 2012 on the details of the scheme, including on extending eligibility to businesses with turnover up to the VAT registration threshold of £77,000. (Finance Bill 2013)

2.131 Standardised expenses for unincorporated businesses – The Government will consult on standardising business expenses, allowing a fixed amount to be claimed rather than recording actual amounts. (Finance Bill 2013)

2.132 Disincorporation relief – The Government will consult over summer 2012 on introducing a disincorporation relief.

2.133 Tax administration for small businesses – HMRC will make improvements to the administration of the tax system for small businesses, as set out in the document *Making tax easier, quicker and simpler for small business*, published alongside Budget 2012.[9] This will include responses to the OTS review of small business tax administration.

2.134 Offshore taxing rights – Following the introduction of a statutory power in 2009 to declare a UK Exclusive Economic Zone, the Government will engage with industry on the taxation regime for offshore non-oil and gas activity outside existing UK territorial waters, with a view to ensuring a level playing field for the individuals and companies involved.

Indirect taxes

Alcohol duties

2.135 Alcohol duty rates – As announced at Budget 2008, and extended in the March Budget 2010, alcohol duty rates will increase by 2 per cent above the RPI. These changes will come into effect from 26 March 2012. (Finance Bill 2012) (bf)

[9] *Making tax easier, quicker and simpler for small business*, HMRC, March 2012.

2.136 Alcohol Strategy – The Government will set out a broad package of policies to address the harms associated with alcohol abuse in the forthcoming Alcohol Strategy.

2.137 Alcohol fraud – The Government will consult on alcohol anti-fraud measures, including the introduction of fiscal marks for beer, supply chain legislation, and a licensing scheme for wholesale alcohol dealers. (future Finance Bills)

2.138 Repeal of s22 of Alcoholic Liquor Duties Act (ALDA) 1979 – The Government will repeal the redundant legislation in section 22 of ALDA that allows for drawback on British compounds and spirits of wine. (Finance Bill 2012)

Tobacco duties

2.139 Tobacco duty rates – Tobacco products duty rates will increase by 5 per cent above the RPI. These changes will come into effect from 6pm on 21 March 2012. (Finance Bill 2012) (23)

2.140 Treatment of herbal smoking products – Subject to consultation on the implementation process, the Government will legislate to make legally available tobacco-free (herbal) smoking products liable to excise duty, in the same way as tobacco products. (Finance Bill 2013)

Gambling duties

2.141 Machine games duty (MGD) – As announced at Budget 2011, the Government will introduce an MGD on 1 February 2013. The standard rate of MGD will be 20 per cent and the lower rate will be 5 per cent of net takings. (Finance Bill 2012)

2.142 Amusement machine licence duty (AMLD) revalorisation – All rates of AMLD will increase in line with the RPI from 4pm on 23 March 2012. (Finance Bill 2012)

2.143 Gaming duty revalorisation – Gaming duty bands will increase in line with the RPI for accounting periods starting on or after 1 April 2012. (Finance Bill 2012)

2.144 Gambling duties double taxation relief – As announced on 6 December 2011, the Government will introduce double taxation relief for general betting duty, remote gaming duty and pool betting duty for accounting periods ending on or after 1 April 2012. (Finance Bill 2012) (24)

2.145 Combined bingo – Subject to consultation, the Government will relax the current bingo duty arrangements for combined bingo involving non-UK participants. (Finance Bill 2013)

2.146 Remote gambling taxation – The Government will introduce a place of consumption based taxation regime for remote gambling, subject to consultation on the detail. (future Finance Bill) (24)

Transport taxes

2.147 Vehicle excise duty (VED) rates 2012–13 – From 1 April 2012, VED rates will increase in line with the RPI, apart from VED rates for Heavy Goods Vehicles which will be frozen in 2012–13. (Finance Bill 2012) (25)

2.148 VED reform – The Government will consider whether to reform VED over the medium term to ensure that all motorists continue to make a fair contribution to the sustainability of the public finances, and to reflect continuing improvements in vehicle fuel efficiency. In addition, the Government aims to develop a direct debit system to allow motorists to spread their VED payments. The Government will seek the views of motoring groups on these measures.

2.149 VED: tax disc display waiver – The Government will reduce tax disc postage costs by extending to fourteen days the grace period, following the payment of tax, on the non-display of a tax disc in a vehicle. (Finance Bill 2013)

2.150 VED: additional days on initial nil rate vehicle licences – The Government will reduce the administrative burdens on car leasing businesses by extending the date-to-end-month scheme to VED exempt licences. (Finance Bill 2013)

2.151 Car fuel benefit charge (FBC) 2012–13 and 2013–14 – From 6 April 2012, the FBC multiplier for cars will increase from £18,800 to £20,200, and will increase by 2 per cent above the RPI in 2013-14. The Government commits to pre-announcing the FBC multiplier one year ahead. (22)

2.152 Van FBC 2012–13 and 2013–14 – From 6 April 2012, the van FBC multiplier will be frozen at £550, and will increase by the RPI in 2013–14. The Government commits to pre-announcing the FBC multiplier one year ahead.

2.153 Company car tax rates 2014–16 – The appropriate percentage of list price subject to tax will increase by one percentage point for cars emitting more than 75 grams/kilometre of carbon dioxide, to a maximum of 35 per cent in 2014–15, and by two percentage points, to a maximum of 37 per cent in both 2015–16 and 2016–17. (Finance Bill 2012 and future Finance Bill) (20)

2.154 From April 2015, the five-year exemption for zero carbon and ultra low carbon emission vehicles will come to an end as legislated in Finance Act 2010. The appropriate percentage for zero emission and low carbon vehicles will be 13 per cent from April 2015 and will increase by two percentage points in 2016–17.

2.155 From April 2016, the Government will remove the three percentage point diesel supplement differential so that diesel cars will be subject to the same level of tax as petrol cars.

2.156 The Government will exclude certain security enhancements from being treated as accessories for the purpose of calculating the cash equivalent of the benefit on company cars made available for private use. The changes take effect retrospectively from 6 April 2011. (Finance Bill 2012)

2.157 Van benefit charge – The Government will freeze the van benefit charge at £3,000 in 2012–13. From April 2015, the five year exemption for zero carbon vans from the van benefit charge will expire, as legislated in Finance Act 2010.

2.158 Aviation tax: rates – Air Passenger Duty (APD) rates will rise from April 2012, as set out at Autumn Statement 2011. APD rates for 2013-14 will rise by the RPI from 1 April 2013, as set out in *Overview of tax legislation and rates*.

2.159 Aviation tax: business jets – The Government will proceed with the extension of APD to flights taken aboard business jets, effective from 1 April 2013. Details were set out in the Government's response to the APD consultation on 6 December 2011. (Finance Bill 2012) (c)

2.160 Aviation tax: Northern Ireland – From 1 November 2011, the APD rates for direct long haul flights departing from Northern Ireland were cut to the short-haul rate (£13 per passenger in economy and £26 per passenger in business and first class, from 1 April 2012). The power to set APD rates for direct long haul flights departing from Northern Ireland will be devolved to the Northern Ireland Assembly. (Finance Bill 2012)

2.161 Red diesel – As announced on 20 February 2012, the Government will amend legislation with effect from 1 April 2012 to clarify that the use of red diesel to propel private pleasure craft is allowed within UK waters, and that if used outside UK waters it is subject to the restrictions and prohibitions under the national laws of other European Member States. (Finance Bill 2012)

Carbon taxes

2.162 Carbon price floor – The Government will set 2014–15 carbon price support rates equivalent to £9.55 per tonne of carbon dioxide in line with the carbon price floor set out at Budget 2011. The Government will also make a number of additional legislative provisions with effect from 1 April 2013 (Finance Bill 2012):

- amendments to the treatment of solid fuels, including a change to the way the rate for solid fuels is calculated and expressed and that coal slurry will not be taxed;
- fossil fuels used to generate heat in good quality combined heat and power (CHP) plants will not be liable to the carbon price support rates, subject to State aid approval;
- the introduction of a generating capacity threshold of two megawatts before electricity generators will be liable to the carbon price support rates of CCL; and
- all generators will be required to self-account. (16)

2.163 Climate change levy (CCL) rates – CCL rates will increase in line with the RPI from 1 April 2013. (Finance Bill 2012)

2.164 Climate Change Agreements (CCAs) – As announced at Budget 2011, CCAs will be extended to 2023. As announced at Autumn Statement 2011, the climate change levy discount on electricity for CCA participants available from 1 April 2013 will be increased to 90 per cent as part of a package of measures to support energy-intensive industries exposed to international competition. (Finance Bill 2012) (x)

2.165 CCL: metal recycling – Budget 2012 announces that energy used in certain metal recycling processes will be liable to a reduced rate of 20 per cent of the main rates from 1 April 2012. (Finance Bill 2012)

2.166 CHP levy exemption certificates (LECs) – As announced at Budget 2011, the CCL exemption for electricity from CHP plants supplied indirectly to business energy consumers will be removed from 1 April 2013. Budget 2012 announces that electricity utilities will be able to continue to allocate CHP LECs until 31 March 2018 to give them time to use up their stocks. In order to ensure the fair treatment of CHP, fossil fuels used to generate heat in a good quality CHP plant will not be liable to the carbon price support rates, subject to State aid approval. (Finance Bill 2012) (15)

2.167 Carbon Reduction Commitment (CRC) – The Government will consult on simplifying the CRC Energy Efficiency Scheme to reduce administrative burdens on business. Should very significant administrative savings not be deliverable, the Government will bring forward proposals in autumn 2012 to replace CRC revenues with an alternative environmental tax, and will engage with business before then to identify potential options. Allowances sold with respect to 2012–13 emissions will be £12 per tonne of carbon dioxide.

Waste and other environmental taxes

2.168 Landfill tax rates – The Government will increase the standard rate of landfill tax by £8 per tonne to £72 per tonne from 1 April 2013. The lower rate of landfill tax will remain frozen at £2.50 per tonne in 2013–14. (Finance Bill 2012)

2.169 Landfill communities fund – The value of the landfill communities fund for 2012–13 will remain unchanged at £78.1 million. As a result, the cap on contributions by landfill operators will be amended to 5.6 per cent. Future decisions on the value of the fund will take into account the level of unspent funds held by environmental bodies. (18)

2.170 Scottish landfill sites – The Government will introduce retrospective legislation in Finance Bill 2012 to correct landfill tax legislation in relation to the definition of a landfill site in

Scotland. The legislation will align the position in Scotland with the rest of the UK, with effect from 21 March 2000. (Finance Bill 2012)

2.171 Packaging recycling targets – The Government will legislate later in 2012 for increased statutory packaging recycling targets from 2013 to 2017. Targets will increase annually by 3 per cent for aluminium, 5 per cent for plastic and 1 per cent for steel. Glass recycling targets will be split by end use.

2.172 Aggregates levy – The Government is delaying the planned increase in the aggregates levy rate from £2.00 to £2.10 per tonne until 1 April 2013. This will avoid putting additional pressure on the aggregates industry in Northern Ireland, following the suspension of the aggregates levy credit scheme. (Finance Bill 2013) (17)

Property taxes

2.173 Stamp Duty Land Tax (SDLT) rates – The Government will introduce a new SDLT rate of 7 per cent for residential properties over £2 million. The new rate will apply from 22 March 2012. (Finance Bill 2012) (6)

2.174 Enveloping of high value residential properties – The Government will apply a 15 per cent rate of SDLT to residential properties over £2 million purchased by certain non-natural persons. The 15 per cent rate will take effect from 21 March 2012. In addition the Government will consult on the introduction of an annual charge on residential properties valued over £2 million owned by certain non-natural persons with the intention of introducing legislation next year and the measure coming into effect in April 2013. (Finance Bill 2012 for rate; Finance Bill 2013 for annual charge) (5)

2.175 Non-standard leases – The Government will consult on measures to simplify SDLT rules for non-standard leases. (Finance Bill 2013)

2.176 Zero-carbon homes relief – The SDLT relief for zero-carbon homes will end as planned on 30 September 2012.

2.177 Real Estate Investment Trusts (REITs) – The Government will consult in 2012 on the REITs regime, and specifically on:

- the role REITs can play in supporting the social housing sector; and
- whether to change the treatment of income received by a REIT when it invests in another REIT. (Finance Bill 2013)

2.178 As announced at Budget 2011, the Government will legislate for changes to the REIT regime to support entry to and investment in REITs. (Finance Bill 2012)

VAT measures

2.179 VAT: correcting anomalies and closing loopholes – The Government will address anomalous VAT borderlines by applying VAT to the provision of self storage facilities and to approved alterations to listed buildings. VAT will also apply, to the extent that it does not already do so, to the sale of hot food, cold food consumed on the supplier's premises, sports drinks and holiday caravans, and to the rental of hairdressers' chairs. This will have effect from 1 October 2012. HMRC are publishing a draft Statutory Instrument for consultation on 21 March 2012. Anti-forestalling provisions will be introduced in Finance Bill 2012 with effect from 21 March 2012. The Department for Culture, Media and Sport will extend its 'listed places of worship' grant scheme in light of the changes to VAT on alterations to listed buildings. (27, 28)

2.180 VAT: revalorisation of registration and deregistration thresholds – From 1 April 2012 the VAT registration threshold will be increased from £73,000 to £77,000 and the deregistration threshold from £71,000 to £75,000.

2.181 VAT: revalorisation of road fuel scale charges (RFSCs) – The annual adjustment to the VAT fuel scale charge rates in line with current fuel prices will take effect from 1 May 2012.

2.182 VAT: amendment to RFSCs – Subject to consultation, the Government will amend the law relating to VAT Fuel Scale Charges, bringing long standing concessions into law and withdrawing a concession relating to partially exempt businesses. The way in which the annual revalorisation is carried out will be simplified.

2.183 VAT: freight transport services performed wholly outside the EU – The Government will formalise the temporary arrangements under which supplies of freight transport and related services taking place wholly outside the EU are not liable to UK VAT when performed for UK businesses and charities.

2.184 VAT: relief for European Research Infrastructure Consortia – As announced at Budget 2011, the Government will introduce secondary legislation in autumn 2012 to provide VAT relief to European Research Infrastructure Consortia.

2.185 VAT: invoicing rules – The Government will implement minor changes to simplify the UK VAT invoicing rules from 1 January 2013 to conform with the EU Invoicing Directive. [4765]

2.186 VAT: providers of education – The Government will review the VAT exemption for providers of education, in particular at university degree level, to ensure that commercial universities are treated fairly. (Finance Bill 2013)

2.187 VAT: charitable buildings – The Government will withdraw charitable buildings from the scope of the VAT reduced rate for the supply and installation of energy-saving materials. (Finance Bill 2013)

2.188 VAT: car and boat dealerships – The Government will introduce a voluntary scheme for car and boat dealerships, encouraging them to report sales of adapted motor vehicles and boats to HMRC.

2.189 VAT: small cable-based transportation systems – The Government will introduce a 5 per cent reduced rate of VAT for passenger transportation in cable-based transport systems carrying fewer than ten people.

2.190 VAT: tackling fraud on imported road vehicles – As announced at Budget 2011, the new system to tackle VAT evasion on road vehicles brought into the UK will be introduced from 15 April 2013. Vehicles will have to be notified to HMRC before registration with the Driver and Vehicle Licensing Agency and a new online system will be available to facilitate this. (Finance Bill 2012) (z)

2.191 VAT: cost sharing – Following the announcement at Autumn Statement 2011 the Government will introduce a VAT exemption for services shared between VAT exempt bodies including charities and universities. (Finance Bill 2012) (h)

2.192 VAT: status of public bodies – As announced in Budget 2011, Finance Bill 2012 will include provisions to amend UK law to ensure that there is clear transposition of EU agreements relating to the VAT treatment of public bodies carrying out their statutory duties in competition with the private sector. (Finance Bill 2012)

2.193 VAT: grouping extra statutory concession – As announced in Budget 2011, Finance Bill 2012 will include provisions to bring a long standing concession on the valuation of certain reverse charges applicable to VAT groups into law. (Finance Bill 2012)

2.194 Low Value Consignment Relief – As announced at Autumn Statement 2011 the Government will no longer apply relief to low value imports from the Channel Islands, with effect from 1 April 2012. (Finance Bill 2012) (a)

2.195 VAT: online registration and online filing – As announced at Budget 2011, the Government will introduce an online system for VAT registration, de-registration, and changes to business details with effect from 31 October 2012. From the same date, certain VAT forms will be removed from the law. The VAT threshold for businesses not established in the UK will be removed from 1 December 2012. (Finance Bill 2012)

Tax reliefs

2.196 Office of Tax Simplification (OTS) review of reliefs – The Government announced in Budget 2011 that, following the OTS review of reliefs which reported on 3 March 2011, it intended to abolish certain reliefs in Finance Bill 2012 after a period of consultation. The Government now confirms that it will proceed with the abolition of the following reliefs from 6 April 2013 (1 April 2013 for corporation tax elements, harbour reorganisation schemes, black beer and Angostura bitters):

- grants for giving up agricultural land;
- pool betting duty payments related to safety improvement at football grounds or for the arts;
- mineral royalties;
- payments for the benefit of family members;
- Pools payment for football ground improvements;
- Pools payments for support for games;
- nationalisation schemes;
- tax reserve certificates issued by HM Treasury;
- transfers in relation to harbour reorganisation schemes;
- luncheon vouchers;
- capital allowances – flat conversion allowances;
- capital allowances – safety at sports grounds;
- Stamp Duty relief for transfers to registered social landlords;
- Stamp Duty relief for disadvantaged areas;
- Stamp Duty Land Tax relief for disadvantaged areas; (54)
- exempt instruments;
- partial relief for company acquisitions;
- Stamp Duty relief for shared ownership transactions;
- Stamp Duty relief for certain leases granted by registered social landlords;
- Stamp Duty relief for visiting forces and allied headquarters;
- Angostura bitters;
- Black beer;
- harbour authorities;
- harbour reorganisation schemes; and

- pensions for 1947 redundancies.[10] [11]

2.197 The Government also confirms that it will abolish the following reliefs from 6 April 2015 (1 April 2015 for corporation tax elements):

- deeply discounted securities — incidental expenses;
- life assurance premium relief; (53) and
- life assurance premiums paid by employers under employee-funded retirement benefit schemes.[12]

Anti-avoidance

2.198 General Anti-Abuse Rule (GAAR) – A consultation document will be issued in summer 2012 with a view to bringing forward legislation in Finance Bill 2013. The Government will consult on: new draft legislation based on the illustrative clauses in the Aaronson report; establishment of the Advisory Panel; and the development of full explanatory guidance. In addition, the Government will extend the GAAR to SDLT. The Government is committed to ensuring that this legislation effectively tackles artificial and abusive tax avoidance schemes and that the supporting guidance is practical both for taxpayers and for HMRC. (Finance Bill 2013)

2.199 SDLT avoidance schemes – The Government will take action to close down future SDLT avoidance schemes, with effect from 21 March 2012 where appropriate.

2.200 SDLT sub-sales rules – The Government will introduce legislation, with effect from 21 March 2012, to make clear that the grant or assignment of an option cannot satisfy the requirements of the SDLT sub-sales rule. The Government will consult on the SDLT sub-sales rules. (Finance Bill 2012 and Finance Bill 2013)

2.201 Debt buybacks – As announced in a Written Ministerial Statement on 27 February 2012, and with effect from the same date, the Government will amend the corporation tax rules on loan relationships held between connected companies. The calculation of deemed releases of debts becoming held by connected companies will be amended and a targeted anti-avoidance rule to counter arrangements that aim to circumvent the deemed release rules will be inserted. The legislation will include limited retrospective provision for certain arrangements entered into between 1 December 2011 and 27 February 2012. (Finance Bill 2012) (46)

2.202 Corporate investors in Authorised Investment Funds (AIFs) – As announced on 27 February 2012, and with effect from the same date, the Government has introduced legislation to address a tax avoidance scheme which seeks to obtain tax benefits for a corporate investor in relation to a distribution made by an AIF where no underlying tax has been suffered.

2.203 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. As part of this review the Government will consult in summer 2012 on its intended reforms to the taxation of unauthorised unit trusts and publish draft legislation in autumn 2012. (Finance Bill 2013)

2.204 High-risk areas of the tax code: tax rules on manufactured payments – The Government will consult, as part of the programme of reviews of high risk areas of the tax code, on proposals to simplify the tax rules on manufactured payments, including the rules on manufactured overseas dividends. The consultation aims to simplify the current rules and

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[10] Capital loss reliefs in respect of mineral leases or agreements entered into before the repeal will be preserved.
[11] The Government will allow for continuation of transitional relief for non-residential properties in relation to contracts entered into before 17 March 2005, when DAR for non-residential properties was abolished.
[12] The deduction for incidental expenses of acquisition incurred before 27 March 2003 will be retained.

improve understanding of the impacts of any proposed changes to those rules, including the impact on the potential for tax avoidance. (Finance Bill 2013)

2.205 High-risk areas of the tax code: income tax losses – 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. The Government will publish a response to the consultation after Budget.

2.206 Manufactured overseas dividends – As announced in a Written Ministerial Statement on 15 September 2011, and with effect from the same date, the Government will put beyond doubt that manufactured overseas dividends cannot be used to obtain repayment or set off of income tax that the Exchequer does not receive. (Finance Bill 2012)

2.207 Personal service companies and IR35 – The Government will introduce a package of measures to tackle avoidance through the use of personal service companies and to make the IR35 legislation easier to understand for those who are genuinely in business. This will include:

- strengthening up specialist compliance teams to tackle avoidance of employment income;
- simplifying the way IR35 is administered; and
- subject to consultation, requiring office holders/controlling persons who are integral to the running of an organisation to have PAYE and NICs deducted at source by the organisation by which they are engaged. (Finance Bill 2013)

2.208 Capital allowances: anti-avoidance rules – As announced at Budget 2011, from April 2012, the capital allowance anti-avoidance legislation will be widened to protect the Exchequer from a loss of tax revenue as a result of transactions to acquire plant or machinery which are part of a scheme or arrangement involving avoidance. (Finance Bill 2012) (29)

2.209 Post-cessation trade and property reliefs – As announced on 12 January 2012 and 13 March 2012, and with effect from the same dates respectively, the Government will introduce legislation to counter avoidance involving post-cessation trade relief and post-cessation property relief. (Finance Bill 2012)

2.210 Property losses – As announced on 13 March 2012, and with effect from the same date, the Government will introduce legislation to counter avoidance involving losses from a property business set against general income. (Finance Bill 2012)

2.211 Site restoration payments – The Government will introduce legislation, with effect from 21 March 2012, to prevent the exploitation of relief given for site restoration payments. (Finance Bill 2012)

2.212 Plant and machinery leasing – With effect from 21 March 2012, changes will be made to capital allowances rules to counteract disclosed avoidance schemes which seek to bring in an artificially low disposal value for capital allowances purposes at the end of a long funding lease. (Finance Bill 2012) (29)

2.213 Sale of lessor companies – The Government will make changes, with effect from 21 March 2012, to the sale of lessor company provisions to protect the Exchequer from a risk that tax could be lost when a lessor company moves into tonnage tax or as a result of losses being carried back against the charge. (Finance Bill 2012)

2.214 Disclosure of Tax Avoidance Schemes (DOTAS) – The Government will formally consult over summer 2012 on proposals to extend the DOTAS 'hallmark' (the descriptions of schemes required to be disclosed for income tax, capital gains tax or corporation tax) so as to capture avoidance schemes not currently notifiable, with a view to publishing draft regulations later in the year. Regulators consolidating existing regulations prescribing information to be disclosed and time limits for doing so will be made and laid before summer recess 2012.

2.215 Life insurance policies – The Government will introduce anti-avoidance legislation in Finance Bill 2012 to amend the rules for calculating chargeable event gains that may be liable to income tax. The changes will apply to policies issued on or after 21 March 2012, and to policies issued before this date in certain cases. The Government will also consult on reform to rules in the chargeable event gains regime that reflect a policyholder's period of residence outside the UK, with a view to legislating in Finance Bill 2013. (Finance Bill 2012 and Finance Bill 2013)

2.216 Inheritance tax: avoidance using offshore trusts – The Government will introduce legislation, with effect from 21 March 2012, to amend the excluded property and settled property provisions in order to close an avoidance scheme involving the acquisition of interests in offshore excluded property trusts. (Finance Bill 2012)

2.217 Income tax: avoidance using settlor-interested trusts – The Government will introduce legislation, with effect from 21 March 2012, to amend the settlements legislation in order to close an avoidance scheme involving corporate settlors. (Finance Bill 2012) (30)

Tax administration

2.218 Tax transparency – From the 2014–15 tax year the Government will introduce a new Personal Tax Statement for around 20 million taxpayers, including Self Assessment taxpayers and those in Pay As You Earn (PAYE) who receive a coding notice.

2.219 US Foreign Account Tax Compliance Act – The Government will publish a discussion document before summer 2012 on information powers to facilitate cooperation with the United States to combat tax evasion in connection with the US Foreign Account Tax Compliance Act (Finance Bill 2013)

2.220 UK / Switzerland agreement – The Government will legislate in Finance Bill 2012 to give effect to the agreement between the UK and Switzerland on cooperation in tax matters that was signed on 6 October 2011, as amended by a Protocol signed on 20 March 2012. The legislation will include additions to the factors that may be taken into account in classifying a territory for the purposes of offshore penalties. (Finance Bill 2012)

2.221 Self Assessment returns – The Government will consult later this year on legislation to enable HMRC to withdraw a notice to file a Self Assessment tax return in appropriate cases. (Finance Bill 2013)

2.222 Real Time Information – Following consultation, a regulation-making power will be introduced to facilitate the provision of information required for the operation of Real Time Information for PAYE. (Finance Bill 2012)

2.223 PAYE penalties – The Government will consult before the summer on a new model for PAYE late payment and late filing penalties, ahead of the main roll-out of Real Time Information in October 2013. (Finance Bill 2013)

2.224 Regulatory penalties – Following consultation, minor changes will be made to the regulatory penalties regime so that HMRC can, in the future, update their value in line with inflation and repeal obsolete penalties. (Finance Bill 2013)

2.225 Dishonest tax agents – Following consultation, from 1 April 2013 HMRC's powers will be updated to more effectively target dishonest tax agents. (Finance Bill 2012)

2.226 Criminal investigations powers – The Government will make a minor legislative change to align HMRC's powers under the Proceeds of Crime Act 2002 across all taxes. (Finance Bill 2013)

2.227 Information powers – Following consultation, the Government will legislate to extend HMRC's information powers to reflect international standards for transparency and exchange of information. (Finance Bill 2012)

2.228 Modernising customs legislation – Following consultation, the Government will update legislation in relation to detention and definition of goods and the size of penalties for smuggling on ships. (Finance Bill 2013)

2.229 Incapacitated persons – Following consultation, legislation will be introduced to remove the existing unsatisfactory definition of an incapacitated person. (Finance Bill 2012)

Tax consequential changes

2.230 NHS reform bodies – Following changes to be introduced in the Health and Social Care Bill, the Government will legislate to exempt the following NHS bodies from corporation tax and include them within the Section 41 VAT Refund Scheme:

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

The change for SDLT is being introduced this year. (Finance Bill 2012)

2.231 Tax reliefs and Personal Independence Payment (PIP) – The Government will publish draft legislation in autumn 2012 setting out how tax reliefs currently available to Disability Living Allowance (DLA) claimants will apply to claimants of PIP, which will replace DLA for working age claimants from 2013–14. In the interim the Government will consult specifically in relation to the definition of trusts for vulnerable and disabled people. (Finance Bill 2013)

2.232 VAT: Universal Credit consequential changes – The Government will amend the rules governing the VAT zero and reduced rates, with effect from April 2013, to ensure claimants of Universal Credit (UC) get the same VAT relief as those who are claiming the benefits that UC replaces.

Financial services measures

2.233 Business Finance Partnership – The Government will allocate £100 million of the Business Finance Partnership to invest through non-traditional lending channels that can reach smaller businesses.

2.234 The Government will allocate an additional £200m to the Business Finance Partnership. This is expected to be recorded as a financial transaction affecting PSND. (i)

2.235 Enterprise Finance Guarantee scheme – The Government will raise the level of lenders' Enterprise Finance Guarantee loan portfolios to which the scheme applies from 13 per cent to 20 per cent for 2012–13.

2.236 Breedon review – The Government welcomes the report of the industry review of non-bank lending chaired by Tim Breedon and will take forward its recommendations over the course of this year, including considering how to simplify access to Government support for smaller businesses, encouraging prompt payment by larger firms, and supporting industry work to remove barriers to alternative sources of finance.

2.237 Enterprise loans – Later this year the Government will pilot the best way to introduce a programme of enterprise loans to help young people set up and grow their own businesses.

Supply-side reform of the economy

Deregulation

2.238 Health and safety – The Government will scrap or improve 84 per cent of Health and Safety regulation, including by:

- introducing legislative change in 2012 so that health and safety law will no longer hold employers to be in breach of their duties in civil law where they have done everything that is reasonably practicable and foreseeable to protect their employees;
- giving the Health and Safety Executive (HSE) authority to direct all local authority health and safety inspection and enforcement activity, in order to ensure that it is consistent and targeted towards the most risky workplaces. A code based on existing powers will be introduced in April 2013;
- amending the Health & Safety (First Aid) Regulations 1981 to remove the requirement for HSE to approve the training and qualifications of appointed first-aid personnel. Revised guidance aimed at small business will be published by May 2012, and provisions repealed by October 2012;
- amending the Reporting of Injuries, Diseases and Dangerous Occurrences Regulation (RIDDOR) and its associated guidance to provide clarity for businesses on how to comply with the requirements by October 2013. This is in addition to the legislative change being made in April 2012 to extend to seven days (from three) the period an employee needs to have taken off work before an injury or accident needs to be reported;
- HSE redesigning information on its website in 2012 to distinguish between the regulations that impose specific duties on businesses and those that define 'administrative requirements' or revoke or amend earlier regulations;
- HSE providing further help to businesses by summer 2012 on what is 'reasonably practicable' for specific activities where evidence demonstrates that they need further advice to comply with the law in a proportionate way;
- aiming to start health and safety prosecutions within three years of an incident occurring by April 2013;
- HSE inputting ideas for micro-exemptions or lighter touch EU health and safety regulation for SMEs to the European Commission, based on ideas raised during the Red Tape Challenge;
- agreeing that the insurance industry will produce guidance for SMEs setting out what is and is not required to demonstrate compliance with health and safety law when obtaining insurance cover as agreed at the Prime Minister's insurance summit in February 2012;
- agreeing that the insurance industry also commits to challenge vexatious civil claims in order to tackle the compensation culture; and
- working with business and the ABI to build confidence in challenging such claims and ensure businesses have access to the right guidance and support.

2.239 Environmental regulations – The Government will rationalise environmental regulation, including by:

- consulting on simplifying the system for recording waste transfer;
- developing an electronic system for registering waste transfer and considering allowing electronically uploaded hazardous waste returns;
- reducing burdens on small businesses from producer responsibility obligations, for example, by exempting more small producers of batteries from having to join a Battery Compliance Scheme;
- consulting on preventing excessive compliance costs for business from the Waste Electrical and Electronic Equipment Regulations;
- simplifying and speeding up application procedures for environmental permits;
- introducing new statutory guidance on contaminated land to focus on high risk land and clarify what land won't be caught by the contaminated land regime;
- working with the European Commission to revise guidance on data sharing under the Chemicals (REACH) requirements;
- simplifying and strengthening air quality legislation, including removing obsolete regulations and modernising others;
- focusing Environment Agency enforcement on high risk cases and taking forward trials of auditing by accredited third parties; and
- completing a further review of the environmental framework, including guidance and data reporting, to make compliance simpler and more consistent without compromising environmental protections, which will report to ministers by September 2012.

2.240 Regulatory enforcement – The Government will launch sector-based reviews of regulation to ensure it is enforced at the lowest possible cost to business, starting with chemicals manufacturing, volunteer events and small businesses in food manufacturing.

2.241 Habitats Directive – The Government will reduce the cost, complexity and delay to businesses that the Habitats Directive can impose by preparing streamlined guidance, setting clearer standards for evidence and improving the customer focus of the statutory bodies. The Government will also establish a Major Infrastructure and Environment Unit to engage at an early stage with nationally significant infrastructure projects on potential Habitats Directive issues, ensuring evidence plans are agreed upfront and identifying where imperative reasons of over-riding public interest may apply.

2.242 Sunday Trading – Recognising that the Olympics and Paralympics represent a unique opportunity for UK businesses, the Government will relax Sunday Trading laws from 22 July to 9 September 2012 inclusive, to allow retailers to make the most of the occasion.

Planning

2.243 National Planning Policy Framework (NPPF) – The Government will publish the NPPF by the end of March 2012, coming into force for plan-making and decisions from that point onwards, with appropriate implementation arrangements for local authorities in local plans. The NPPF will refocus planning policy to better support growth, will include a powerful presumption in favour of sustainable development to underpin all local plans and decisions, and will localise choice about the use of previously developed land, ending nationally imposed targets. The Government will also work with key statutory consultees to ensure that they support the delivery of sustainable development in line with the NPPF and are held to account for doing so.

2.244 Planning Simplification – The Government will introduce a number of measures to further deregulate and simplify the planning system. The Government will consult on reducing information requirements and on proposals to amend the Use Class Order and associated permitted development rights, to make changing the use of buildings easier, for implementation by April 2013. In addition new permitted development rights for micro-renewable energy installations will come into force in April 2012. The Government will also shortly set out more detail on the twelve-month Planning Guarantee.

2.245 Major infrastructure planning – The Government will remove duplication in the consenting regime for major infrastructure development by bringing forward legislation to adjust the scope of Special Parliamentary Procedure. The Government will also shortly publish draft revised guidance intended to make the regime clearer and easier to use, and to clarify the flexibility that exists in the legislation in respect of pre-application processes, examination rules and in determining the scope of associated development.

2.246 Planning obligations – The Government will publish a consultation to allow the reconsideration of planning obligations agreed prior to April 2010 where development is stalled.

2.247 Land Auctions – The Government is taking forward land auction pilots on public sector land with the aim of having two sites ready for market by the end of the year. The land auctions model seeks to capture a greater share of the land value uplift created by the granting of planning permission.

2.248 Penfold Review – The Government has implemented major reforms to the key consenting and advisory agencies involved in planning applications to give certainty to developers, including ensuring they adhere to a 13-week maximum timescale for most non-planning consents and are improving their performance in dealing with planning applications.

Other supply-side reforms

2.249 Gas generation – The Government will launch a call for evidence on barriers to investment in gas generation in advance of publishing a new gas strategy in the autumn to ensure investment in this sector comes forward. This builds on the progress on implementing electricity market reform including the announcements Government has made on how the intended capacity market and Emissions Performance Standard will be implemented to provide certainty to investors in new efficient gas-fired electricity generation.

2.250 Roads – The Government will develop a national roads strategy with a renewed focus on the level of performance expected from the Highways Agency, and will carry out a feasibility study into new ownership and financing models for the national road network, to report on progress by Autumn Statement 2012.

2.251 Bexhill to Hastings link road – The Government will provide £56 million of support for the Bexhill to Hastings link road.

2.252 Northern hub rail investment – The Government will support Network Rail to invest £130 million, in the Northern hub subject to value for money, to improve the transport links between Manchester and Sheffield, Rochdale, Halifax, Bradford, Bolton, Preston and Blackpool. Capacity will increase on the Hope Valley line between Manchester and Sheffield, which will enable the number of fast trains running on the route to double.

2.253 Welsh Valley rail lines – The Government will continue to work with the Welsh Government to consider electrification of the Welsh Valley lines subject to value for money and an agreement on financing. A final decision will be announced in the summer 2012 as part of the five year investment plan for the railway (2014–15 to 2018–19).

2.254 Rail journeys in London – The Government will work with Network Rail, train operators, Transport for London and the Mayor of London on proposals including longer trains and increased capacity at stations. More details will be announced in the summer as part of the five year investment plan for the railway (2014–15 to 2018–19).

2.255 London cycle safety grant – The Government will allocate £15 million to TfL for investment in cycle safety. This will include improved provision for cyclists at junctions across the capital currently under consideration in TfL's Cycle Safety Junction Review.

2.256 Mobile phone coverage – The Government will extend mobile phone coverage to 60,000 rural homes and along at least 10 key roads in England, Wales, Scotland and Northern Ireland by 2015 using the £150 million investment in mobile communications announced at Autumn Statement 2011.

2.257 Heseltine review – Lord Heseltine will undertake an independent review of how spending departments and other relevant public sector bodies interact with the private sector, and assess their capacity to deliver pro-growth policies. This will include a benchmarking exercise comparing how other competing economies implement their industrial strategies. The review should conclude in early autumn 2012.

2.258 Rural Growth Networks – The pilot Rural Growth Networks, announced at the Autumn Statement 2011, will be located in Devon and Somerset, Cumbria, Swindon and Wiltshire, Northumberland and Durham, and Warwickshire.

2.259 Natural Capital Committee – The Government has appointed Prof Dieter Helm as independent chair of the Natural Capital Committee.

A Spending beyond 2014–15

A.1 At Autumn Statement 2011, the Government set out measures to meet its fiscal targets and ensure sustainable public finances. This included setting plans for the growth of Total Managed Expenditure (TME) in 2015–16 and 2016–17 to continue at the same rate as in the Spending Review 2010 period, with a baseline excluding the one-off investments in infrastructure announced at Autumn Statement 2011.

A.2 This annex sets out the implications of these plans for overall Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (including social security and tax credits). Detailed plans for departmental spending in the years 2015–16 and 2016–17 will not be set until the next spending review. The Office for Budget Responsibility (OBR) forecasts implied DEL for these years. This is based on the Government's growth assumption for TME, the Government's plan for capital spending to grow in line with general inflation in the economy and the OBR's forecast for Annually Managed Expenditure (AME) for 2015–16 and 2016–17.

A.3 Table A.1 compares the average annual real growth rates for the public expenditure aggregates for the Spending Review 2010 period and for 2015–16 and 2016–17.

Table A.1: Public spending aggregates

	£ billion							
	Forecasts						Average annual real growth: *Spending Review 2010 period*	Average annual real growth: *2015–16 and 2016–17*
	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17		
CURRENT EXPENDITURE								
Resource Annually Managed Expenditure	303.6	320.0	325.3	340.1	356.8	370.7	*2.1%*	*1.8%*
Resource Departmental Expenditure Limits excluding depreciation[1]	322.5	327.2	330.2	327.0	321.0	317.7	*-2.3%*	*-3.8%*
Ring-fenced depreciation	21.2	17.5	18.1	19.2	19.7	20.2		
Public sector current expenditure (PSCE)	**647.3**	**664.6**	**673.6**	**686.4**	**697.5**	**708.6**	*-0.3%*	*-0.9%*
CAPITAL EXPENDITURE								
Capital Annually Managed Expenditure[2]	7.1	-25.0	5.6	5.7	6.1	6.5	*-12.0%*	*4.6%*
Capital Departmental Expenditure Limits	42.0	43.8	40.9	41.3	40.4	41.1	*-6.9%*	*-2.7%*
Public sector gross investment (PSGI)	**49.1**	**18.8**	**46.4**	**47.0**	**46.5**	**47.7**	*-7.6%*	*-1.8%*
TOTAL MANAGED EXPENDITURE	**696.4**	**683.4**	**720.0**	**733.5**	**744.0**	**756.3**	*-0.8%*	*-0.9%*
Total Managed Expenditure (%GDP)	*45.8%*	*43.4%*	*43.6%*	*42.2%*	*40.5%*	*39.0%*		

[1] Resource DEL excluding ring-fenced depreciation is the Treasury's primary control within resource budgets and the basis on which Spending Review 2010 settlements were agreed. The Government will set the precise envelope for the next spending review in due course, so numbers beyond 2014–15 are implied. The OBR shows forecasts for PSCE in DEL and AME, and PSGI in DEL and AME. A reconciliation table is published by the OBR.

[2] Capital AME in 2012–13 is temporarily reduced by a £28 billion capital grant to the public sector resulting from the transfer of assets from the Royal Mail Pension Plan to the public sector in April 2012.

Source: OBR and HM Treasury.

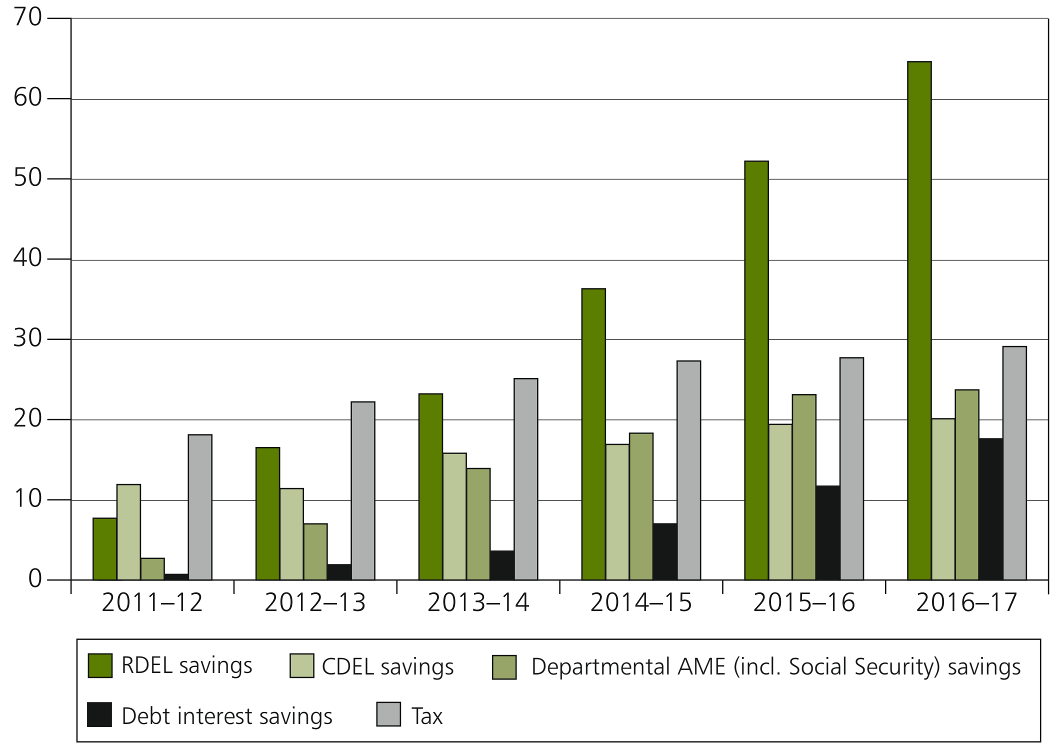
Implied reductions in DEL

A.4 As shown in Table A.1, TME falls in real terms across the forecast period. In the Spending Review 2010 period, both capital and current spending contribute to the real reductions. From 2014–15 onwards, capital spending, excluding the one-off investments in infrastructure announced at Autumn Statement 2011, is held constant in real terms. As a result, the real reductions in current spending are higher in the last two years of the forecast than over the Spending Review 2010 period.

A.5 Within Public Sector Current Expenditure (PSCE), resource AME is projected to continue to grow in real terms over the next spending review period. As a result, under current policies, resource DEL is projected to bear the full impact of the real terms reduction in TME. Without any additional reductions in resource AME, the average real reductions in resource DEL excluding depreciation will increase from 2.3 per cent a year in the Spending Review 2010 period to 3.8 per cent a year in 2015–16 and 2016–17.

A.6 Chart A.1 sets out the contribution of different components to the Government's consolidation plans. It shows that without any policy changes to AME, resource DEL will be the main contributor towards additional spending reductions in 2015–16 and 2016–17.

Chart A.1: Total consolidation plans over the forecast period (£bn)



Note: The chart shows the spending consolidation (shown in Table 1.2) broken down into its main components: resource DEL, capital DEL, debt interest and departmental AME (including social security and tax credits). Spending reductions are calculated against a baseline of DEL growing in line with general inflation in the economy from 2010–11 and AME as forecast.
Source: HM Treasury.

Trade-offs between AME and DEL

A.7 Spending Review 2010 prioritised across total government spending by considering AME as well as DEL, a development that was welcomed by the Institute for Fiscal Studies.[1] In the next spending review, any reductions in AME will lessen the reductions required from DEL. For illustrative purposes, Table A.2 shows the AME reductions required to maintain the Spending Review 2010 rate of RDEL growth in 2015–16 and 2016–17, based on current forecasts.

Table A.2: Illustrative AME reductions

	£ billion	
	2015–16	**2016–17**
AME reductions required to maintain Spending Review 2010 growth rates for resource DEL excluding depreciation	-6.6	-10.5

Source: HM Treasury.

A.8 The biggest component of AME is welfare spending (social security and tax credit expenditure). Most other items of AME are either non-discretionary (e.g. debt interest) or are self-financing, as set out in more detail in Table D.4. Welfare spending is projected to grow as a share of TME in 2015–16 and 2016–17.

[1] *The IFS Green Budget*, The Institute for Fiscal Studies, February 2011.

A.9 The figures above show that in the absence of policy change, DEL will continue to see significant real reductions in 2015–16 and 2016–17. Any new policy proposals within DEL that require funding beyond this spending review period will further reduce the resources available elsewhere. The Government will be examining the cost drivers for all areas of public spending, and identifying the further reforms needed to deliver a sustainable welfare system and public services within the resources available.

B Impact on households

Introduction

B.1 The Government has taken unprecedented steps to increase transparency and enable the effective scrutiny of policy making by publishing detailed distributional analysis of the impact of its reforms on households. This document builds on the analysis of Autumn Statement 2011 and Budget 2011.

B.2 There are a number of different ways to show the combined impact of policy changes on households. This annex presents a range of approaches.

B.3 The most common method of showing the impact of changes to taxes, tax credits and benefits on household incomes is to compare average changes in incomes for households at different points in the income distribution. This is shown in Charts B.1 and B.2.

B.4 This, and other distributional analysis in this annex, is presented on a cumulative basis and so includes measures from this Budget, Autumn Statement 2011, Budget 2011, Spending Review 2010, and the June Budget 2010. It also includes changes that were announced before the June Budget 2010 which are being implemented by the Government.

B.5 It is also possible to show impacts across the expenditure distribution. This may be a useful complement to income based analysis. Some households — typically those containing students, self-employed and unemployed individuals — could be experiencing temporary periods of low income and funding their expenditure from savings or borrowings.[1] Because such households are smoothing their lifetime consumption, expenditure may be a better indicator of standards of living.[2] Charts B.3 and B.4 present impacts on this basis.

B.6 These sets of analysis include all changes that can be modelled robustly at a household level and account for the majority of tax, tax credit and benefit changes coming into effect in 2013–14. There is an acknowledged trade-off between how accurately analysis shows the impact of changes, and how complete a picture it provides. Data and modelling limitations mean it is not possible to model all measures using the approach explained above.

B.7 There is insufficient information in the survey data used to include some measures in the analysis shown in Charts B.1 to B.4. For example, the 25 per cent cap on income tax reliefs above £50,000 and the increase in stamp duty rates for high value properties are not included.

B.8 The analysis shown in Charts B.1 to B.4 is also static and so focuses on the "next day" impact of policy changes. It does not take into account the fact that changes may affect the decisions people make. For example increases to the personal allowance or the introduction of Universal Credit should both encourage people to move into work. Table B.1 illustrates the gains individuals receive from personal tax changes the Government has introduced, including those

[1] *An expenditure-based analysis of the redistribution of household income*, Office for National Statistics, March 2010.
[2] For example, see *Least well-off in society better identified by low spending than low income*, Institute for Fiscal Studies Press Release, March 2011, which states "Those with the lowest reported income are not those with the lowest spending or those living in the most severe forms of deprivation."

announced at this Budget. Table B.2 provides some analysis of the effect of the Government's reforms on incentives to work for example individuals.

B.9 For some policy changes, the behavioural response is so large that presenting a static analysis would not be representative of likely actual impacts. One such change is the reduction in the additional rate of income tax to 45 per cent, where the behavioural response is estimated to reduce the theoretical yield by around 97 per cent.[3] Paragraph B.21 provides an estimate of the average expected contribution to the Exchequer from these changes for individuals with incomes of over £150,000 a year.

B.10 Changes to departmental spending are also important to households. To provide as comprehensive a picture as possible Chart B.5 presents the impact on households of changes to government spending in addition to tax, tax credit and benefit measures for 2014–15. Some stronger assumptions have been made to allow the inclusion of an expanded set of tax, tax credit, and benefit changes to that in Charts B.1 to B.4.

B.11 In all of this analysis it is important to recognise that it is not possible to know what the world would have looked like in the absence of measures introduced. The analysis in this annex cannot show what the consequences for households would have been had the Government not taken action to control an unsustainable deficit. Nor does it take into account longer-term implications for household incomes from changes which affect the rate of economic growth.

B.12 The Social Mobility and Child Poverty Commission will assess the Government's progress in reducing child poverty and improving life chances against a set of measures.

Impact on household incomes

B.13 The analysis presented in this section is for the year 2013–14, one year later than previously. It is produced using HM Treasury's tax and benefit model. Publishing analyses of the overall impacts of tax, tax credit and benefit changes further into the future may not be representative of the impact of government policy, as it cannot capture decisions the Government is yet to make. In addition, economic assumptions on which this analysis is based inevitably become more uncertain further ahead. Behavioural and macroeconomic effects, which are not captured by the model, are also likely to become more significant over time.

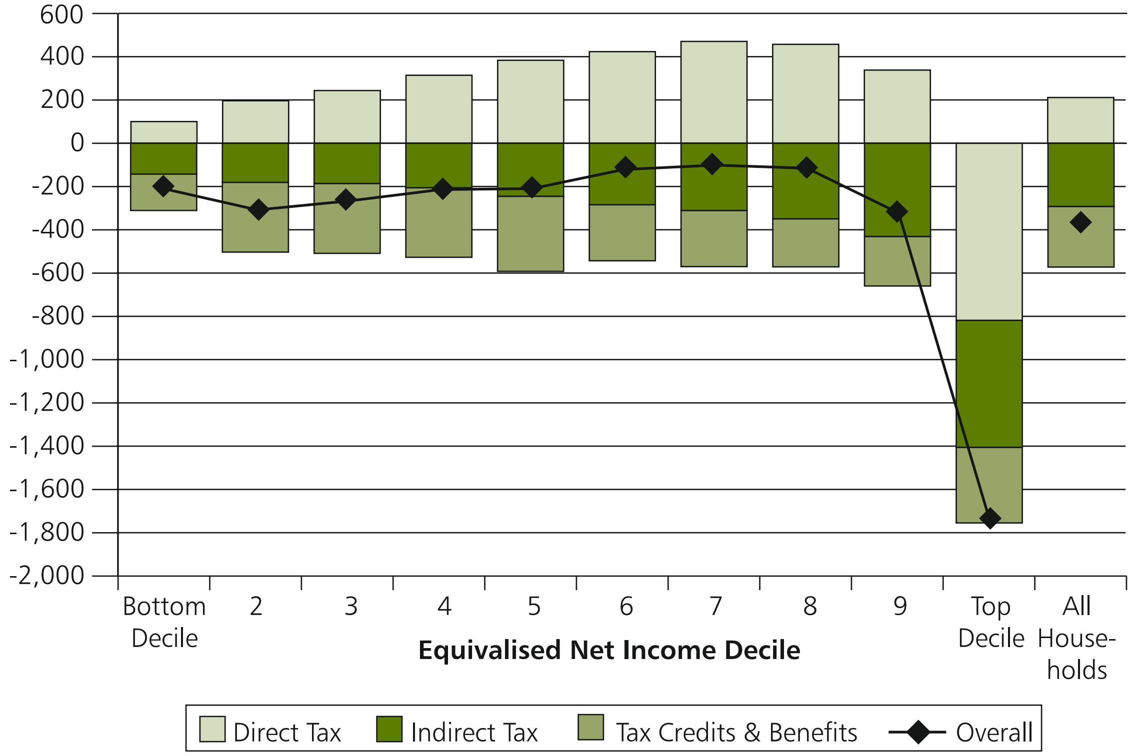
B.14 For this analysis households are ordered by their income (or expenditure) and divided into 10 equally sized groups called deciles. The first decile contains the tenth of households with the lowest income (or spending), while the top decile contains the tenth of households with the highest income (or spending). As households with more individuals require higher levels of income and expenditure to achieve the same living standards, an internationally agreed standard process of adjustment called equivalisation is used to ensure households are compared on a consistent basis.

B.15 Chart B.1 shows the cumulative impact of modelled tax, tax credit and benefit changes in cash terms by income decile. This analysis shows that in absolute terms the top decile sees the largest reduction in income.

B.16 Chart B.2 presents the cumulative impact of modelled tax, tax credit and benefit changes relative to net income, and shows that, as a per cent of net income, reductions in income remain greatest for the top decile.

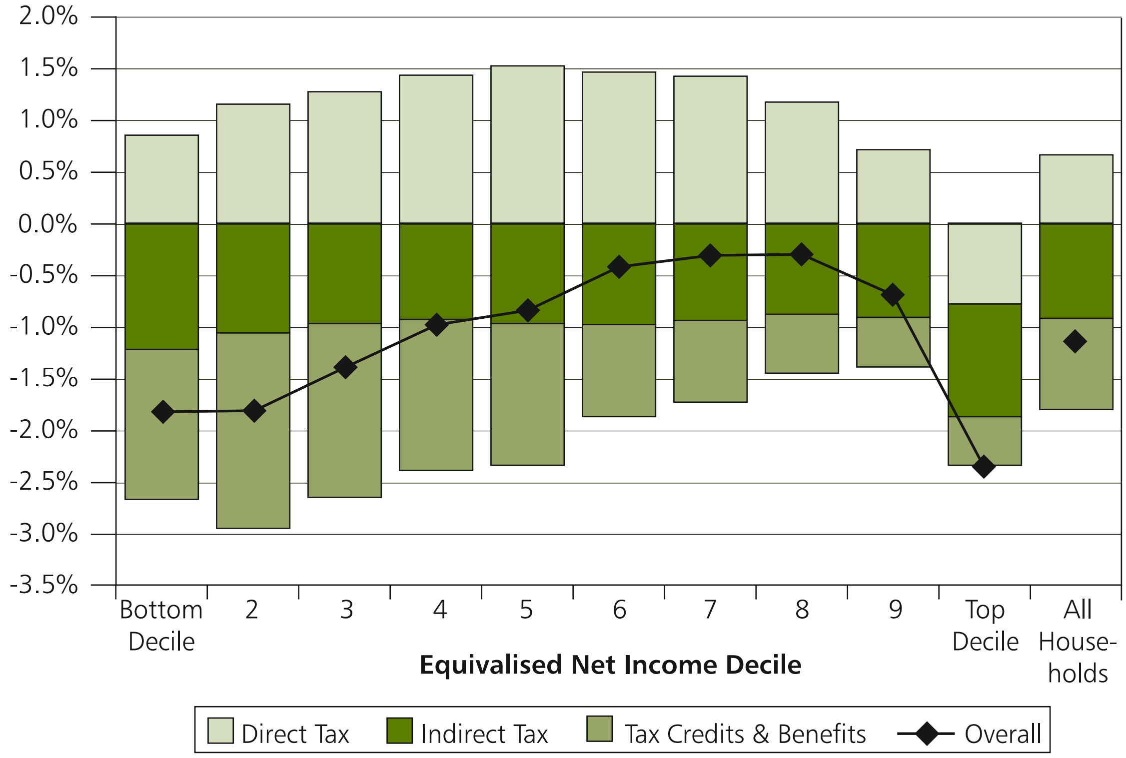
[3] See Table A2 of *The Exchequer effect of the 50 per cent additional rate of income tax*, HM Revenue & Customs, March 2012.

Chart B.1: Cumulative impact of modelled tax, tax credit and benefit measures in cash terms (£ a year) by income distribution (2013–14)



Source: HM Treasury tax and benefit microsimulation model.

Chart B.2: Cumulative impact of modelled tax, tax credit and benefit measures as a per cent of net income by income distribution (2013–14)

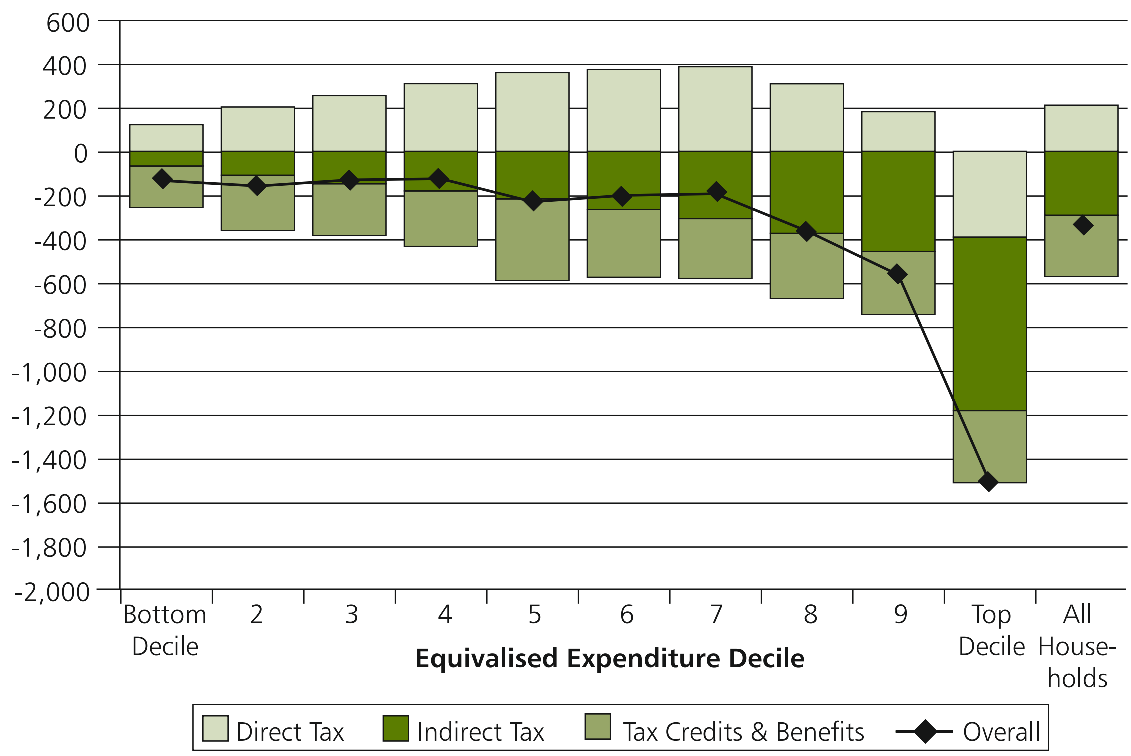


Source: HM Treasury tax and benefit microsimulation model.

B.17 As discussed in paragraph B.5, analysis by expenditure decile provides a useful complement to income based analysis, and for some households may be a better indicator of living standards. In presenting impacts by expenditure, an assumption needs to be made on what items are included in the definition of expenditure.[4] The following analysis uses an improved definition of expenditure that treats expenditure on housing consistently, and one that the Government views as providing a more accurate representation of the relative living standards of households, whether in receipt of housing benefit or not. It also ensures greater consistency in the treatment of income and expenditure in analysis.

B.18 Previously, if a household were in receipt of Housing Benefit, only any rent paid above the Housing Benefit award would be counted as expenditure, whereas for households without Housing Benefit the full rent would be included. This analysis defines expenditure in a consistent way by including all rent paid as expenditure. This approach gives a fairer representation of the impacts of government policy on living standards across the expenditure distribution, and is used in the following analysis. Charts B.3 and B.4 show that cash reductions in income for the bottom expenditure decile are less than a tenth of those for the top expenditure decile, and that as a per cent of expenditure the top expenditure decile sees the greatest reduction in income.

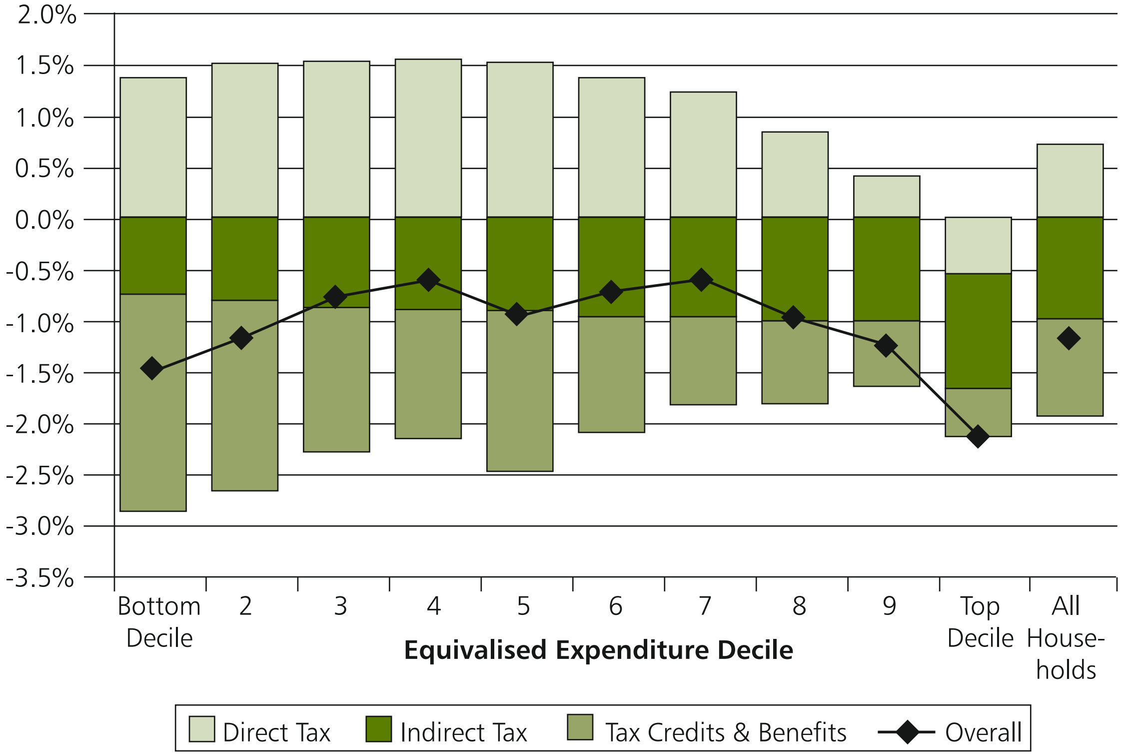
Chart B.3 : Cumulative impact of modelled tax, tax credit and benefit measures in cash terms (£ a year) by expenditure distribution (2013–14)



Source: HM Treasury tax and benefit microsimulation model.

[4] For example refer to page 150 of *Family Spending: 2011 edition*, Office for National Statistics, November 2011 which states that: "Any definition of expenditure is to some extent arbitrary, and the inclusion of certain types of payment is a matter of convenience or convention depending on the purpose for which it is to be used".

Chart B.4: Cumulative impact of modelled tax, tax credit and benefit measures as a per cent of net expenditure by expenditure distribution (2013–14)



Source: HM Treasury tax and benefit microsimulation model.

Income tax and National Insurance

B.19 Income tax and National Insurance contributions (NICs) are essential revenue sources for the Government with, for example, income tax accounting for around a quarter of total government receipts.[5] For 2011–12 it is estimated that around 28 per cent of this will come from the top one per cent of earners, and 47 per cent from the top five per cent of earners.[6]

B.20 The Government believes the income tax system should give more support to those on low to middle incomes, rewarding the efforts of those who work. Table B.1 presents estimates of income tax and NICs paid by individuals under the age of 65 at different income levels.

Table B.1: Illustrative examples of income tax and National Insurance paid per year, by income level

Gross Income (£)	2011–12 (£)	2012–13 (£)	2013–14 before this Budget (£)	2013–14 after this Budget (£)
7,500	40	0	0	0
10,000	840	670	590	420
15,000	2,440	2,270	2,190	2,020
20,000	4,040	3,870	3,790	3,620
30,000	7,240	7,070	6,990	6,820
40,000	10,440	10,270	10,190	10,020
50,000	14,390	14,220	14,120	14,080
75,000	24,890	24,720	24,620	24,580
100,000	35,390	35,220	35,120	35,080
150,000	59,380	59,460	59,460	59,760

Calculations based on an individual aged under 65 paying employee NICs (not contracted out). Gross income refers to pay 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 calculations are on a weekly basis and then annualised. All figures are round to the nearest £10.
Source: HMRC.

B.21 There are forecast to be around 330,000 tax payers with taxable incomes of over £150,000 in 2013–14.[7] There are a number of measures announced at this Budget that will principally affect this group but cannot be modelled in Charts B.1 to B.4. Taken together, it is estimated that the reduction in the additional rate of income tax to 45 per cent, the 25 per cent cap on income tax reliefs above £50,000 and the increase in stamp duty rates for high value properties will result in an expected average contribution to the Exchequer from those with incomes of above £150,000 of an additional £1,300 a year.[8]

[5] 2010–11 outturn receipts can be found in Table 4.7 of *Economic and fiscal outlook – November 2011*, Office for Budget Responsibility.
[6] *Income Tax Liability Statistics*, HM Revenue & Customs, April 2011. Available at: http://www.hmrc.gov.uk.
[7] HM Revenue & Customs calculations.
[8] *Ibid*. This estimate is based on the change in tax liabilities for 2013–14 and so takes into account behavioural effects. It also assumes that the full impact of these measures falls on people with incomes above £150,000.

Work incentives

B.22 Ensuring individuals are rewarded from entering and progressing in work is an essential part of an effective tax and benefit system.

B.23 The following analysis presents the projected tax and benefit system, including measures announced at this Budget, in 2014–15 with and without Universal Credit. This analysis also takes into account the updates to Universal Credit detailed in the impact assessment published in October 2011.[9] Disregards and tapers presented here are illustrative and actual values will be set closer to implementation. Further details on the specific estimates used can be found in Budget 2012 data sources.[10]

B.24 There are two main areas of interest in work incentives: the incentive to work at all, and the incentive to progress when in work. The most common measure of the financial incentive to work at all is the Participation Tax Rate (PTR). This is an estimate of the proportion of total gross earnings lost through tax or lower benefits when entering work. A lower value implies a stronger incentive to work. Financial incentives to progress in work are usually shown using Marginal Deduction Rates (MDRs) that represent the proportion of a £1 increase in earnings that is lost through tax and benefit withdrawal.

B.25 Table B.2 provides estimates of PTRs and MDRs for example individuals working certain numbers of hours. This is shown in 2014–15 for a projected tax and benefit system with and without Universal Credit.

Table B.2: Illustrative PTRs and MDRs for example individuals

	2014–15 excluding Universal Credit				2014–15 including Universal Credit			
	At 10 hours		At 35 hours		At 10 hours		At 35 hours	
	PTR	MDR	PTR	MDR	PTR	MDR	PTR	MDR
Lone parent, one child	70%	100%	54%	73%	0%	0%	46%	76%
First earner in couple, no children	85%	100%	70%	73%	24%	65%	56%	76%
First earner in couple, two children	85%	100%	61%	91%	7%	65%	51%	76%
Second earner in couple, no children. First earner working 10 hours	97%	65%	58%	73%	65%	65%	68%	76%
Second earner in couple, two children. First earner working 10 hours	93%	0%	59%	91%	65%	65%	68%	76%
Single, under 25, no children	91%	65%	66%	32%	50%	65%	64%	76%

Analysis assumes no Council Tax Benefit entitlement and excludes child care costs. Further details of the assumptions underpinning the estimates in this table can be found in the Data Sources document.

Source: HM Treasury estimates.

[9]Universal Credit Impact Assessment, Department for Work and Pensions, October 2011. Available at: http://www.dwp.gov.uk.
[10]Available on the HM Treasury website at: http://www.hm-treasury.gov.uk.

Combined impact of government spending

B.26 This section shows the combined impact of changes to government spending and tax, tax credit and benefit measures in 2014–15, including benefits in kind from public services (such as health and education).

B.27 The modelling of tax, tax credit and benefit impacts in this section contains a number of policies in addition to those included in Charts B.1 to B.4. Those previously announced by the Government are listed in full in the data sources document and this analysis additionally includes the 25 per cent cap on income tax reliefs above £50,000 announced at this Budget.

B.28 To present impacts across different household income groups, households have been ordered by their income and divided into five equally sized groups called quintiles. As households with more individuals require higher levels of income to achieve the same living standards, an internationally agreed standard process of adjustment called equivalisation is used to ensure households are compared on a consistent basis.

B.29 The measures referred to in paragraph B.27 were excluded in the previous decile analysis because of limitations in the underlying survey data used or because it is not currently possible to formulate robust assumptions about policy impacts at an individual level. For example, the introduction of objective medical assessment for Disability Living Allowance claimants is excluded because it is not possible to model how individual claimants might fare against medical assessment. However, some stronger assumptions on the impacts of these measures have been made to allow their inclusion. This presents a fuller though less precise picture of the overall impact of the fiscal consolidation and extends the analysis to cover the vast majority of tax measures and over 80 per cent of tax credit and benefit measures.

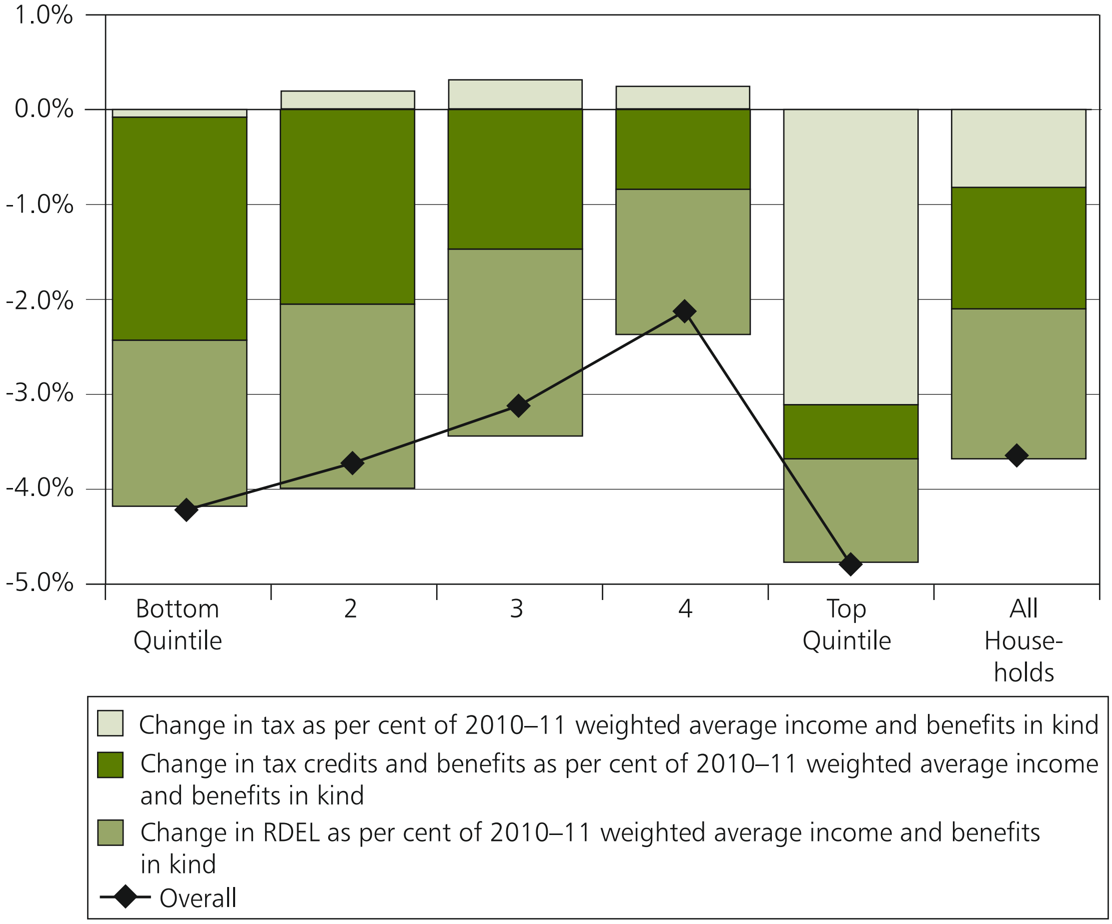
B.30 As well as attributing gains and losses at an individual level as before, Exchequer impacts are apportioned to quintiles. This has been done for the larger unmodelled measures (those with an impact of greater than £300 million), where it is possible to make reasonable assumptions about how households in different quintiles will be affected. Full details can be found in the data sources document.

B.31 Not all measures can be captured by this approach. For example, reforms to public service pensions are excluded. This is because suitable data does not exist to enable the identification of households containing public service workers by net income quintile.

B.32 The analysis of public spending impacts uses the same methodology as at Spending Review 2010 and is based on information provided by departments from surveys of public service usage. They have been updated to take account of the latest inflation forecasts as well as the previously announced measures to fully localise Council Tax Benefit from 2013–14 and limit the increase to Transport for London and regulated rail fares to RPI plus one per cent for one year from January 2012. The analysis has only been completed for public services that are used differentially by households. The analysis covers around two-thirds of resource DEL expenditure, excluding the Devolved Administrations. The areas of spend that have been selected have been chosen on the basis that they represent services that people consume directly, and so will best correspond to the experience people have of government spending. Further details can be found in the data sources document.

B.33 Chart B.5 shows that the top quintile continues to make the greatest contribution towards reducing the deficit as a per cent of their income and benefits in kind from public services.

Chart B.5: Overall impact of spending, tax, tax credit and benefit changes on households in 2014–15 as a per cent of 2010–11 net income (including households' benefits in kind from public services)



Source: HM Treasury estimates based on a range of models and data sources.

C Financing

Introduction

C.1 This annex sets out details of the Government's financing plans for 2012–13. Further details can be found in the *Debt and reserves management report 2012–13*, published on HM Treasury's website at www.hm-treasury.gov.uk.

Financing arithmetic

C.2 The Office for Budget Responsibility's (OBR) forecast for the central government net cash requirement (CGNCR) in 2012–13 is £121.0 billion. The relationship between public sector net borrowing (PSNB) and the CGNCR is set out in the OBR's March 2012 *Economic and fiscal outlook*.

C.3 The net financing requirement (NFR) comprises the CGNCR, plus any financing required for gilt redemptions and for additional Official Reserves, less the net contribution to financing from National Savings and Investments (NS&I). The net financing requirement (NFR) for 2012–13 is projected to be £166.4 billion, reflecting:

- the forecast for the CGNCR of £121.0 billion;
- gross gilt redemptions of £52.9 billion;
- £6.0 billion of financing for the Official Reserves;
- a zero net contribution to financing from NS&I; and
- a planned short-term financing adjustment of £13.6 billion resulting from unanticipated overfunding in 2011–12.

C.4 As set out in Table C.1, the NFR for 2012–13 will be met by gilt sales of £167.7 billion, with a reduction in the Treasury bill stock of £1.3 billion relative to the projected level at end-March 2012 (£69.8 billion).

Gilt issuance methods

C.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.

C.6 It is anticipated that:

- £126.7 billion (75.6 per cent of total issuance) will be issued by auction;
- £33.5 billion (20.0 per cent of total issuance) will be issued by syndication; and
- £7.5 billion (4.5 per cent of total issuance) will be issued by mini-tender.

C.7 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 2012–13*.

Gilt issuance by maturity and type

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

- £51.6 billion of short conventional gilts (30.8 per cent of total issuance);
- £34.9 billion of medium conventional gilts (20.8 per cent of total issuance);
- £37.6 billion of long conventional gilts (22.4 per cent of total issuance); and
- £36.1 billion of index-linked gilts (21.5 per cent of total issuance).

C.9 In addition, the Debt Management Office (DMO) plans to deliver sales via mini-tender of £7.5 billion (4.5 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. In 2012–13 the use of mini-tenders will be extended to include the sale of short and medium conventional gilts. The DMO will decide on the maturities and types of gilts sold in consultation with the market during the year.

Disposal of Royal Mail Pension Plan gilt holdings

C.10 In order to secure the future of the universal postal service and facilitate private sector investment into Royal Mail, the Government announced last year its intention to address the significant deficit in the company's pension scheme. Under the powers contained in the Postal Services Act 2011, the Government intends to transfer assets (alongside the historical liabilities) of the Royal Mail Pension Plan (RMPP), a private sector pension scheme, into public ownership in April 2012, subject to State aid clearance. As a result, around £11 billion worth of gilts by market value, of which around 80 per cent are likely to be index-linked, are expected to be transferred into public ownership in April 2012. The majority of the conventional gilts are expected to be of short maturities, with the majority of the index-linked holdings being of long maturities. However, the exact amount and breakdown of the gilts to be transferred depends on a number of factors and will not be known with certainty until the transfer has been completed. In due course, once this process has been completed, the DMO will publish the full portfolio breakdown.

C.11 It is the Government's intention that these gilts will be cancelled during 2012–13. Cancellation of gilts will have no impact on the CGNCR, the net financing requirement or any of the other fiscal aggregates. The DMO will invite feedback from the market, at its quarterly consultation meetings, on the appropriate timing of cancellation to take account of the impact on indices. The DMO will provide the market with good notice of any cancellations, including the stocks and amounts to be cancelled.

New instruments

C.12 In light of evidence of strong demand for gilts of long maturities and against the backdrop of historically low long-term interest rates, **in 2012–13 the DMO will consult on the case for issuance of gilts with maturities significantly longer than those currently in issue, that is in excess of 50 years, and/or perpetual gilts.** The consultation will build an evidence base to inform the Government's decision on whether to issue such instruments. It will seek to establish the likely strength and sustainability of demand, the cost-effectiveness and risks of issuance, and the impact on market liquidity and the good functioning of the wider gilt market.

C.13 No presumption has been made about issuance at this stage, and any subsequent decision about whether to proceed with issuance will be informed by the responses received to the consultation and assessed with reference to the debt management objective. If any such decision were made to proceed with issuance in-year, this would be reflected at the time of the next planned remit revision.

Table C.1: Financing arithmetic for 2011–12 and 2012–13

£ billion	2011–12	2012–13
Central government net cash requirement	129.9	121.0
Gilt redemptions	49.0	52.9
Financing for the Official Reserves	6.0	6.0
Buy-backs[1]	0.0	0.0
Planned short-term financing adjustment[2]	-8.6	-13.6
Gross financing requirement	176.3	166.4
less		
National Savings and Investments	4.3	0.0
Net financing requirement	172.0	166.4
Financed by:		
1. Debt issuance by the Debt Management Office (DMO)		
a) Treasury bills[3]	6.2	-1.3
b) Gilts	179.4	167.7
of which		
Conventional:		
short	60.6	51.6
medium	40.1	34.9
long	39.7	37.6
Index-linked	39.0	36.1
Mini-tenders		7.5
2. Other planned changes in net short-term debt[4]		
Change in the Ways and Means Advance	0.0	0.0
3. Changes in net short-term cash position[5]	13.6	0.0
Total financing	185.6	166.4
Short-term debt levels at end of financial year		
Treasury bill stock[6]	69.8	68.5
Ways and Means Advance	0.4	0.4
DMO net cash position	14.1	0.5

Figures may not sum due to rounding.

[1] 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.

[2] 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 net cash position; and/or (iii) carryover of unanticipated changes to the net cash position from the previous year.

[3] The stock change shown for 2011–12 is a planning assumption and measures the change in the level of the Treasury bill stock in issue between end-March 2011 and that currently forecast for end-March 2012. 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 2012–13 is that currently required to take the stock of Treasury bills to £68.5 billion by end-March 2013.

[4] 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.

[5] The change in the net short-term cash position for 2011–12 reflects changes to the public finance forecasts and 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 net short-term cash position in 2012–13 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.

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

D OBR's Economic and fiscal outlook: selected tables

D.1 The Office for Budget Responsibility (OBR) has published its March 2012 *Economic and fiscal outlook* alongside Budget 2012. 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 D.1: Detailed summary of OBR central economic forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2010	2011	2012	2013	2014	2015	2016
World economy							
World GDP at purchasing power parity	5.1	3.8	3.3	4.1	4.7	4.8	4.9
Euro Area GDP	1.8	1.5	-0.3	1.1	1.6	1.7	1.7
World trade in goods and services	12.4	6.3	4.1	6.4	6.9	6.9	7.0
UK export markets[1]	12.1	6.2	3.6	6.1	6.3	6.2	6.3
UK economy							
Gross domestic product (GDP)	2.1	0.8	0.8	2.0	2.7	3.0	3.0
Expenditure components of GDP							
Domestic demand	2.9	-0.8	0.3	1.5	2.4	2.8	2.9
Household consumption[2]	1.2	-0.8	0.5	1.3	2.3	3.0	3.0
General government consumption	1.5	0.3	0.5	-1.1	-2.1	-2.8	-2.7
Fixed investment	3.1	-1.7	-0.3	6.2	8.6	8.9	8.7
Business	-2.1	0.2	0.7	6.4	8.9	10.2	10.1
General government[3]	7.8	-13.0	-5.0	-3.6	0.1	0.4	-1.4
Private dwellings[3]	13.3	2.4	0.2	10.5	11.6	9.9	9.7
Change in inventories[4]	1.3	-0.1	-0.1	0.0	0.0	0.0	0.0
Exports of goods and services	7.4	4.8	2.9	5.3	5.7	5.5	5.3
Imports of goods and services	8.6	0.6	1.4	3.8	4.6	4.8	4.9
Balance of payments current account							
£ billion	-49	-38	-27	-21	-20	-15	-11
Per cent of GDP	-3.3	-2.5	-1.7	-1.3	-1.2	-0.8	-0.6
Inflation							
CPI	3.3	4.5	2.8	1.9	1.9	2.0	2.0
RPI	4.6	5.2	3.2	2.3	2.5	3.6	4.0
Terms of trade[5]	-0.6	-1.5	-0.2	0.2	0.2	0.0	-0.1
GDP deflator at market prices	2.9	2.3	2.5	2.5	2.5	2.5	2.5
Labour market							
Employment (millions)	29.0	29.2	29.1	29.2	29.4	29.7	30.0
Wages and salaries	2.2	1.5	2.0	3.5	5.1	5.5	5.6
Average earnings[6]	2.4	1.2	2.6	3.1	4.3	4.5	4.5
ILO unemployment (% rate)	7.9	8.1	8.7	8.6	8.0	7.2	6.3
Claimant count (millions)	1.50	1.53	1.65	1.64	1.52	1.35	1.19
Household sector							
Real household disposable income	-0.2	-1.4	0.2	0.5	1.9	2.4	2.5
Saving ratio (level, per cent)	7.2	6.3	6.6	5.9	5.6	5.2	5.0
House prices	7.2	-0.7	-0.4	0.1	2.5	4.5	4.5
Nominal indicators							
Nominal GDP	5.0	3.1	3.3	4.6	5.3	5.6	5.6
Non-oil PNFC profits[7]	-1.0	11.9	4.7	6.9	9.6	9.4	9.2

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

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

[3] Includes transfer costs of non-produced assets.

[4] Contribution to GDP growth, percentage points.

[5] Ratio of export to import prices.

[6] Wages and salaries divided by employees.

[7] Private non-oil non-financial corporations' gross trading profits.

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

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016–17
GDP and its components							
Real GDP	2.2	0.5	1.0	2.3	2.8	3.1	3.0
Nominal GDP (£ billion)[1]	1478	1521	1576	1652	1740	1839	1941
Nominal GDP[1]	5.1	2.9	3.6	4.8	5.3	5.7	5.6
Nominal GDP (centred end-March)	3.4	3.3	4.3	5.1	5.5	5.7	5.4
Wages and salaries[2]	1.5	1.7	2.1	4.1	5.2	5.6	5.6
Non-oil PNFC profits[2,3]	-1.0	11.9	4.7	6.9	9.6	9.4	9.2
Non-oil PNFC net taxable income[2,3]	5.1	15.0	6.8	7.2	7.3	6.8	6.5
Consumer spending[2,3]	5.4	3.2	3.8	3.9	4.8	5.6	5.6
Prices and earnings							
GDP deflator	2.7	2.2	2.7	2.5	2.5	2.5	2.5
RPI (September)	4.6	5.6	3.0	2.3	2.6	3.7	4.0
CPI (September)	3.1	5.2	2.6	1.9	1.9	2.0	2.0
Whole economy earnings growth	0.9	2.1	2.4	3.5	4.4	4.5	4.6
Key fiscal determinants							
Claimant count (millions)[4]	1.47	1.58	1.66	1.61	1.49	1.31	1.16
Employment (millions)	29.1	29.1	29.1	29.3	29.5	29.8	30.1
VAT gap (per cent)	10.1	9.7	9.3	9.3	9.3	9.3	9.3
Financial and property sectors							
Equity prices (FTSE All-share index)	2885	2917	3138	3290	3465	3662	3866
HMRC financial sector profits[1,3,5]	4.0	-10.0	3.7	6.8	5.4	4.0	3.4
Financial sector net taxable income[1,3]	11.6	-6.0	2.4	8.2	7.1	7.0	6.5
Residential property prices[6]	5.3	-0.7	-0.6	0.5	3.3	4.5	4.5
Residential property transactions	-1.7	1.5	-1.5	18.8	15.6	7.4	6.2
Commercial property prices[7]	0.1	2.9	0.9	4.5	5.5	5.1	4.1
Commercial property transactions[7]	8.5	-3.3	-0.8	1.8	4.7	5.9	5.9
Volume of share transactions	-13.0	-16.0	2.4	2.3	2.8	3.1	3.0
Oil and gas							
Oil prices ($ per barrel)[3]	80	111	118	112	105	99	95
Oil prices (£ per barrel)[3]	52.0	69.2	74.4	70.2	65.9	62.5	60.0
Gas prices (p/therm)	43.4	60.6	63.4	63.5	59.6	56.1	53.6
Oil production (million tonnes)[3,8]	63.0	51.9	48.3	47.7	47.2	46.6	44.7
Gas production (billion therms)[3,8]	20.6	16.1	16.1	15.9	15.6	15.6	14.9
Interest rates and exchange rates							
Market short-term interest rates (per cent)[9]	0.7	1.0	1.0	0.8	1.0	1.7	2.3
Market gilt rates (per cent)[10]	2.8	2.2	2.3	2.8	3.2	3.5	3.8
Euro/Sterling exchange rate	1.18	1.16	1.18	1.18	1.18	1.17	1.17

[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 Communities and Local Government (CLG) property prices index.*
[7] *Outturn data from HMRC information on stamp duty land tax.*
[8] *DECC forecasts from 2012 available at www.og.decc.gov.uk.*
[9] *3-month sterling interbank rate (LIBOR).*
[10] *Weighted average interest rate on conventional gilts.*

Table D.3: Current Receipts: OBR forecast

	£ billion						
	Outturn	Forecast					
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Income tax (gross of tax credits)[1]	153.3	152.6	154.8	165.0	179.4	190.5	205.3
of which: Pay as you earn	*130.1*	*131.7*	*132.6*	*141.1*	*150.0*	*162.1*	*174.1*
Self assessment	*22.1*	*20.1*	*22.3*	*22.9*	*28.5*	*27.7*	*30.2*
Tax credits (negative income tax)	-5.6	-4.7	-4.2	-4.2	-4.3	-4.2	-4.2
National insurance contributions	97.7	102.0	105.6	111.3	117.4	124.9	133.0
Value added tax	86.3	98.0	102.0	106.1	111.1	116.2	121.4
Corporation tax[2]	43.0	43.4	44.8	44.8	45.8	46.1	49.4
of which: Onshore	*35.7*	*34.0*	*36.8*	*37.3*	*38.9*	*41.3*	*44.9*
Offshore	*7.3*	*9.4*	*8.0*	*7.5*	*6.8*	*4.9*	*4.5*
Corporation tax credits[3]	-0.9	-0.9	-0.9	-1.0	-0.9	-0.8	-0.8
Petroleum revenue tax	1.5	1.8	1.6	1.5	1.4	1.1	0.8
Fuel duties	27.3	26.9	27.3	28.1	28.9	30.1	31.3
Business rates	23.6	24.5	26.2	27.9	28.8	29.1	30.8
Council tax	25.7	26.0	26.3	27.9	29.0	30.1	31.4
VAT refunds	13.3	14.3	14.8	14.7	14.4	14.0	13.8
Capital gains tax	3.6	4.2	3.8	4.9	5.6	6.5	7.5
Inheritance tax	2.7	2.9	3.0	3.1	3.2	3.3	3.5
Stamp duty land tax	6.0	6.1	6.4	7.4	8.7	9.9	11.1
Stamp taxes on shares	3.0	2.8	3.0	3.2	3.5	3.8	4.1
Tobacco duties	9.1	9.5	9.8	9.8	9.9	10.1	10.4
Spirits duties	2.7	2.8	3.0	3.1	3.2	3.4	3.6
Wine duties	3.1	3.4	3.7	3.9	4.2	4.6	5.0
Beer and cider duties	3.7	3.8	3.9	3.9	3.9	4.0	4.1
Air passenger duty	2.2	2.7	2.9	3.0	3.3	3.5	3.9
Insurance premium tax	2.5	3.0	2.9	3.0	3.1	3.1	3.2
Climate Change Levy	0.7	0.7	0.8	1.4	1.8	2.0	2.2
Other HMRC taxes[4]	5.9	6.1	6.2	6.8	7.2	7.6	7.9
Vehicle excise duties	5.8	5.8	5.9	5.8	5.8	5.8	5.8
Temporary bank payroll tax	3.5	0.0	0.0	0.0	0.0	0.0	0.0
Bank levy	0.0	1.8	2.2	2.7	2.8	2.8	2.8
Licence fee receipts	3.1	3.1	3.1	3.2	3.2	3.2	3.2
Environmental levies	0.5	1.7	2.3	2.7	3.3	3.7	4.2
EU ETS Auction Receipts	0.0	0.3	0.7	1.5	1.6	1.7	1.7
Other taxes	5.9	6.1	7.0	7.2	7.5	7.5	7.4
National Accounts taxes	**528.9**	**550.6**	**568.8**	**598.8**	**633.0**	**663.6**	**703.6**
Less own resources contribution to EU budget	-5.3	-5.2	-5.3	-5.7	-6.0	-6.2	-6.5
Interest and dividends	2.4	2.8	4.6	5.0	6.1	8.3	10.8
Gross operating surplus	25.2	23.2	24.4	25.3	26.3	27.3	28.4
Other receipts	-0.4	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0
Current receipts	**550.8**	**570.4**	**591.5**	**622.5**	**658.4**	**692.0**	**735.3**
Memo:							
UK oil and gas revenues[5]	*8.8*	*11.2*	*9.6*	*9.0*	*8.3*	*6.0*	*5.3*

[1] Income tax 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.

Table D.4: Total Managed Expenditure: OBR forecast

	£ billion						
	Outturn	Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Public sector current expenditure (PSCE)							
PSCE in RDEL[1,3]	**326.3**	**322.9**	**328.1**	**330.3**	**328.6**	**323.0**	**320.2**
PSCE in Annually Managed Expenditure	**302.9**	**324.4**	**336.6**	**343.3**	**357.9**	**374.5**	**388.4**
of which:							
Social security benefits[2,3]	168.6	174.7	181.8	182.6	185.7	193.1	199.3
Tax credits[2]	25.3	26.9	27.4	27.9	28.5	29.1	29.7
Net public service pension payments	5.6	8.4	11.6	12.2	13.2	14.3	15.4
of which:							
CG unfunded pension schemes	*4.5*	*7.0*	*10.0*	*10.6*	*11.5*	*12.5*	*13.5*
LG police and fire pension schemes	*1.1*	*1.4*	*1.6*	*1.6*	*1.7*	*1.8*	*1.9*
National lottery current grants	0.8	0.9	0.9	0.9	0.9	1.0	1.1
BBC domestic services current expenditure	3.4	3.7	3.5	3.4	3.7	3.6	3.7
Fees associated with financial interventions	-2.4	-2.0	-0.7	-0.3	-0.2	0.0	0.0
Other PSCE items in departmental AME	0.3	0.2	1.0	0.6	0.5	0.5	0.5
Expenditure transfers to EU institutions	6.8	6.2	5.8	6.9	7.8	7.1	6.2
Locally-financed current expenditure	22.4	26.1	26.7	28.1	29.2	30.1	31.1
Central government gross debt interest	42.8	47.4	44.8	46.1	53.2	59.7	64.0
Depreciation	15.2	16.1	16.9	17.6	18.3	19.0	19.8
Current VAT refunds	11.2	12.0	12.6	12.7	12.5	12.0	11.7
Single use military expenditure	5.4	5.5	5.8	5.7	5.2	5.0	5.1
Environmental levies	0.6	1.0	1.6	2.0	2.5	3.0	3.7
Other National Accounts adjustments	-3.0	-2.7	-3.2	-3.2	-3.1	-2.9	-3.0
Total public sector current expenditure	**629.2**	**647.3**	**664.6**	**673.6**	**686.4**	**697.5**	**708.6**
Public sector gross investment (PSGI)							
PSGI in CDEL	**43.6**	**35.0**	**35.7**	**33.9**	**35.1**	**34.1**	**34.9**
PSGI in Annually Managed Expenditure	**14.9**	**14.1**	**-16.9**	**12.6**	**11.9**	**12.4**	**12.8**
of which:							
National lottery capital grants	0.4	0.5	0.6	0.6	0.6	0.6	0.6
Other PSGI items in departmental AME	0.5	-7.8	-30.2	0.4	0.4	0.4	0.4
Locally-financed capital expenditure[4]	5.4	13.6	5.3	4.9	4.8	5.2	5.6
Public corporations capital expenditure	8.1	7.1	7.0	6.4	6.0	5.9	5.8
Other National Accounts adjustments[4]	0.5	0.7	0.4	0.3	0.2	0.2	0.3
Total public sector gross investment	**58.4**	**49.1**	**18.8**	**46.4**	**47.0**	**46.5**	**47.7**
Less depreciation	-20.3	-21.2	-22.2	-23.1	-23.9	-24.8	-25.6
Public sector net investment	**38.1**	**27.8**	**-3.4**	**23.4**	**23.1**	**21.8**	**22.1**
Total managed expenditure	**687.6**	**696.4**	**683.4**	**720.0**	**733.5**	**744.0**	**756.3**

[1] Implied DEL numbers for 2015-16 and 2016-17. Calculated as the difference between PSCE and Resource AME in the case of Resource DEL, and between PSGI and Capital AME in the case of capital DEL.

[2] For 2010-11 to 2014-15, child allowances in income support and jobseeker's allowance have been included in tax credits and excluded from social security benefits.

[3] Social security includes the additional costs of universal credit in 2015-16 and 2016-17, which were previously contained within PSCE in RDEL.

[4] Includes an adjustment to remove capital spending by Transport for London (TfL) subsidiaries that are classified as Public Corporations (PC) in the National Accounts. This adjustment was previously contained in other national accounts adjustments.

Table D.5: OBR forecast of the components of net borrowing

	£ billion						
	Outturn	Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Current budget							
Current receipts	550.8	570	592	623	658	692	735
Current expenditure	629.2	647	665	674	686	697	709
Depreciation	20.3	21	22	23	24	25	26
Surplus on current budget	**-98.7**	**-98**	**-95**	**-74**	**-52**	**-30**	**1**
Capital budget							
Gross investment[1]	58.4	49	19	46	47	47	48
Less Depreciation	-20.3	-21	-22	-23	-24	-25	-26
Net investment	38.1	28	-3	23	23	22	22
Net borrowing	**136.8**	**126**	**92**	**98**	**75**	**52**	**21**

[1] *Net of asset sales.*

Table D.6: OBR forecast of the fiscal aggregates

	Per cent of GDP						
	Outturn	Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Receipts and expenditure							
Public sector current receipts (*a*)	37.3	37.5	37.5	37.7	37.8	37.6	37.9
Total managed expenditure (*b*)	46.5	45.8	43.4	43.6	42.2	40.5	39.0
of which:							
Public sector current expenditure (*c*)	42.6	42.6	42.2	40.8	39.4	37.9	36.5
Public sector net investment (*d*)	2.6	1.8	-0.2	1.4	1.3	1.2	1.1
Depreciation (*e*)	1.4	1.4	1.4	1.4	1.4	1.3	1.3
Deficit							
Public sector net borrowing (*b-a*)	9.3	8.3	5.8	5.9	4.3	2.8	1.1
Surplus on current budget (*a-c-e*)	-6.7	-6.5	-6.0	-4.5	-3.0	-1.6	0.1
Cyclically-adjusted net borrowing	7.0	6.4	4.0	4.1	2.9	1.9	0.7
Primary balance	-6.5	-5.3	-3.2	-3.3	-1.5	0.0	1.7
Cyclically-adjusted primary balance	-4.2	-3.4	-1.3	-1.6	-0.1	1.0	2.1
Fiscal mandate and supplementary target							
Cyclically-adjusted surplus on current budget	-4.4	-4.6	-4.2	-2.7	-1.5	-0.7	0.5
Public sector net debt[1]	60.5	67.3	71.9	75.0	76.3	76.0	74.3
Financing							
Central government net cash requirement	9.5	8.5	7.7	6.8	4.7	3.1	1.9
Public sector net cash requirement	9.4	8.7	7.7	6.7	4.5	2.9	1.7
Stability and Growth Pact							
Treaty deficit[2]	9.4	8.3	5.9	6.0	4.4	2.9	1.2
Cyclically-adjusted Treaty deficit[2]	7.1	6.4	4.0	4.2	3.0	2.0	0.8
Treaty debt ratio[3]	76.4	84.0	89.0	91.9	92.7	91.4	88.6
	£ billion						
Surplus on current budget	-98.7	-98	-95	-74	-52	-30	1
Net investment	38.1	28	-3	23	23	22	22
Public sector net borrowing	136.8	126	92	98	75	52	21
Central government net cash requirement	139.7	130	121	112	81	56	37
Public sector net debt	905.3	1039	1159	1272	1365	1437	1479
Memo: PSNB excluding Royal Mail transfer	*136.8*	*126*	*120*	*98*	*75*	*52*	*21*
Memo: Cyclically-adjusted PSNB excluding Royal Mail transfer (per cent of GDP)	*7.0*	*6.4*	*5.7*	*4.1*	*2.9*	*1.9*	*0.7*
Memo: Output gap (per cent of GDP)	*-2.9*	*-2.6*	*-2.7*	*-2.4*	*-1.9*	*-1.1*	*-0.4*

[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 D.7: Changes to the OBR fiscal forecast

	£ billion						
	Outturn	Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Surplus on current budget							
June 2010 forecast	-110.2	-88	-65	-40	-17	0	
November 2011 forecast	-98.4	-99	-95	-78	-57	-33	-3
Change	*-0.3*	*0*	*0*	*4*	*5*	*3*	*4*
March 2012 forecast	-98.7	-98	-95	-74	-52	-30	1
Net investment							
June 2010 forecast	38.9	27	24	20	21	21	
November 2011 forecast	38.6	29	25	22	22	20	21
Change	*-0.5*	*-1*	*-29*	*2*	*1*	*1*	*1*
March 2012 forecast	38.1	28	-3	23	23	22	22
Net borrowing							
June 2010 forecast	149.1	116	89	60	37	20	
November 2011 forecast	137.1	127	120	100	79	53	24
Change	*-0.2*	*-1*	*-28*	*-2*	*-4*	*-1*	*-2*
March 2012 forecast	136.8	126	92	98	75	52	21
	Per cent of GDP						
Net borrowing							
June 2010 forecast	10.1	7.5	5.5	3.5	2.1	1.1	
November 2011 forecast	9.3	8.4	7.6	6.0	4.5	2.9	1.2
Change	*0.0*	*-0.1*	*-1.8*	*-0.1*	*-0.2*	*-0.1*	*-0.1*
March 2012 forecast	9.3	8.3	5.8	5.9	4.3	2.8	1.1
Cyclically-adjusted surplus on current budget							
June 2010 forecast	-4.8	-3.2	-1.9	-0.7	0.3	0.8	
November 2011 forecast	-4.5	-4.6	-3.9	-2.7	-1.6	-0.6	0.5
Change	*0.1*	*0.0*	*-0.3*	*-0.1*	*0.1*	*-0.1*	*0.0*
March 2012 forecast	-4.4	-4.6	-4.2	-2.7	-1.5	-0.7	0.5
Cyclically-adjusted net borrowing							
June 2010 forecast	7.4	5.0	3.4	1.8	0.8	0.3	
November 2011 forecast	7.1	6.4	5.5	4.0	2.8	1.7	0.6
Change	*-0.1*	*0.0*	*-1.5*	*0.2*	*0.0*	*0.2*	*0.1*
March 2012 forecast	7.0	6.4	4.0	4.1	2.9	1.9	0.7
Net debt[1]							
June 2010 forecast	61.9	67.2	69.8	70.3	69.4	67.4	
November 2011 forecast	60.5	67.5	73.3	76.6	78.0	77.7	75.8
Change	*0.0*	*-0.2*	*-1.4*	*-1.5*	*-1.7*	*-1.6*	*-1.5*
March 2012 forecast	60.5	67.3	71.9	75.0	76.3	76.0	74.3

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

Table D.8: Reconciliation of OBR forecast of PSNB and PSNCR[1]

	£ billion						
	Outturn	Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Public sector net borrowing	**136.8**	**126**	**92**	**98**	**75**	**52**	**21**
Loans and repayments	4.9	8.6	9.4	9.8	6.7	7.1	8.1
of which:							
Student loans[2, 3]	4.9	5.0	5.8	7.4	8.6	9.3	9.4
Financial sector interventions	-2.3	-0.3	-1.4	-2.2	-4.2	-4.1	-3.2
DfID	1.0	1.2	1.0	1.1	1.2	1.1	1.1
Ireland	0.0	1.2	1.6	0.8	0.0	0.0	0.0
Green Investment Bank	0.0	0.0	0.8	1.0	0.0	0.0	0.0
Business Finance Partnership	0.0	0.0	0.3	0.5	0.4	0.1	0.0
Get Britain Building scheme	0.0	0.0	0.4	0.3	-0.1	-0.1	-0.1
Other	1.3	1.6	0.9	0.9	0.8	0.8	0.8
Cash flow timing effects	-7.1	-3.0	0.3	7.1	-3.6	-6.3	3.6
of which:							
Student loan interest[3]	0.3	0.7	0.8	1.1	1.7	2.7	4.1
PAYE income tax and NICs	0.8	1.2	3.0	1.6	1.6	2.2	2.2
Indirect taxes	3.0	0.3	1.2	1.3	1.1	1.1	1.2
Other receipts	-0.6	1.3	-0.2	0.4	0.4	0.4	0.4
Index-linked gilts	-9.6	-4.9	-7.3	0.4	-10.5	-14.2	-5.9
Conventional gilts	2.0	2.0	2.1	1.3	1.1	0.9	0.7
Other expenditure	-3.1	-3.8	0.7	1.1	1.0	0.6	0.8
Transactions in company securities	-0.9	-0.7	-4.6	-4.5	0.0	0.0	0.0
of which:							
Northern Rock plc	0.0	-0.7	-0.1	0.0	0.0	0.0	0.0
Royal Mail pension asset disposal	0.0	0.0	-4.5	-4.5	0.0	0.0	0.0
Other	5.1	1.3	23.8	0.3	0.3	0.3	0.3
of which: Royal Mail transfer	0.0	0.0	23.5	0.0	0.0	0.0	0.0
Public sector net cash requirement	**138.9**	**132**	**121**	**110**	**78**	**53**	**33**

[1] A breakdown based on ONS classifications is available on the OBR website.

[2] The table shows the net flow of student loans and repayments. This can be split out as follows:

Cash spending on new loans	*6.3*	*6.7*	*7.8*	*9.7*	*11.2*	*12.3*	*12.9*
Cash repayments	*1.3*	*1.7*	*2.0*	*2.3*	*2.6*	*3.0*	*3.5*

[3] Cash payments of interest on student loans are included within 'Loans and repayments' as we cannot easily separate them from repayments of principal. To prevent double counting the 'Student loan interest' timing effect therefore simply removes accrued interest.

Table D.9: Reconciliation of OBR forecast of PSNCR and CGNCR

	£ billion						
	Outturn	Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Public sector net cash requirement	**138.9**	**132**	**121**	**110**	**78**	**53**	**33**
of which:							
Local authorities and public corporations NCR	1.2	12	2	0	-1	-1	-2
Central government NCR own account	137.7	120	119	110	79	54	35
CGNCR own account	137.7	120	119	110	79	54	35
Net lending within the public sector	1.9	10	2	2	2	2	2
Central government net cash requirement	**139.7**	**130**	**121**	**112**	**81**	**56**	**37**

List of abbreviations

AME	Annually Managed Expenditure
AMLD	Amusement machine licence duty
APD	Air passenger duty
ARA	Age-related allowance
BFP	Business Finance Partnership
CCAs	Climate change agreements
CCL	Climate change levy
CDEL	Capital Departmental Expenditure Limit
CGT	Capital gains tax
CGNCR	Central government net cash requirement
CHP	Combined heat and power
CPI	Consumer Prices Index
CRC	Carbon Reduction Commitment
DEL	Departmental Expenditure Limit
DVLA	Driver and Vehicle Licensing Agency
DWP	Department for Work and Pensions
ECA	Enhanced capital allowance
EIS	Enterprise Investment Scheme
EMI	Enterprise Management Incentive
ESA	Employment and Support Allowance
EU	European Union
EFG	Enterprise Finance Guarantee
EZ	Enterprise Zone
G7	A group of seven major industrial nations (comprising: Canada, France, Germany, Italy, Japan, UK and US).
G20	A group of 20 finance ministers and central bank governors representing 19 countries plus the European Union.
GAAP	Generally Accepted Accounting Practices
GAAR	General Anti-Abuse Rule
GDP	Gross Domestic Product
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
ILO	International Labour Organisation
IHT	Inheritance tax
ISA	Individual Savings Account
LDO	Local Development Order
MDRs	Marginal deduction rates
MoD	Ministry of Defence

MPC	Monetary Policy Committee
NAO	National Audit Office
NEET	Not in education, employment or training
NHS	National Health Service
NICs	National Insurance contributions
NLGS	National Loan Guarantee Scheme
NMW	National Minimum Wage
NPPF	National Planning Policy Framework
OBR	Office for Budget Responsibility
OFT	Office of Fair Trading
ONS	Office for National Statistics
OTS	Office for Tax Simplification
PAYE	Pay As You Earn
PSCE	Public sector current expenditure
PSCR	Public sector current receipts
PSNB	Public sector net borrowing
PSNCR	Public sector net cash requirement
PSND	Public sector net debt
PSNI	Public sector net investment
PTR	Participation Tax Rate
R&D	Research and Development
RDEL	Resource Departmental Expenditure Limits
REITs	Real Estate Investment Trust
RPI	Retail Prices Index
SDLT	Stamp Duty Land Tax
SEIS	Seed Enterprise Investment Scheme
SME	Small and medium-sized enterprise
TIF	Tax Increment Financing
TfL	Transport for London
TME	Total Managed Expenditure
UKTI	UK Trade and Investment
UTC	University Technical Colleges
VAT	Value Added Tax
VED	Vehicle excise duty
WGA	Whole of Government Accounts
WTC	Working Tax Credit

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