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BUDGET 2011

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March 2011

BUDGET 2011

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Mark Hoban
Her Majesty's Treasury
23 March 2011

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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.

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Executive Summary

The Government's economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries.

Creating lasting prosperity requires the economy to change and to rebalance from unsustainable public spending toward net trade and private-sector investment. This will support the UK's long-term economic potential and help to create new jobs.

In the June Budget 2010, the Government took action to re-build the British economy based on its values of responsibility, freedom and fairness. Through the Budget and the Spending Review, the Government set out an accelerated plan to reduce the deficit.

This Budget confirms that the Government is continuing this course, and now accelerates the process of reforming the British economy, to achieve a new model of sustainable and balanced growth.

This Budget sets out the action the Government will take in three areas:

- a strong and stable economy;
- growth; and
- fairness.

A Strong and Stable Economy

A strong and stable economy is essential for lasting prosperity. The Government has set out a strategic policy response to the UK's exceptional economic and fiscal challenges:

- fiscal policy will bring the public finances back under control over the medium term, addressing the largest budget deficit in the UK's post-war history;
- monetary policy will ensure price stability, and thereby support wider economic stability;
- reform of financial sector regulation will help to prevent the build-up of systemic risks and ensure financial stability, a pre-requisite for sustainable growth; and
- microeconomic policies will drive growth and position the UK at the forefront of the global economy, to meet the Government's ambitions to: create the most competitive tax system in the G20; make the UK the best place in Europe to start, finance and grow a business; encourage investment and exports as a route to a more balanced economy; and create a more educated workforce that is the most flexible in Europe.

In the June Budget 2010 and Spending Review 2010 the Government took the first steps in implementing this strategy through urgent action to address the extraordinary rise in the deficit prior to and during the crisis.

This Budget's policy decisions have a neutral impact on the public finances, implementing fiscal consolidation as planned.

The OBR forecast remains for a sustained recovery. **The economy is forecast to grow by 1.7 per cent in 2011, lower than forecast in the June Budget. This mainly reflects higher-than-expected inflation this year, as a result of recent global commodity price shocks, and the weak weather-affected final quarter of 2010. GDP growth is then forecast to strengthen, with growth peaking at 2.9 per cent in 2013.**

The OBR's latest fiscal forecast shows that the outlook for the public finances is broadly unchanged since June Budget 2010:

- **public sector net borrowing will decline from its peak of 11.1 per cent of GDP in 2009-10 to 1.5 per cent of GDP in 2015-16;**
- **the cyclically-adjusted or 'structural' current deficit will be eliminated by 2014-15, with a projected surplus of 0.4 per cent of GDP in that year, rising to 0.8 per cent of GDP in 2015-16; and**
- **public sector net debt will peak at 70.9 per cent of GDP in 2013-14, before declining to 70.5 per cent of GDP in 2014-15 and 69.1 per cent of GDP in 2015-16.**

As set out in the OBR's March 2011 *Economic and fiscal outlook*[1] the OBR's judgement is that the policies set out in this Budget are consistent with a greater than 50 per cent chance of achieving the Government's fiscal mandate.

It is also the OBR's assessment that the Government's policies have a greater than 50 per cent chance of meeting the target for debt in 2015-16.

The OBR's central Budget forecast is for the fiscal mandate to be achieved in 2014-15, a year early. The forecast also shows the debt target being achieved a year early in 2014-15.

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

Growth

The Government has already taken decisive action to reduce the deficit and restore economic stability, the essential foundation for rebalancing the UK economy. Building on the measures that the Government has already announced, *The Plan for Growth* announces measures to achieve four overarching ambitions for the British economy.[2]

First, to create the most competitive tax system in the G20 the Government will:

- **reduce the main rate of corporation tax by a further 1 per cent. From April 2011, the rate will be reduced to 26 per cent and, by 2014, it will be reduced to 23 per cent;**
- **implement its Corporate Tax Road Map, including introducing new Controlled Foreign Company (CFC) rules to allow groups based in the UK to compete more effectively with those based overseas, and consult on the Patent Box;**

[1] Economic and fiscal outlook, OBR, March 2011.
[2] *The Plan for Growth*, HM Treasury and Department for Business, Innovation and Skills, March 2010.

- **simplify the tax system, responding to the work of the Office of Tax Simplification (OTS), abolishing 43 tax reliefs; and**
- **consult this year on the options for integrating the operation of income tax and National Insurance Contributions (NICs).**

Second, to make the UK the best place in Europe to start, finance and grow a business the Government will:

- **drop existing proposals for specific regulations which would have cost business over £350 million a year;**
- **introduce a moratorium exempting micro-business and start-ups from new domestic regulation for three years from the 1st April 2011;**
- **implement the proposals of Lord Young's review of Health and Safety;**
- **launch a public thematic review to reduce the stock of regulation, with a presumption that burdensome regulations will be removed;**
- **introduce a powerful new presumption in favour of sustainable development, so that the default is 'yes' and pilot land auctions, starting with public sector land;**
- **streamline the system for planning applications and introduce new fast-track planning for major infrastructure;**
- **reform the Enterprise Investment Scheme (EIS) and Venture Capital Trusts, including raising the rate of EIS income tax relief to 30 per cent from April 2011;**
- **increase the SME rate of R&D tax credit to 200 per cent from April 2011 and 225 per cent from April 2012;**
- **double the lifetime limit for Entrepreneurs Relief to £10 million;**
- **invest £100 million in science capital development; and**
- **launch the first Technology and Innovation Centre in high value manufacturing.**

Third, to encourage investment and exports as a route to a more balanced economy, the Government will:

- **extend the limit for capital allowances short life assets election from four to eight years;**
- **provide £200 million of new funding for rail projects and £100 million for local authorities to repair potholes;**
- **establish 21 new Enterprise Zones; and**
- **reform the stamp duty land tax rules applied to bulk purchases for residential properties and make Real Estate Investment Trusts easier to set up and more accessible to investors.**

In addition the Budget announces that **the Government will introduce a carbon price floor for electricity generation from 1 April 2013, to drive investment in the low-carbon**

power sector. The Government also announces that the initial capitalisation of the Green Investment Bank will be £3 billion and that it will start operation in 2012-13.

Fourth, to create a more educated workforce that is the most flexible in Europe, the Government will:

- **fund an additional 80,000 work experience places for young people, ensuring up to 100,000 places will be available over the next two years;**
- **fund up to 50,000 additional apprenticeship places over the next four years; and**
- **expand the University Technical Colleges programme to establish at least 24 new colleges.**

The Government will also provide equity loans, jointly funded with house-builders, through a FirstBuy programme assisting over 10,000 first time buyers to purchase a new-build property.

The second section of Chapter 1 sets out further information on these announcements.

Fairness

Fairness is integral to the Government's fiscal strategy and to sustainable growth. Tackling the deficit will ensure that future generations are not burdened with unsustainable debt and will underpin private sector confidence, supporting growth and job creation over the medium term.

This Budget sets out the next steps in realising the Government's vision of a fair, simple and efficient tax, benefit and pensions system which rewards work, saving and personal responsibility.

The Government will:

- **increase the personal allowance for under 65s by £630 in April 2012, with the higher rate threshold unchanged, a further step towards the £10,000 personal allowance commitment;**
- **change the underlying indexation basis for direct taxes to the Consumer Prices Index (CPI) from April 2012. For the duration of this Parliament, the annual increases in the employer NICs threshold, the age related allowance and other thresholds for older people will be over-indexed compared to the CPI and will increase by the equivalent of the Retail Prices Index (RPI);**
- **cut fuel duty by 1 pence per litre on Budget day. The fuel duty escalator will be replaced with a fair fuel stabiliser that increases tax on North Sea oil production when oil prices are high. The April 2011 inflation-only increase will be delayed to January 2012. The April 2012 increase will be delayed to August 2012. The Government will increase the Supplementary Charge on oil and gas production to 32 per cent from 24 March 2011;**
- **reform the state pension system for future pensioners so that it provides simple, contributory, flat-rate support above the level of the means tested Guarantee Credit;**
- **reform the taxation of non domiciles, including an increase in the annual charge for non domiciled individuals who have been in the UK for more than twelve years;**

- **tackle tax avoidance including action to prevent attempts to disguise employment income, raising around £4 billion over the Parliament; and**
- **reduce the rate of inheritance tax to 36 per cent from April 2012 for estates leaving 10 per cent or more to charity. Charities will also be allowed to claim new Gift Aid on up to £5,000 of small donations per year.**

The Government's modelled tax and welfare reforms, including the measures announced today, could reduce child poverty by up to 50,000 over the next two years.

Chapter 2 of the Budget sets out a list of all Budget policy decisions.

Annex A to the Budget Report presents an analysis of the impact of the Government's decisions on households.

Annex B to the Budget Report presents financing information.

Annex C to the Budget Report presents selected tables from the OBR's March 2011 *Economic and fiscal outlook*.

Budget decisions and Government spending and revenue

A summary of the fiscal impact of Budget policy decisions is set out in the table below. Chapter 2 provides more information on the fiscal impact of the Budget.

Table 1: Summary of Budget policy decisions[1]

	£ million				
	2011-12	2012-13	2013-14	2014-15	2015-16
Total tax policy decisions	+625	+85	+295	+115	+335
Total spending policy decisions[2]	-635	-350	-270	-230	-
TOTAL POLICY DECISIONS	-10	-265	+25	-115	+335

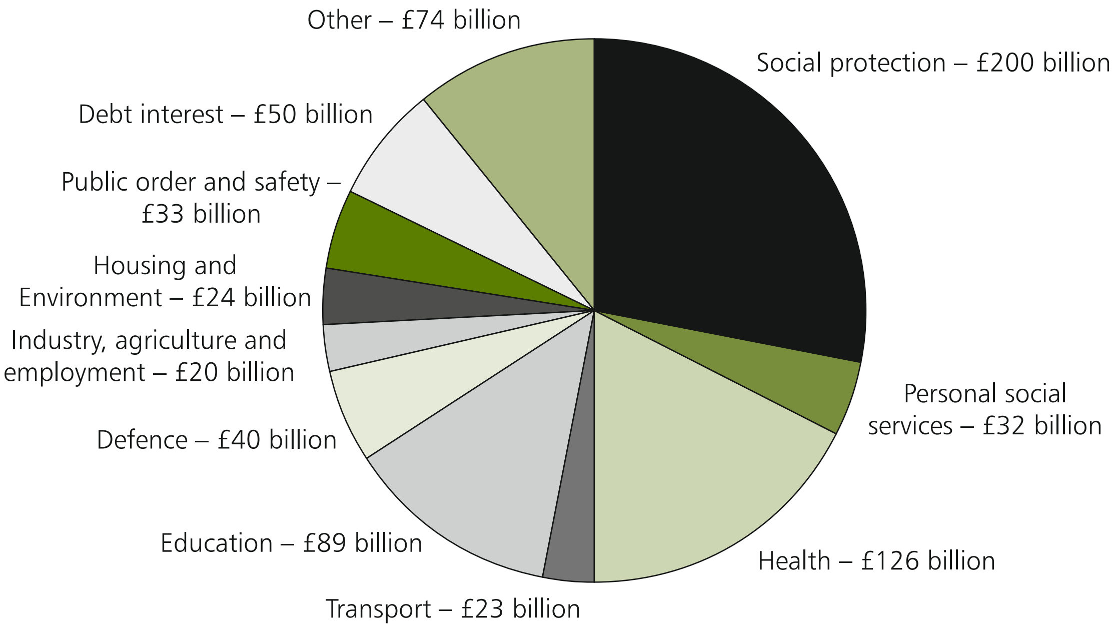
- Spending measures do not affect borrowing in 2015-16 as they fall within the Total Managed Expenditure assumption.

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

[2] These figures include the R&D tax credit measure.

Chart 1 presents public spending by main function. Total Managed Expenditure (TME) in 2011-12 is expected to be around £710 billion. TME is divided into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).

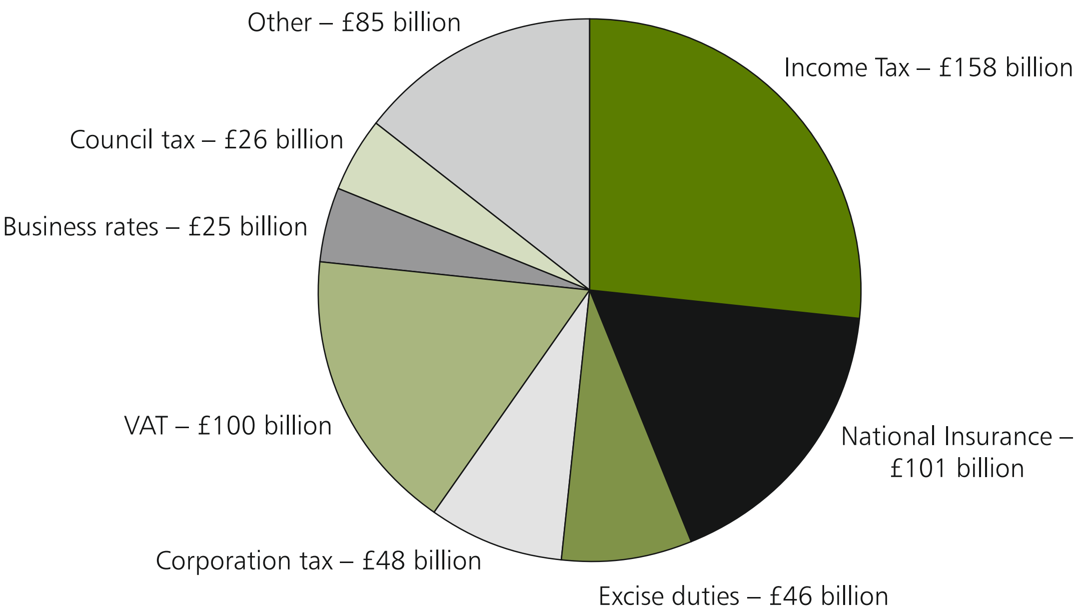
Chart 1: Government spending 2011-12



Source: Office for Budget Responsibility, 2011-12 estimates. Allocations to functions are based on HMT analyses. For more detail see the Budget data sources document.

Chart 2 shows the different sources of Government revenue. Public sector current receipts are expected to be around £589 billion in 2011-12.

Chart 2: Government receipts 2011-12



Source: Office for Budget Responsibility, 2011-12 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum due to rounding.

Budget Report

1 Budget Report

A strong and stable economy

Rebalancing the UK economy

1.1 Over the pre-crisis decade, developments in the UK economy were driven by unsustainable levels of private sector debt and rising public sector debt. Indeed, it has been estimated that the UK became the most indebted country in the world.[1]

1.2 Chart 1.1 highlights the rise in private sector debt in the UK. Households took on rising levels of mortgage debt to buy increasingly expensive housing, while by 2008 the debt of non-financial companies reached 110 per cent of GDP. Within the financial sector, the accumulation of debt was even greater. By 2007, the UK financial system had become the most highly leveraged of any major economy. The level of public sector net debt as a share of GDP steadily rose from 2001-02, as the government ran a persistent structural deficit, despite continued economic growth.

1.3 Public and private sector borrowing relied on finance from abroad. The UK's current account went from near balance in 1997 to a deficit of more than 3 per cent of GDP by 2006, which was, in absolute terms, the third largest in the world.

1.4 Increasing reliance on the financial sector and borrowing in the private and public sectors drove growing imbalances in the UK economy:

- Chart 1.2 shows that from 2001 onwards public spending grew steadily as a share of the economy and a structural deficit began to emerge. According to the OECD, by 2007 the UK had the largest structural deficit of any G7 economy. Moreover, the spending plans set out in the 2007 Comprehensive Spending Review were based on unsustainable revenue streams from the property boom and the financial sector. As tax receipts fell away during the crisis, the persistent gap between spending and revenue widened, with total public spending rising to around 47½ per cent of GDP by 2009-10; and
- higher public borrowing was used to finance increased public spending, driving up the price of public services, so that the proportion of the economy made up by government rose in the pre-crisis decade. By contrast, business investment as a percentage of GDP fell, leaving its share in the UK among the lowest in advanced economies.

1.5 Economic growth was unbalanced across the UK, concentrated in the South East, with some other parts of the country increasingly reliant on jobs funded by public spending. Growth relied on a limited number of sectors. Financial services' share of GDP rose from 6½ per cent in 1997 to 8½ per cent in 2007, while manufacturing's share nearly halved over the same period, from over 20 per cent to 12½ per cent.

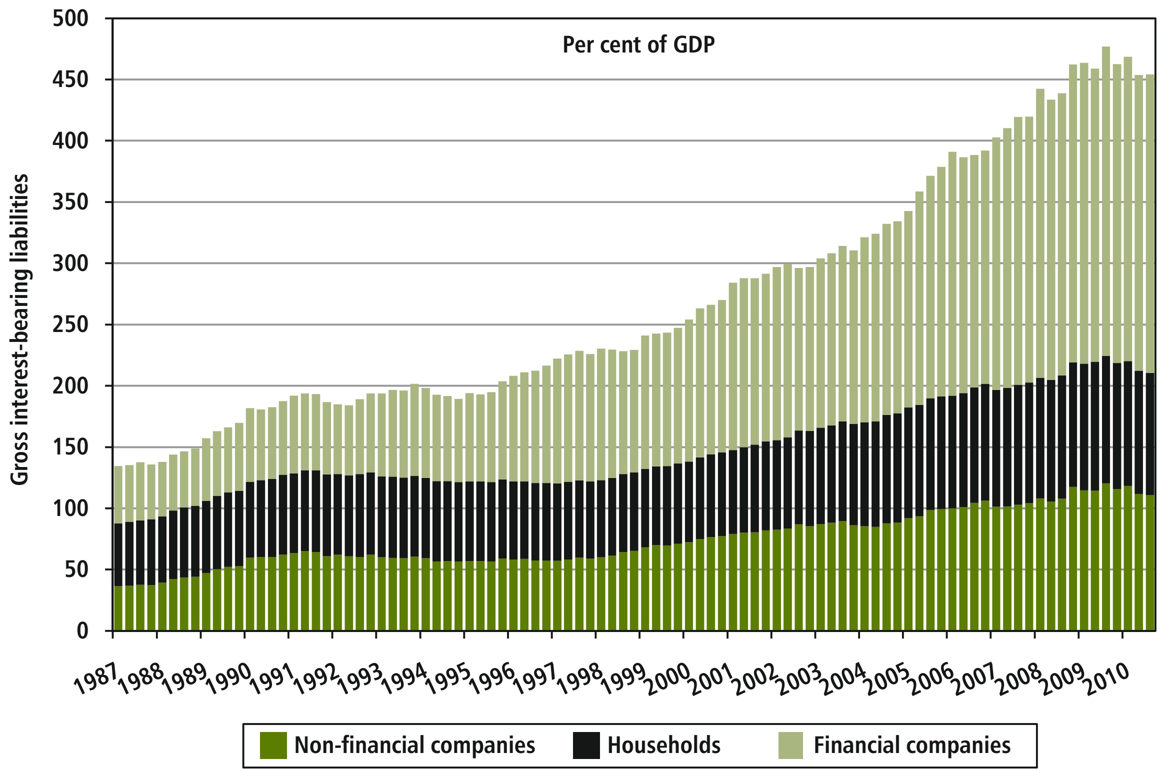
[1] *Debt and deleveraging: The global credit bubble and its economic consequences*, McKinsey Global Institute, January 2010.

1.6 This model of growth proved to be unsustainable. More than a quarter of the GDP per capita growth in the pre-crisis decade to 2007 was reversed during the financial crisis and recession of 2008 and 2009. As the OECD concluded in its March 2011 Economic Survey of the UK:

> *"The global financial crisis and the associated recession ended a 15-year period of continuous growth, rising employment and stable inflation. Significant imbalances had developed, however, in terms of public and external deficits, an excessively leveraged financial sector, high house prices and low household savings. The imbalances exacerbated the downturn during the global recession and contributed to a more pronounced fall in GDP, a larger fiscal deficit and higher inflation than in most of the OECD."*[2]

1.7 The level of UK economic activity in current prices (money GDP) is estimated to be around 10 per cent lower in 2010-11 than it was forecast to be at Budget 2008. In other words, the economy is now around 10 per cent smaller than it was forecast to be only three years ago, reducing the resources available for government spending.

Chart 1.1: Private sector debt in the UK



Source: Office for National Statistics.

The Government's strategy

1.8 The Government's economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries. Creating lasting prosperity requires the economy to change and to rebalance: from unsustainable public spending toward net trade and investment, which will support the UK's long-term economic potential and help to create new jobs.

[2] *OECD Economic Surveys: United Kingdom 2011*, Organisation for Economic Co-operation and Development (OECD), March 2011.

1.9 Government policy has an important role to play in supporting the necessary rebalancing toward sustainable, private sector-led growth and minimising risks to the recovery. The Government has set out a strategic policy response to the UK's exceptional economic and fiscal challenges:

- fiscal policy will bring the public finances back under control over the medium-term, addressing the largest budget deficit in the UK's post-war history. It is essential to mitigate downside risks from rising public debt, promote stability and provide businesses with the confidence they need to invest;
- monetary policy will ensure price stability, and thereby support wider economic stability;
- reform of financial sector regulation will help to prevent the build-up of systemic risks and ensure financial stability, a pre-requisite for sustainable growth; and
- microeconomic policies will drive growth and position the UK at the forefront of the global economy, to meet the Government's ambitions to: create the most competitive tax system in the G20; make the UK the best place in Europe to start, finance and grow a business; encourage investment and exports as a route to a more balanced economy; and create a more educated workforce that is the most flexible in Europe.

Fiscal policy

1.10 The current historically high level of public borrowing risks undermining fairness, growth and economic stability in the UK. Tackling the deficit is essential as it will:

- reduce the UK's vulnerability to further shocks or a loss of market confidence, which could force a much sharper correction;
- underpin private sector confidence, supporting growth and job creation over the medium term;
- help keep long-term interest rates down, helping families and businesses through the lower costs of loans and mortgages;
- keep debt and debt interest paid by the Government – and ultimately the taxpayer – lower than would otherwise have been the case; and
- avoid accumulating substantial debts to fund spending that benefits today's generation at the expense of tomorrow's, which would be irresponsible and unfair.

1.11 June Budget 2010 set out comprehensive policies to bring the public finances back under control, demonstrating the Government's determination to reduce public sector borrowing and debt and promote confidence in the sustainability of the public finances. The Government:

- set fiscal plans to restore the public finances to a sustainable position;
- created the new Office for Budget Responsibility (OBR), introducing independence, greater transparency and credibility to the economic and fiscal forecast on which fiscal policy is based; and
- announced a clear, forward-looking fiscal mandate to guide fiscal policy decisions over the medium term.

Fiscal consolidation plan

1.12 The Government's fiscal consolidation plans have been designed with growth and fairness in mind, as far as possible:

- protecting the most productive public investment expenditure;
- avoiding punitive increases in tax rates on capital and labour; and
- reforming the welfare system to reward work.

1.13 As set out in Table 1.1, the Government plans a total consolidation of £126 billion a year by 2015-16, consisting of total reductions in spending of £95 billion and a net increase in taxes of £30 billion. Implementation of these plans is now underway. Under the plans that this Government inherited, £14 billion of spending cuts were planned in 2011-12, compared with 2010-11. This Government's spending cuts amount to £16 billion over the same period.

1.14 Taking the consolidation as a whole, 73 per cent of the total will be delivered by lower spending in 2014-15, rising to 76 per cent in 2015-16. This is consistent with OECD and IMF research, which suggests that fiscal consolidation efforts that largely rely on spending restraint promote growth.[3]

Table 1.1: Total consolidation plans over the forecast period

	£ billion					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Policy inherited by the Government	**1**	**26**	**41**	**58**	**72**	
Spending[1]	0.0	14	25	39	51	
Tax	1.0	12	16	19	21	
Spending share of consolidation (per cent)	*0*	*54*	*61*	*67*	*71*	
Total discretionary consolidation	**9.4**	**41**	**61**	**88**	**110**	**126**
Spending[1, 2, 3]	5.5	22	38	59	80	95
Tax[4]	3.8	20	23	29	30	30
Spending share of consolidation (per cent)	*59*	*53*	*62*	*67*	*73*	*76*

[1] *Spending consolidation is attributable to three factors. Reductions in DEL are calculated by assessing the latest nominal DEL totals (set out in Table 2.4) against a counterfactual of growing DELs in line with general inflation in the economy, as set out in Table 4.8 of the OBR's pre-Budget forecast (June 2010). The reduction in AME is the net effect of AME policy changes announced since June Budget 2010. Finally, the spending reduction also includes estimated debt interest savings now updated for Budget 2011 debt interest forecast assumptions.*

[2] *The spending share of the consolidation is lower across the forecast period than that set out in Table 1.1 of June Budget 2010. This is largely the result of updating the total consolidation savings attributable to AME policies in line with the OBR's Budget 2011 AME forecast and the revision to the capital envelope at Spending Review 2010. (See Table 2.2 for updated costings of policy measures announced in Spending Review 2010 or earlier, but still to be implemented).*

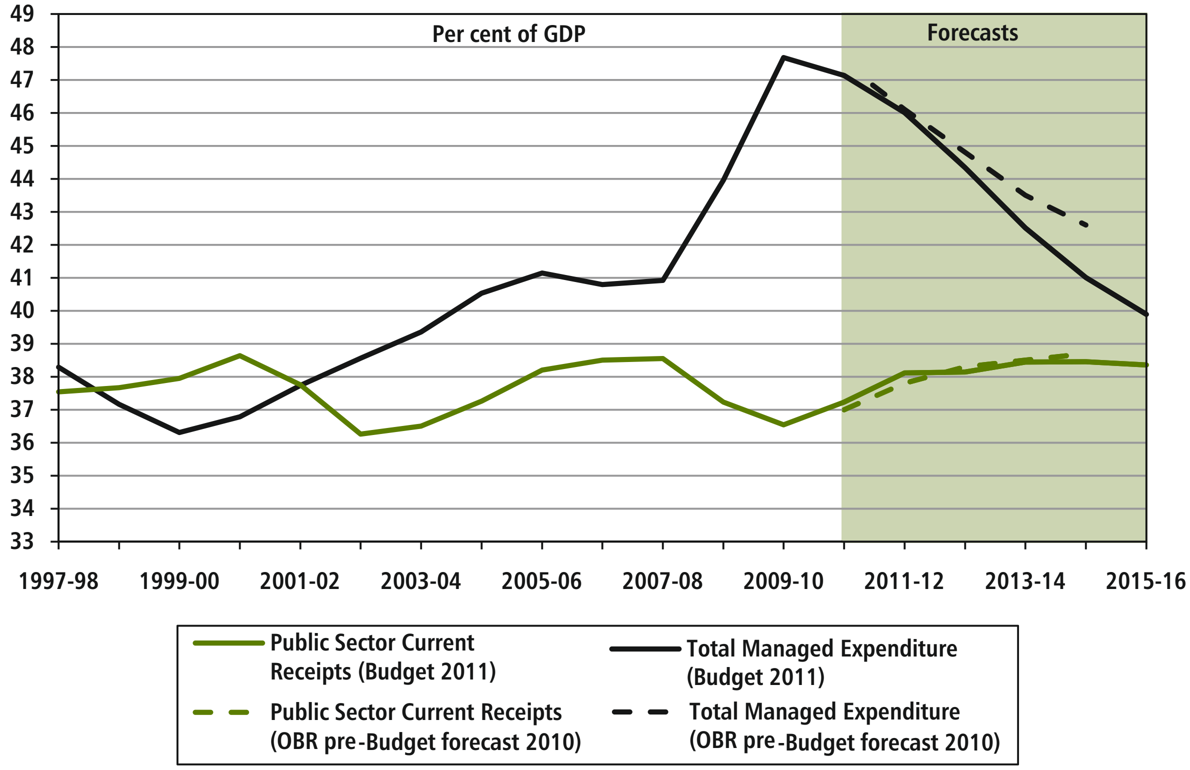
[3] *The Government has not set DELs for 2015-16. Figures shown above are based on the assumption that Total Managed Expenditure between 2014-15 and 2015-16 grows in line with inflation. (See Table 2.3 for the breakdown of Total Managed Expenditure across the forecast period).*

[4] *The tax consolidation figure includes an updated costing for the pensions tax relief measure (see Table 2.2) and tax measures from the scorecard (see Table 2.1).*

[3] See *Economic Outlook No.81*, OECD, June 2007 and *OECD Economic Surveys: United Kingdom 2011*, OECD, March 2011.

1.15 Chart 1.2 shows that, as a result of these plans, public spending is projected by the OBR to fall from around 47½ per cent of GDP in 2009-10 to around 40 per cent of GDP by 2015-16, while tax receipts are projected to rise from 36½ to around 38½ per cent of GDP over the same period, addressing the imbalances in the public finances.

Chart 1.2: Receipts and expenditure



Source: Office for Budget Responsibility and Office for National Statistics.

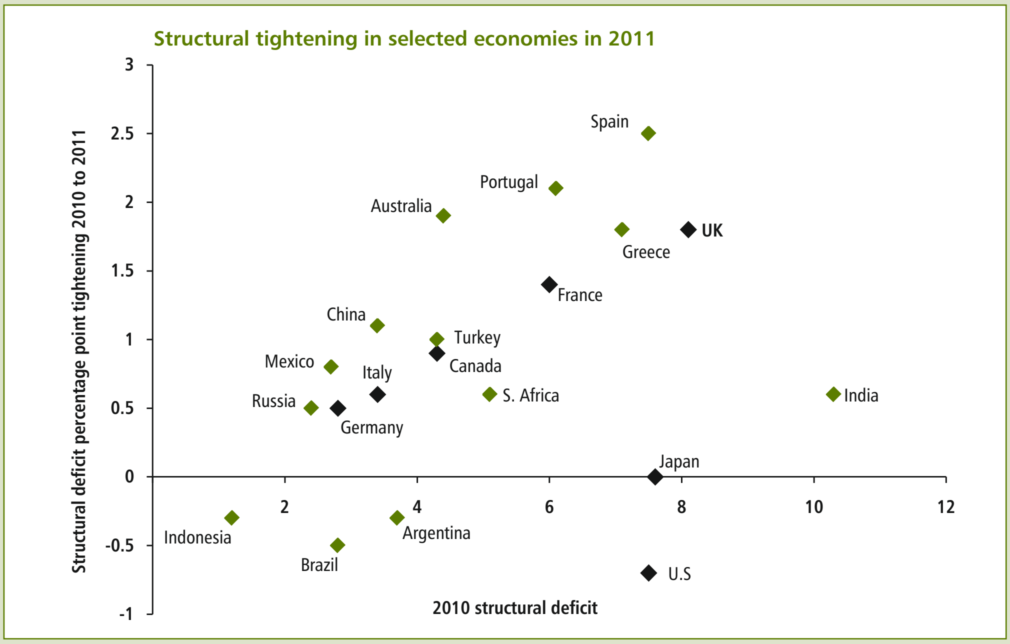
Box 1.A: International consensus on fiscal consolidation

There is a broad international consensus that advanced economies should put in place and begin implementing credible medium-term fiscal consolidation plans this year, in order to underpin market confidence, promote private-sector recovery, and create space for fiscal policy in the face of future economic shocks. In February 2011, the G20 Finance Ministers and Central Bank Governors concluded that their *"main priority actions include implementing medium term fiscal consolidation plans"*,[a] while in June 2010 they agreed *"that consolidation will need to begin in advanced economies in 2011, and earlier for countries experiencing significant fiscal challenges."*[b]

The IMF has noted the risk that *"any renewed turbulence in sovereign debt markets could trigger an adverse feedback loop between sovereign debt markets and the financial sector, inflicting major damage on the recovery."*[c]

In 2010, the UK had one of the highest budget deficits in the world; higher than in Greece, Portugal or Spain. The IMF has stated that *"the initial state of public finances in the immediate aftermath of the crisis is a key determinant of the pace of consolidation."*[d] As the chart below shows, the pace of fiscal consolidation in the UK this year is in line with that of other countries facing serious fiscal challenges. The US, in a unique position because of the role of the US dollar as the major reserve currency, plans to begin tightening in 2012, and at a faster pace than the UK based on IMF forecasts.

The IMF has endorsed the UK Government's action as *"essential"*[e] to ensure debt sustainability and concluded that it will help rebalance the economy. Similarly, the OECD's view is that *"the announcement and initial implementation of the fiscal consolidation programme strikes the right balance between addressing fiscal sustainability and thereby reducing tail-risks on the one hand, and preserving short-term growth on the other."*[f]



Note: Based on the general government cyclically-adjusted overall balance. The most recent forecast by the IMF (January 2011) is used where possible. For those countries not included in this IMF publication, the IMF's November forecast is used. The data points of G7 countries are marked in black. Data in calendar years.

Source: IMF Fiscal Monitor, November 2010 and IMF Fiscal Monitor Update, January 2011.

[a] *G20 Finance Ministers and Central Bank Governors meeting*, Paris, February 2011.
[b] *G20 Toronto Summit declaration*, June 2010.
[c] *World Economic Outlook*, IMF, October 2010.
[d] *IMF Fiscal Monitor*, November 2010.
[e] *IMF UK Article IV statement*, September 2010.
[f] *OECD Economic Surveys: United Kingdom 2011*, OECD, March 2011.

Implementation of fiscal consolidation

1.16 Implementation of the Government's fiscal plans is underway. The Government is on course to deliver the £6.2 billion of savings announced in May 2010.

1.17 Spending Review 2010 set firm and fixed departmental budgets for four years from 2011-12 to 2014-15, as well as announcing reforms to Annually Managed Expenditure (AME), including welfare and public service pensions. The Government protected spending on the NHS and overseas aid and also made choices to: prioritise fairness and social mobility; focus on spending that promotes long-term economic growth; and reform public services, to shift power away from central government to the local level and improve value for money.

1.18 The Government is implementing plans and reforms announced in the Spending Review. Legislation has been introduced to Parliament where necessary, including the Welfare Reform and Pensions and Savings Bills. Detailed funding settlements have also been announced, including for local government, schools and science.

1.19 The Government is committed to ensuring the spending consolidation is delivered. The Public Expenditure Cabinet Committee will oversee departments' implementation of their Spending Review plans, holding them to account on their progress. Business plans for each department, setting out information on key reform programmes and performance data on public services, are being finalised this spring. The public will be able to monitor progress on plans through monthly reports and a quarterly performance scorecard for each department.

1.20 The Government has implemented the tax plans for 2011-12 announced or confirmed in June Budget 2010, including the increase in the standard rate of VAT to 20 per cent on 4 January 2011.

The fiscal policy framework

The Office for Budget Responsibility

1.21 The creation of the independent OBR has significantly enhanced the credibility of the UK's fiscal policy. The IMF has welcomed the OBR as *"addressing deficiencies in the previous Government's fiscal framework"* and *"complementing the Government's commitment to fiscal discipline"*,[4] while the OECD concluded *"This is clearly an important initiative in terms of strengthening government management of public spending and improving public confidence in the government's fiscal policy"*.[5]

1.22 The OBR is now being placed on a permanent, statutory footing through the Budget Responsibility and National Audit Act 2011, which received Royal Assent on 22 March. The OBR has produced all the official forecasts of the economy and public finances since the General Election, independently of Ministers.

Fiscal objectives

1.23 To promote transparent fiscal policy-making, the new fiscal policy framework introduces a requirement for the Government to set out its fiscal policy objectives and fiscal mandate before Parliament in the Charter for Budget Responsibility. The Government published the Charter in draft on 22 November 2010. The Government's fiscal policy objectives, presented in the Charter, are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider Government policy; and

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[4] *IMF UK Article IV Report,* November 2010.
[5] *UK: Policies for a Sustainable Recovery,* OECD, July 2010.

- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

The fiscal mandate and supplementary target for debt

1.24 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. At this Budget, the end of the forecast period is 2015-16.

1.25 The fiscal mandate is based on:

- the current balance, to protect the most productive public investment expenditure; and
- a cyclically-adjusted aggregate, to allow some fiscal flexibility at a time of economic uncertainty.

1.26 June Budget 2010 also announced a supplementary target for debt. This requires public sector net debt (PSND) 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.

1.27 The Government has asked the OBR independently to judge whether fiscal policy is consistent with: a greater than 50 per cent chance of meeting the mandate; and with a greater than 50 per cent chance of meeting the target for debt.

1.28 The choices of a five-year rolling forecast period for the fiscal mandate, supplemented by the fixed date for the debt target, reflect the exceptional environment in which the Government must address the fiscal challenge. They are designed to ensure that fiscal consolidation is delivered over a realistic and credible timescale. Once the public finances are closer to balance the period over which cyclically-adjusted current balance must be achieved could safely be shortened in order to create a tighter constraint. In addition, once the exceptional rise in debt has been addressed, a new target for debt as a percentage of GDP will be set, taking account of the OBR's assessment of the long-term sustainability of the public finances.

Monetary policy framework

1.29 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. The Monetary Policy Committee (MPC) of the Bank of England has full operational independence to set policy to meet the inflation target. The MPC has maintained Bank Rate at 0.5 per cent since March 2009, and undertaken a programme of asset purchases, through the Asset Purchase Facility, financed by the issuance of central bank reserves totalling £200 billion. **The Government confirms in Budget 2011 that the Asset Purchase Facility will remain in place for the financial year 2011-12**.

Financial regulation framework

1.30 The Government is implementing its plans to overhaul the tripartite system of financial regulation, by meeting its commitment to provide the Bank of England with:

- control of macro-prudential regulation, which relates to system-wide risks. The Government will legislate to create a Financial Policy Committee (FPC) within the Bank of England, with a clear macro-prudential remit to identify the risks that build up across the system as a whole and the power to ensure that action is taken to address those risks before they can threaten wider stability. An interim FPC was established in February 2011; and
- oversight of micro-prudential regulation, which focuses on risks within individual financial institutions. The Government will establish the Prudential Regulation Authority (PRA) as

a subsidiary of the Bank. The PRA will promote the safety and soundness of the financial institutions it regulates, minimising the wider economic impact should a firm fail.

1.31 The Government intends to introduce primary legislation in 2011 to implement these reforms.

Microeconomic policy to support growth

1.32 *The Plan for Growth,*[6] published alongside this Budget, contains four overarching ambitions that will ensure progress is made towards achieving strong, sustainable and balanced growth. The ambitions are to:

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

1.33 Each ambition is supported by a number of measurable benchmarks against which the Government expects to be judged. The Government will constantly benchmark the UK against best practice around the world.

Recent economic developments

1.34 Global developments, the legacy of the past economic imbalances that built up over recent years, and the action that the Government is taking to address them provides the backdrop to UK economic developments since June Budget 2010.

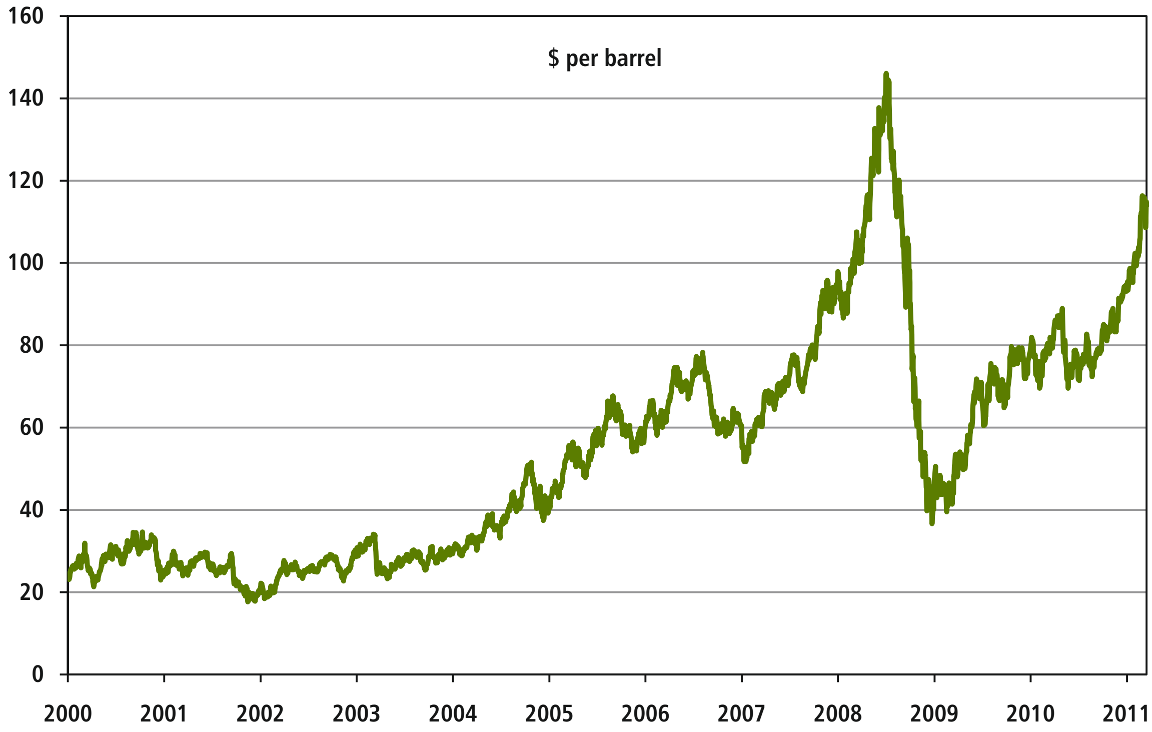
Global developments

1.35 The world economy returned to growth in 2010, with world GDP rising by 5 per cent over the year.[7] However, this masks divergences across regions. In the major emerging markets, GDP and credit growth have rebounded rapidly. In advanced economies, such as the US and core euro area, recoveries have been more moderate and unemployment remains high. Growth in the euro area periphery has been hampered by sovereign debt crises. The UK is supporting Ireland through EU, IMF and bilateral packages. The G20 continue to work towards policy that delivers "*strong, sustainable and balanced growth*".[8]

1.36 Global financial markets have continued to experience volatility and heightened uncertainty in recent months, as a series of shocks have hit the global economy. Commodity prices have risen sharply, with dollar oil prices around 50 per cent higher than June last year, as shown in Chart 1.3, in part reflecting instability in the Middle East and North Africa. Stock markets gradually improved through the course of 2010, as the recovery in the world economy strengthened. In more recent weeks, markets have seen sharp falls following the devastating earthquake and tsunami in Japan. In response to volatility in the yen exchange rate associated with the events in Japan, the UK along with other G7 countries took part in a co-ordinated foreign currency intervention on 18 March 2011.

[6] *The Plan for Growth,* HM Treasury and Department for Business, Innovation and Skills, March 2011.
[7] *World Economic Outlook update,* IMF, January 2011.
[8] *G20 Finance Ministers and Central Bank Governors meeting*, Paris, February 2011.

Chart 1.3: Brent crude oil price



Source: Reuters.

UK activity and rebalancing[9]

1.37 In 2010, the UK economy grew by 1.3 per cent, but in line with previous recoveries, quarterly GDP growth has been choppy. Inflation has risen sharply, lifted by temporary factors such as a surge in global commodity prices and the effect of the 2008 depreciation of sterling on import prices. The labour market has shown signs of recovery with private sector employment growing by 428,000 over the course of 2010.

1.38 After four consecutive quarters of growth, the latest estimate from the Office for National Statistics (ONS) suggests GDP fell by 0.6 per cent in the final quarter of 2010. The estimated decline largely reflects the temporary effect of bad weather in December, although the ONS estimate of the underlying strength of the economy was still weaker than expected. The bad weather adds to the significant uncertainty in assessing the underlying strength of the economy.

1.39 The rebalancing of the economy appears to be underway:

- manufacturing output continues to expand rapidly. In 2010, manufacturing output grew by 3.6 per cent, its fastest rate since 1994;
- the value of UK goods exports rose by 17 per cent in 2010, supported by growth to emerging markets: exports of goods to China rose by more than 40 per cent over the year. Recent surveys point toward continued export growth in the coming months, with both the Confederation of British Industry (CBI) and the Chartered Institute of Purchasing and Supply (CIPS) measures of export orders above their long-run averages; and
- business investment fell very sharply through the recession, but has started to recover and at an earlier stage than in previous recoveries. According to the latest estimate from the ONS, business investment has grown by nearly 7 per cent since the third quarter of 2009. Survey measures of investment intentions have strengthened, as shown in Chart 1.4. The reductions in the rate of corporation tax and healthy financial position of UK companies in aggregate should help support further investment growth.

[9] All data from the Office for National Statistics unless otherwise stated.

Chart 1.4: Firms' investment intentions (Bank of England Agents' scores)

Note: The score can range from -5 to +5, with -5 denoting a rapidly falling level and +5 representing rapid growth.

Source: Bank of England.

1.40 Output in the services sector, which constitutes around three quarters of the economy, rose by 1.1 per cent in 2010. Construction output rose by 5.6 per cent in 2010, although quarterly output data, which can be volatile, has been uneven. Both the construction and services sectors were affected by the bad weather in December, but survey measures point to recovery at the start of this year.

1.41 Credit conditions have shown signs of stabilisation. Reports from the Bank of England Agents suggest credit availability for larger companies has improved and the cost of credit has decreased. However, credit conditions for smaller firms remain tight. According to the latest Bank of England Credit Conditions Survey, the availability of secured credit to households remained broadly unchanged over the second half of 2010. Net secured lending to households has remained stable, albeit at low levels.

1.42 In February 2011, the five largest banks operating in the UK (Barclays, HSBC, Lloyds Banking Group, The Royal Bank of Scotland and Santander) agreed to make £190 billion of new credit available to businesses this year. Of this total, £76 billion will be made available to small and medium-sized enterprises (SMEs), £10 billion more than the banks lent to SMEs in 2010.

Labour market

1.43 Employment has started to recover, in line with the rise in activity. While public sector employment began to fall from December 2009, and was down by 132,000 in the year to December 2010, private sector employment rose by 428,000. Consistent with this, redundancies have fallen to their lowest level since August 2008. The ILO unemployment rate rose slightly in the three months to January, to 8.0 per cent. The claimant count fell in February 2011 and is down by almost 130,000 on a year earlier.

1.44 Excluding the effect of bonus payments, whole economy earnings growth picked up progressively through 2010, but remains subdued by historical standards.

Inflation

1.45 Recent months have seen a large and unexpected surge in commodity prices. Since the summer of 2010, world agricultural commodity prices have risen by over 50 per cent,[10] while sterling oil prices have increased by around 40 per cent. These global developments along with other temporary factors, including the lagged effects of the 2008 depreciation of sterling, helped to push up inflation over the past year. CPI inflation was 4.4 per cent in February 2011. In its latest Inflation Report,[11] the Bank of England estimated that, excluding the contribution of these temporary factors, prices of other goods and services have on average increased at a rate below the inflation target in 2010 and that import prices, energy prices, and the increases in the standard rate of VAT together could be adding between 2 to 4 percentage points to CPI inflation in the final quarter of 2010.

Budget decisions

A fiscally neutral budget

1.46 Fiscal consolidation is necessary to reduce risks in the short term, restore private-sector confidence and underpin sustainable economic growth. Budget 2011 takes place against a backdrop of ongoing global economic uncertainty in the wake of the financial crisis, including from ongoing sovereign debt concerns, most apparent in the euro area periphery, and continued adjustment in the global financial sector. This uncertainty reinforces the case for stability in the Government's plans for fiscal consolidation:

- as Box 1.B sets out, delivering the Government's fiscal consolidation plan is essential to reduce the risks of a costly loss of market confidence in UK fiscal sustainability. There is evidence that the Government's fiscal plans are delivering improved market confidence;
- a consistent approach from Government in tackling the UK's large structural deficit provides much needed stability and certainty for businesses making hiring and investment decisions; and
- in the current context, stepping back from the Government's commitment to fiscal consolidation would, other things equal, risk prompting an offsetting monetary tightening such that overall there would be little, if any, net support to economic activity even in the short-term.

1.47 Previous UK and international experience demonstrates that fiscal consolidation can be achieved alongside continued economic growth. The evidence from the fiscal tightening currently underway in the UK supports this conclusion. Table 1.3 shows Treasury estimates, based on the OBR's forecast, of the cyclically-adjusted primary balance, a measure that excludes the effects of the cycle and debt interest payments on the deficit and so illustrates the underlying fiscal position. This measure tightened by 2.3 per cent of GDP in 2010-11, compared with a year earlier, while the economy returned to growth of 1.3 per cent in 2010. In 2011-12, the projected tightening in the cyclically-adjusted primary balance is of an equivalent scale, at 2.2 per cent of GDP, and the economy is forecast to grow by 1.7 per cent in 2011.

1.48 The OBR forecasts public sector net borrowing to fall from its post-war peak of 11.1 per cent of GDP in 2009-10 to 9.9 per cent of GDP in 2010-11. This fall is largely as a result of the implementation of consolidation measures, including in-year reductions in spending and increases in VAT. The OBR forecasts borrowing to fall further to 7.9 per cent of GDP in 2011-12, which is still above the previous post-war peaks seen in the early 1990s and mid-1970s.

[10] As of mid March, according to the S&P GSCI Agricultural Index.
[11] *Inflation Report,* Bank of England, February 2011.

Over the medium term, while the OBR forecasts for borrowing and debt are slightly higher than in June Budget 2010, their estimate of the path of the cyclically-adjusted current balance is broadly unchanged. This unchanged outlook for the underlying fiscal position, combined with the significant ongoing uncertainty in the outlook, demonstrates the need to stay the course of planned structural consolidation in the public finances.

1.49 Budget 2011 discretionary policy decisions have a neutral impact on the public finances. The costs of policy decisions announced in this Budget are broadly offset in each year by measures to raise revenue. This balanced judgement reinforces the fiscal consolidation plans announced at June Budget 2010 and Spending Review 2010. Further detail is provided in the Growth and Fairness sections of this chapter, and in Chapter 2.

Debt and reserves management

1.50 The *Debt and Reserves Management Report 2011-12,*[12] published alongside the Budget, sets out details of the Government's financing plans for 2011-12, which are also summarised in Annex B. The projection for the Net Financing Requirement (NFR) in 2011-12 is £167.4 billion. This will be met by gross gilt sales of £169.0 billion and a reduction in the Treasury bill stock of £1.6 billion. Financing for 2011-12 will provide £6.0 billion of financing for the Official Reserves. The Government envisages sterling financing for the Official Reserves being held at a similar level on average over the three years up to, and including, 2014-15. This sterling financing will be sufficient to meet potential calls on the Official Reserves from the IMF and ensure the level of foreign currency reserves is sufficient. The Government retains the option of issuing foreign currency denominated securities. Following any such issuance, sterling financing for the reserves would be adjusted accordingly.

[12] *Debt and Reserves Management Report 2011-12*, HM Treasury, March 2011.

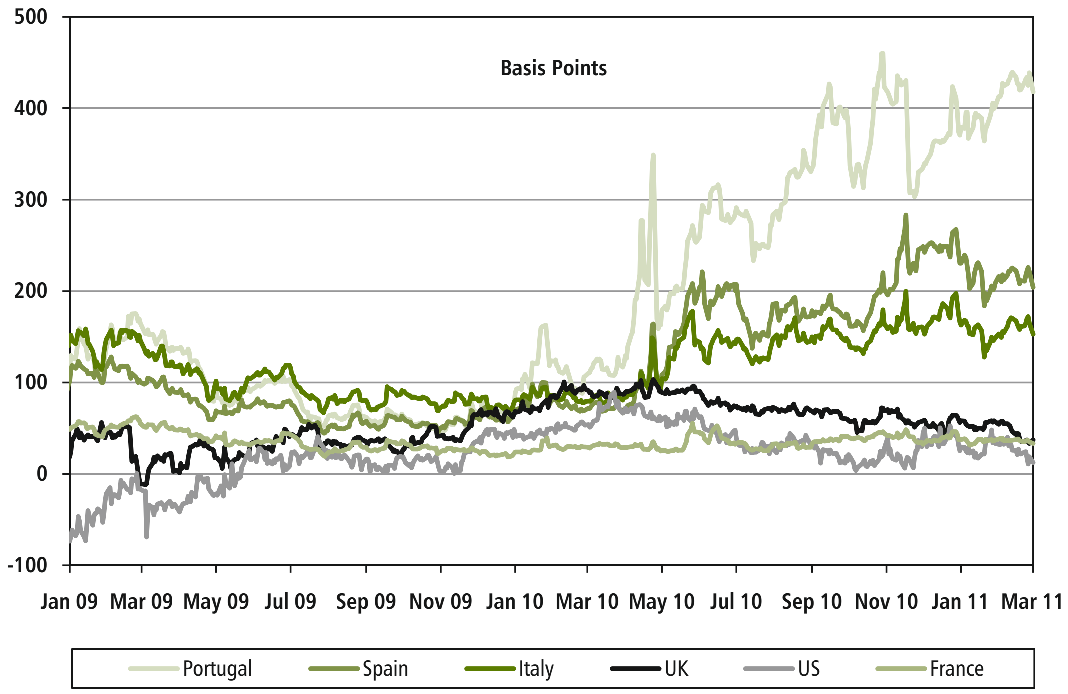
Box 1.B: Market confidence in fiscal sustainability

Events in the euro area periphery illustrate the problems that can be caused by heightened market concerns regarding fiscal sustainability. A key lesson from recent events is that once market sentiment turns against a sovereign issuer, it is extremely difficult to regain. Retaining fiscal credibility is therefore critical. The IMF has said that *"The vulnerability of sovereigns emphasizes the urgency of moving toward more sustainable fiscal paths—not just by countries in the euro area periphery, but also by major advanced economies."* [a]

While there are many factors that affect relative bond yields across countries, one of these is markets' assessment of fiscal risk. Over the past year, the premium paid on some countries' government debt has risen sharply. This is indicated by a widening of the spread of their bond yields over German bunds. For example, between 3 May 2010 and 22 March 2011, Spain's spread increased by around 100 basis points.

By contrast, there is evidence that the Government's fiscal plans have improved market confidence in the UK. As the chart below shows, the spread of UK gilt rates to German bunds has fallen since May 2010. As a result, while in May 2010 the spread of UK gilts to German bunds was around the same level as that of Spain and Italy, the UK's spread is now significantly lower than those countries'. Following the October Spending Review 2010, the credit rating agency Standard and Poor's restored the UK's AAA rating to a stable outlook. Maintaining a low risk premium on UK gilts will benefit the wider economy through lower interest rates faced by households and businesses than would otherwise be the case.

Spread to bunds



Note: Spread to bunds is the difference between the ten-year German bund yield and the ten-year benchmark bond yield in basis points.

Source: Bloomberg.

[a] *World Economic Outlook update*, IMF, January 2011.

Reform of the spending framework

1.51 Delivering the Government's spending plans will require a more robust framework for spending control, given the scale of the challenge. The current framework splits expenditure into Departmental Expenditure Limits (DEL), which are fixed departmental budgets, and Annually Managed Expenditure (AME), which is not subject to such firm control. The Government is therefore considering options for strengthening control over AME by increasing the amount of spending that is managed within fixed budgets. This will improve incentives to manage AME, in particular social security spending which is the most significant component. Further detail will be set out by the summer.

1.52 This Budget announces that a new Budget Exchange system will be introduced in 2011-12, to replace the End-Year Flexibility system. Further details are set out in Chapter 2. In addition, the Government is introducing a new framework to manage DECC's levy-funded spending, in order to cap the total impact of these policies on energy bills.

Action to address long-term fiscal pressures

1.53 The Budget also announces action to address longer-term fiscal pressures, in particular those arising from an ageing population. The Government has already taken significant action to address future fiscal pressures arising from demographic change, including bringing forward the rise in the State Pension Age (SPA) from 65 to 66 to 2020 from 2026.

1.54 This Budget announces further measures to address long-term spending pressures, setting out the Government's initial response to the final report of the Independent Public Service Pensions Commission, and announcing that the Government will bring forward proposals to manage future increases in the State Pension Age more automatically in response to increases in longevity, including through a regular independent review of the implications of longevity changes.

1.55 The decisions the Government is taking to strengthen the tax system – including the increase in VAT announced at June Budget 2010, the move to CPI indexation of the benefit and direct tax system, and the introduction of the carbon price floor announced at this Budget – will also help to support the long-term sustainability of the public finances. More detail is provided in the Growth and Fairness sections of this chapter, and in Chapter 2.

1.56 The OBR will publish its first fiscal sustainability report in July, which will provide a full analysis of the long-term sustainability of the UK's public finances.

Economic and fiscal forecast

1.57 Table 1.2 provides a summary of the OBR's central economic forecast. Annex C reproduces key tables from the OBR's economic and fiscal forecast. Further information is provided in the OBR's March 2011 *Economic and fiscal outlook*, published alongside this Budget.[13]

Economic prospects

1.58 The OBR forecast is for a gradual recovery, as the legacy of unbalanced growth and excessive levels of debt continue to weigh on the economic outlook. The economy is forecast to grow by 1.7 per cent in 2011, lower than forecast in the June Budget. This mainly reflects higher-than-expected inflation this year, as a result of recent global commodity prices shocks, and the weak, weather-affected final quarter of 2010. GDP growth is then forecast to strengthen, with growth peaking at 2.9 per cent in 2013. Table 1.2 shows the forecast for GDP and contributions to growth.

[13] *Economic and fiscal outlook,* OBR, March 2011.

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

	Percentage points, unless otherwise stated						
	Pre-crisis decade average contribution[2]		Forecast				
		2010	2011	2012	2013	2014	2015
Gross domestic product	2.9	1.3	1.7	2.5	2.9	2.9	2.8
Main contributions							
Private consumption	2.1	0.5	0.4	0.8	1.2	1.3	1.4
Business investment	0.6	0.2	0.6	0.8	1.1	1.1	0.9
Dwellings investment[3]	0.1	0.1	0.2	0.2	0.3	0.3	0.2
Government[4]	0.6	0.4	-0.2	-0.5	-0.5	-0.5	-0.3
Change in inventories	0.0	1.4	0.2	0.0	0.0	0.0	0.0
Net trade	-0.6	-0.9	0.7	1.0	0.7	0.6	0.5
CPI inflation (Q4)		3.4	3.9	2.2	2.0	2.0	2.0

[1] *See OBR's March 2011 Economic and fiscal outlook for further details. All figures in this table are rounded to the nearest 1 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 average contribution to real GDP growth between 1997 and 2007. In 2006, private consumption accounted for 64 per cent of GDP, business investment for 10 per cent, dwellings investment for 6 per cent, Government for 23 per cent and change in inventories for less than 1 per cent. As explained in paragraph 1.6, more than a quarter of the GDP per capita growth in the pre-crisis decade to 2007 was reversed during the financial crisis and recession of 2008 and 2009.*

[3] *The sum of public corporations and private sector investment in new dwellings and improvements to dwellings.*

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

Source: Office for Budget Responsibility and Office for National Statistics.

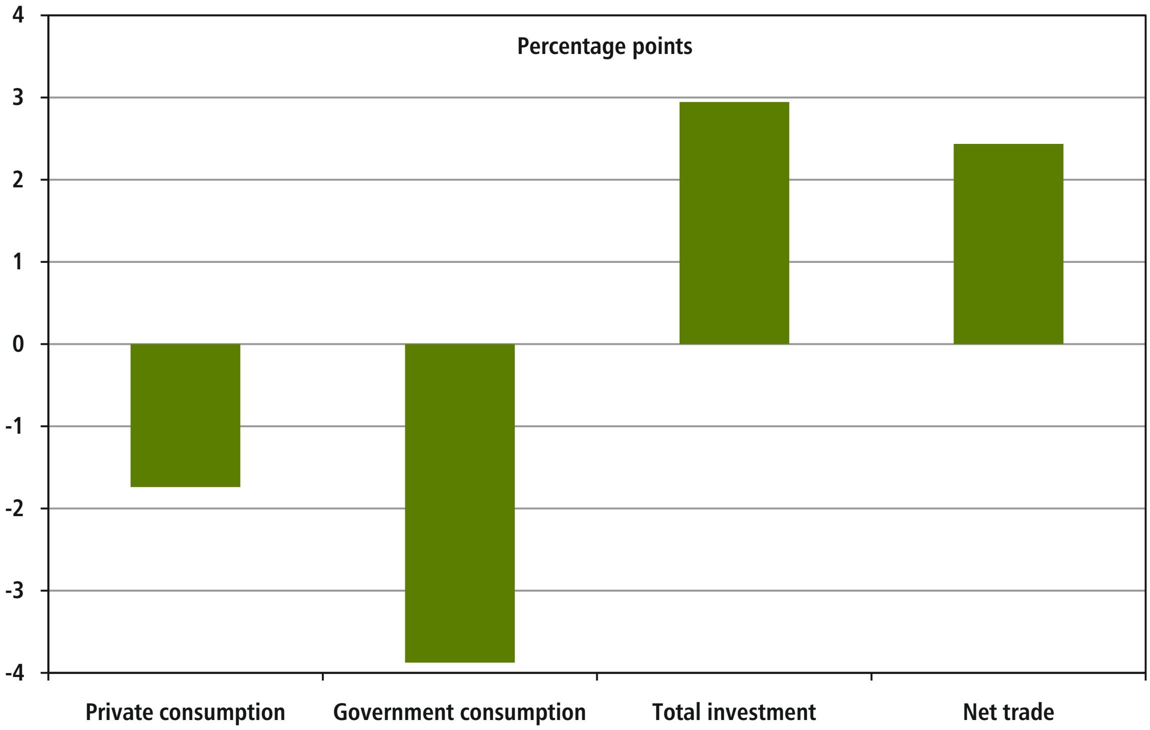
Rebalancing the economy

1.59 As set out earlier in the chapter, significant imbalances in the UK economy built up during the pre-crisis decade. The OBR are forecasting the economy to rebalance, away from private and government consumption towards net trade and investment. As Table 1.2 shows:

- the contribution of private consumption to growth is lower over the forecast period than in the pre-crisis decade. The contribution of government consumption is also forecast to be lower;
- business investment is forecast to grow by between 6½ to 11 per cent in each year over the forecast, and as a result its contribution to growth picks up to over 1 percentage point per year. However, business investment does not return to its pre-recession peak until the third quarter of 2013. This is almost a year later than whole economy output (GDP), and in line with previous recoveries; and
- having made a negative contribution on average through the pre-crisis decade, net trade is forecast to make a significant positive contribution to growth throughout the forecast period, with UK exporters continuing to gain market share into 2013.

1.60 Chart 1.5 shows that as a result of these trends the share of private consumption and government consumption in the economy is forecast to fall and the share of net trade and total investment to rise.

Chart 1.5: OBR forecast change in shares of GDP between 2010 and 2015[1]



[1] Percentage point change in the share of nominal GDP between 2010-2015 for each expenditure component. Private consumption is forecast to change from 65.7 per cent of GDP in 2010 to 64.0 per cent in 2015, government consumption from 23.2 per cent to 19.3 per cent, fixed investment from 14.6 per cent to 17.5 per cent and net trade (the balance of trade) from -3.2 per cent to -0.8 per cent.

Source: Office for Budget Responsibility and Office for National Statistics.

Trend output

1.61 The OBR's assessment of trend output growth, including the assumption of a constant structural unemployment rate of around 5¼ per cent, remains unchanged. The OBR's judgement is that the trend rate of growth is projected to be 2.35 per cent, falling back to 2.10 per cent from 2014 as demographic changes reduce the growth of potential labour supply. Based on the latest evidence from cyclical indicators, the output gap is judged to have been around -3 per cent in the third quarter of 2010.

Fiscal prospects

1.62 Table 1.3 provides a summary of the OBR's central forecast for the public finances.

Table 1.3: Overview of OBR central fiscal forecast

	Per cent of GDP						
	Outturn	Forecasts					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Deficit							
Public sector net borrowing	11.1	9.9	7.9	6.2	4.1	2.5	1.5
Surplus on current budget	-7.6	-7.1	-5.8	-4.5	-2.7	-1.2	-0.2
Primary balance	-9.2	-7.1	-5.0	-3.5	-1.3	0.3	1.3
Cyclically-adjusted net borrowing	8.9	7.4	5.3	3.7	2.0	1.0	0.5
Cyclically-adjusted surplus on current budget	-5.3	-4.6	-3.2	-2.0	-0.6	0.4	0.8
Total policy decisions [1]		0.0	0.0	0.0	0.0	0.0	0.0
Treaty Deficit[2]	11.4	9.8	7.9	6.2	4.1	2.6	1.6
Debt							
Public sector net debt[3]	52.7	60.3	66.1	69.7	70.9	70.5	69.1
Treaty Debt ratio[4]	71.2	78.7	84.1	87.0	87.2	85.7	83.5
Output Gap	-4.2	-3.4	-3.9	-3.5	-2.8	-2.0	-1.3
Memo: HMT estimate of cyclically-adjusted primary balance [5]	-6.9	-4.6	-2.4	-0.9	0.8	1.9	2.3

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

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

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

[4] *General government gross debt on a Maastricht basis.*

[5] *This is a Treasury estimate of the cyclically-adjusted primary balance. It has been calculated by applying the cyclical-adjustment methodology set out in Public finances and the cycle: Treasury Economic Working Paper No.5 (November 2008), which the OBR also use for their forecast of cyclically-adjusted aggregates.*

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

1.63 Taking account of the policy measures announced by the Government, the OBR projects that:

- public sector net borrowing will decline from its peak of 11.1 per cent of GDP in 2009-10 to 7.9 per cent of GDP in 2011-12, still higher than its peak in the 1990s recession, and then to 1.5 per cent of GDP in 2015-16;
- the cyclically-adjusted or 'structural' current deficit will be eliminated by 2014-15, with a projected surplus of 0.4 per cent of GDP in that year, rising to 0.8 per cent of GDP in 2015-16; and
- public sector net debt will peak at 70.9 per cent of GDP in 2013-14, before declining to 70.5 per cent of GDP in 2014-15 and 69.1 per cent of GDP in 2015-16.

1.64 The OBR's latest forecast shows that the outlook for the public finances is broadly unchanged since June Budget 2010. Public sector net borrowing this year is slightly lower than forecast in June and November, largely as a result of lower than expected public spending. The forecast for public sector net borrowing is slightly higher over the medium term, by 0.5 per cent of GDP in 2015-16, compared with the June Budget. This reflects the OBR's higher forecast for inflation, which results in higher projected AME expenditure on debt interest and social security payments, and also a slightly weaker short-term outlook for economic growth compared with June Budget 2010. However, the OBR's judgement is that this increased borrowing is largely temporary, cyclical borrowing that will reduce automatically as the economy returns to trend.

This means that the forecast for the structural position of the public finances, as measured by the cyclically-adjusted current balance, is broadly unchanged since the June Budget 2010, although slightly lower than estimated in November.

Performance against the mandate

1.65 Charts 1.6 and 1.7 show performance against the Government's fiscal mandate and the supplementary debt target.

1.66 As set out in the OBR's March 2011 *Economic and fiscal outlook* the OBR's judgement is that the policies set out in this Budget are consistent with a greater than 50 per cent chance of achieving the Government's fiscal mandate. Based on past forecasting performance and their central forecast, the OBR estimates that there is a roughly 70 per cent probability that the Government's fiscal mandate will be met.

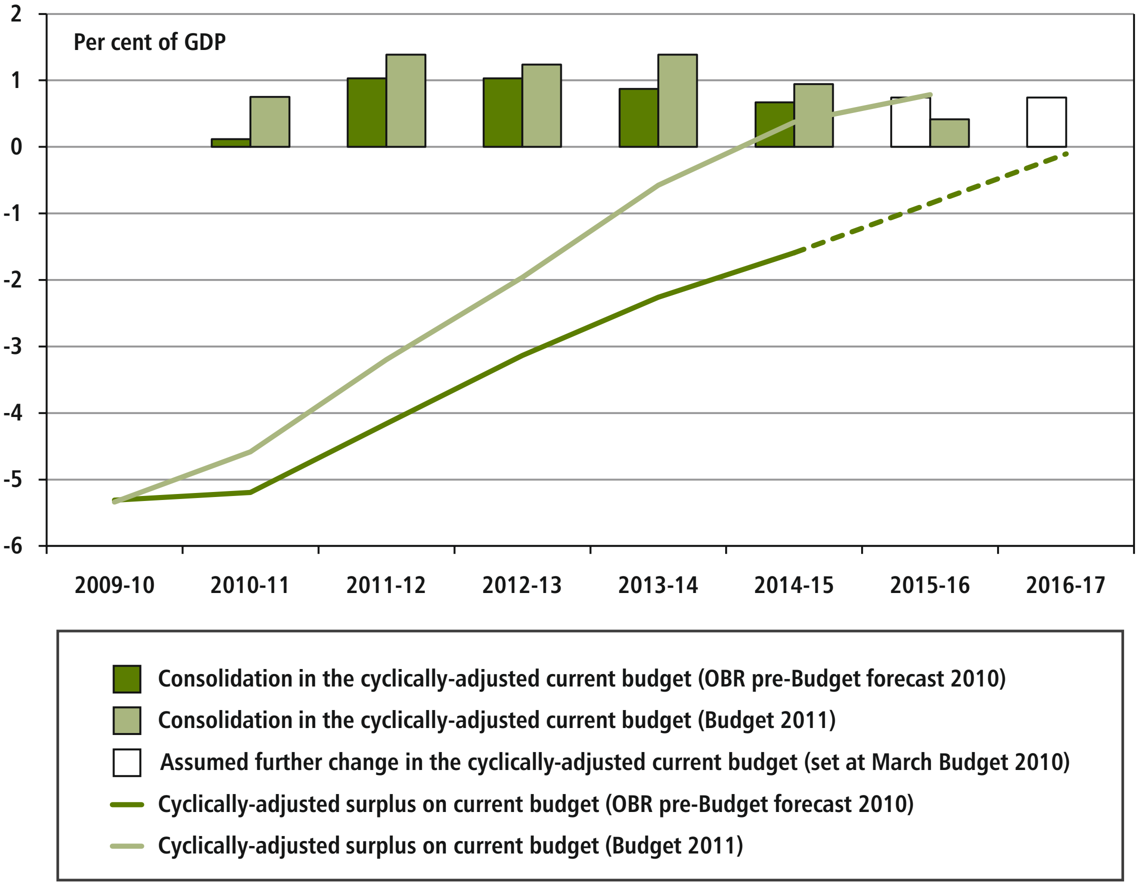
1.67 It is also the OBR's assessment that the Government's policies have a greater than 50 per cent chance of meeting the target for debt in 2015-16.

1.68 As the OBR has highlighted, all forecasts are subject to uncertainty, but this applies in particular to fiscal forecasts at the present time. Recognising this, the Government has set policy to achieve a surplus on the cyclically-adjusted current budget, so that moderate shocks can be absorbed should they arise. The OBR's central Budget forecast is for the fiscal mandate to be achieved in 2014-15, a year early. The forecast also shows the debt target being achieved a year early in 2014-15.

Performance against EU obligations

1.69 Following the measures the Government has taken, the path set for fiscal policy is now consistent with the UK meeting the European Union's Excessive Deficit Procedure recommendation to reduce the Treaty deficit below 3 per cent of GDP in 2014-15. The OBR projects that the Treaty deficit will fall from 11.4 per cent of GDP in 2009-10 to 2.6 per cent of GDP in 2014-15, and that the Treaty debt ratio will be restored to a downward path from 2014-15.

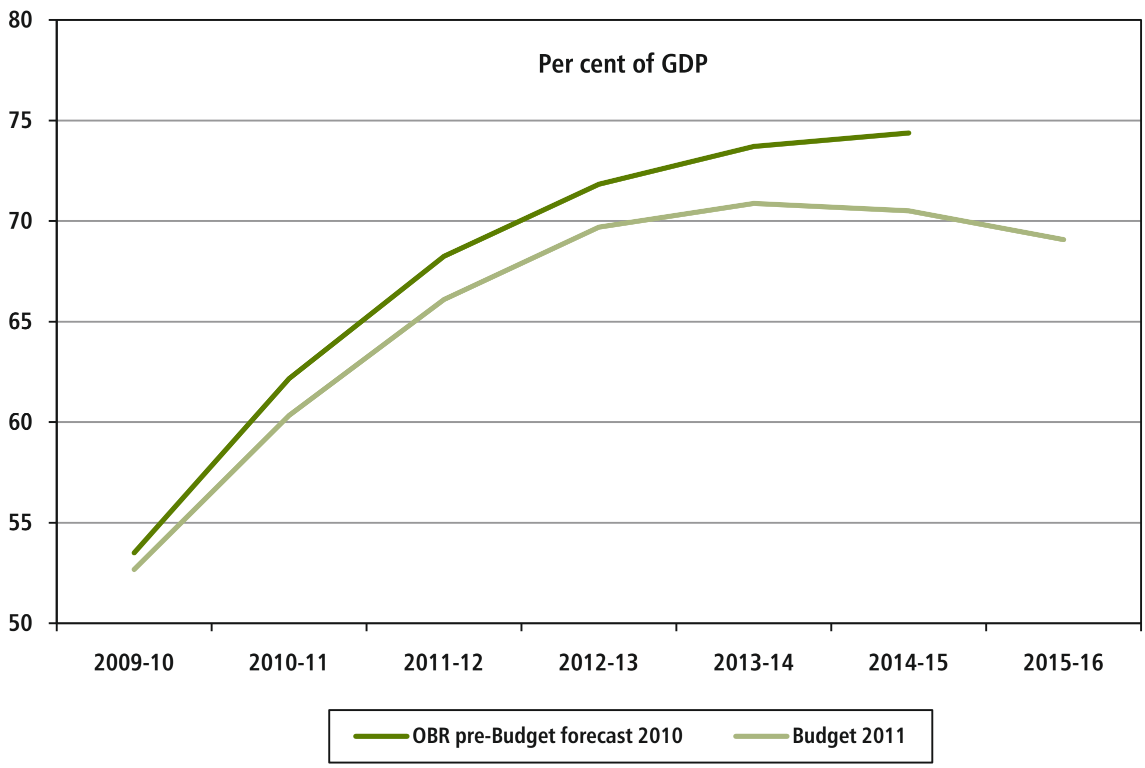
Chart 1.6: Consolidation in the cyclically adjusted current budget



Note: The OBR pre-Budget forecast 2010 contained projections to 2014-15. The March Budget 2010 assumed further consolidation to 2016-17 based on the average change in the cyclically-adjusted current balance between 2009-10 and 2014-15. This Budget forecasts to 2015-16.

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

Chart 1.7: Public sector net debt



Source: Office for Budget Responsibility and Office for National Statistics.

Growth

1.70 This section sets out the policy actions that the Government is taking to support balanced economic growth and job creation. The Government has already taken decisive action to reduce the deficit and restore economic stability, the essential foundation for rebalancing the UK economy. Building on this earlier action, *The Plan for Growth* announces measures to achieve four overarching ambitions for the British economy:[14]

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

To create the most competitive tax system in the G20

1.71 The Government is committed to creating a tax system that is more efficient and supportive of growth; more certain and predictable; simpler and easier to comply with; fairer with greater reward for work and aspiration; and with stronger incentives for investment and enterprise.

1.72 During 2010, the Government consulted on improvements to tax policy making. As part of this, draft clauses of Finance Bill 2011 were published for consultation in autumn 2010 and the Government's final approach to these clauses is confirmed in this Budget. The tax policy changes in this Budget are consistent with this improved approach.

Tax competitiveness

1.73 The Government has published its Corporate Tax Road Map in support of its aim to create the most competitive tax system in the G20.[15] This includes the four annual 1 per cent reductions in the main rate of corporation tax and the decrease in the rate applicable to small profits from 21 per cent to 20 per cent announced at the June Budget 2010.

1.74 This Budget announces that the Government will reduce the main rate of corporation tax by a further 1 per cent. From April 2011, the rate will be reduced from 28 per cent to 26 per cent and, by 2014, it will reach 23 per cent. This will promote higher levels of business investment. It will help the UK maintain the lowest rate in the G7. To offset the benefits to banks from the further cut in corporation tax, the rate of the Bank Levy will increase to 0.078 per cent from 1 January 2012.

1.75 In addition, this Budget confirms that the Government will:

- **introduce new Controlled Foreign Company (CFC) rules in Finance Bill 2012 to allow groups based in the UK to compete more effectively with those based overseas, while protecting against the artificial diversion of UK profits**. A further consultation document will be published in May 2011, followed by draft legislation in autumn 2011. The new rules will include a finance company partial exemption that, in broad terms, results in an effective UK tax rate of one quarter of the main rate on profits derived from overseas group financing arrangements (equivalent to 5.75 per cent by 2014). This will be preceded by interim improvements to the current CFC rules in Finance Bill 2011 for accounting periods beginning on or after 1 January 2011 to make the rules easier to operate ahead of full reform;

[14] *The Plan for Growth*, HM Treasury and Department for Business, Innovation and Skills, March 2011.
[15] *Corporate Tax Reform: delivering a more competitive system*, HM Treasury, November 2010.

- **publish further consultation on the introduction of a patent box in May 2011 setting out details on how the regime will operate, followed by draft legislation in autumn 2011**. The Patent Box will provide a reduced 10 per cent corporate tax rate for profits from patents, which will encourage UK businesses to retain high-value jobs associated with commercialisation of patents and to invest further in innovation; and
- **introduce an opt-in exemption from corporation tax on the profits of foreign branches of UK companies in Finance Bill 2011**. This will contribute to the Government's aim of a more territorial corporate tax system and help make the UK a more competitive location for international businesses.

Tax simplification

1.76 The Government announces measures to address complexity in the tax system aimed at easing the burden of tax compliance for businesses and individuals. **Based on the recommendations of the Office of Tax Simplification's (OTS) review of tax reliefs, and continuing work by HMRC, the Government intends to abolish 43 tax reliefs whose rationale is no longer valid** (see Chapter 2 for a full list). This will help to reduce complexity and will mean the removal of over 100 pages of tax legislation.

1.77 The Government believes that integrating the operation of income tax and National Insurance Contributions (NICs) can remove distortions, reduce burdens on business and improve fairness. However, it recognises that any change will be complex and involve a wide range of policy and implementation issues. **The Government will consult this year on the options, stages and timing of reform. It will maintain the contributory principle and will reflect this in any changes it brings forward. In addition, the Government will not extend NICs to individuals above State Pension Age or to other forms of income such as pensions, savings and dividends.**

1.78 Following publication of the OTS review of small business tax,[16] **the Government commits to making clear improvements in the way IR35 is administered** (see Chapter 2 for detail).[17] The Government has decided to retain IR35 as abolition would put substantial revenue at risk.

1.79 As part of the second stage of the OTS review of small business tax, **the OTS will look at improving tax administration for small business, with recommendations to the Government for Budget 2012**. Further detail on this work, the Government's response to OTS reviews, and future work of the OTS will be announced before summer 2011.

1.80 The Government also recognises the importance of having an effective system for administering personal taxes. To complement its investment in real time information for the PAYE system, **the Government will consult in 2011 on modernising the administration of the personal tax system to make it more transparent and accessible to individual taxpayers.**

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

Deregulation

1.81 The Government has taken action to reduce the disproportionate cost of business regulations including through introducing a 'One-in-One-out' system, but recognises there is

[16] *Small business tax review,* Office of Tax Simplification, March 2011.
[17] The intermediaries legislation, known by the original press release number "IR35", came into force on 6 April 2000. The objective of the legislation is to ensure that, where an individual provides services to an end user through an intermediary and the circumstances are such that he or she would have been viewed as an employee of the end user if he or she had been engaged directly, the income received is subject to tax and NICs as employment income.

more to be done. To address this, alongside a substantial package of sectoral deregulation, the Government will:

- **drop existing proposals for specific regulations which would have cost business over £350 million a year to implement.** This includes not extending the right to request time to train to businesses with less than 250 employees and not bringing forward the dual discrimination rules;
- **introduce a moratorium exempting micro-businesses and start-ups from new domestic regulation for three years from 1 April 2011;**
- **implement the proposals from Lord Young's review of Heath and Safety; and**
- **launch a public thematic review to reduce the stock of regulation**. The presumption will be that all regulations identified as burdensome would be removed unless good reasons are given for them to stay.

Planning reform

1.82 The planning system has held back investment and created distortions in the way that businesses compete, deterring development and growth. To address this, the Government will:

- **introduce a new presumption in favour of sustainable development, so that the default answer to development is 'yes';**
- **localise choice about the use of previously developed land, removing nationally imposed targets while retaining existing controls on greenbelt land;**
- **pilot a land auction model, starting with public sector land;**
- **introduce a number of measures to streamline the planning applications and related consents regimes removing bureaucracy from the system and speeding it up. This will include a 12 month guarantee for the processing of all planning applications, including any appeals;**
- **ensure a fast-track planning process for major infrastructure applications through the Major Infrastructure Planning system; and**
- **consult on proposals to make it easier to convert commercial premises to residential.**

1.83 To accelerate the release of public sector land to support homes and jobs, **the Government will work with local authorities to expedite planning decisions for surplus military land and other public sites suitable for housing, also testing 'build now, pay later' techniques to quicken delivery**. Together with the new presumption in favour of sustainable development, these proposals will potentially allow the Ministry of Defence to realise up to £350 million of estate disposals and enable delivery of up to 20,000 new homes by 2014-15.

Start-up finance and business growth

1.84 To encourage investment in businesses with high growth potential, **the Government announces reform of the Enterprise Investment Scheme (EIS) and Venture Capital Trusts, subject to State aid approval, including raising the rate of EIS income tax relief to 30 per cent from April 2011. From April 2012, the limits on the size of qualifying companies and on the amounts companies can receive and individuals can invest will increase, and the schemes will be refocused to better target risk. The Government will also bring forward proposals to provide further support for seed investment.** Further details are set out in Chapter 2.

1.85 Effective from 6 April 2011, the lifetime limit on capital gains qualifying for Entrepreneurs' Relief (where eligible gains are taxed at a 10 per cent rate of Capital

Gains Tax) will be doubled to £10 million. This will encourage serial entrepreneurs who want to expand their business and reinvest gains, helping to make the UK a more attractive location for entrepreneurs.

1.86 Business rates can be a significant cost, particularly for smaller businesses. **The Government announces that the small business rate relief holiday will be extended by one year from 1 October 2011.**

1.87 The Government will reduce the Low Value Consignment Relief (LVCR) threshold from £18 to £15 from November 2011. In addition, the Government will explore options with the European Commission to limit the scope of the relief so that it can no longer be exploited for a purpose it was not intended for. The Government will also revisit the level of the LVCR in Budget 2012, if discussions with the European Commission do not produce a workable solution to the problem of exploitation of the relief.

Banking

1.88 In February 2011, the five largest banks operating in the UK (Barclays, HSBC, Lloyds Banking Group (LBG), The Royal Bank of Scotland (RBS) and Santander) agreed to make £190 billion of new credit available to businesses this year. Of this total, £76 billion will be made available to SMEs, £10 billion more than the banks lent to SMEs in 2010. **This Budget announces that both LBG and RBS met their Year Two commitments for business and mortgage lending** (see Chapter 2 for detail).

1.89 Following discussions between Government and the banks, the aggregate 2010 bonus pool for the UK-based staff of Barclays, HSBC, LBG and RBS will be lower than it was in 2009. These banks have also committed to world-leading pay disclosure arrangements which, when taken together with the FSA's sector-wide regime, make the UK's disclosure arrangements the most transparent of any major financial centre. The Government intends to consult on a proposal to extend these disclosure arrangements to all large banks from 2012 onwards.

1.90 From January 2012, the Government will increase the rate of the Bank Levy, a permanent tax on banks' balance sheets which, with the increase announced previously for 2011, is now expected to raise £10 billion over the lifetime of this Parliament. The increase in the rate from January 2012 offsets the further reduction in the rate of corporation tax announced in this Budget. This change will ensure that banks continue to make a fair contribution while also ensuring that they continue to be encouraged to move to less risky funding models. The Bank Levy will raise over £2.5 billion each year, as compared with the one-off net yield of £2.3 billion from the bank payroll tax.

1.91 The Code of Practice on Taxation for Banks ensures that banks follow the spirit as well as the letter of the law and encourages banks to moderate their tax planning. Two hundred banks have now adopted the Code, including the top 15 banks operating in the UK.

Innovation

1.92 As well as introducing the Patent Box, the Government reaffirms its commitment to research and development (R&D) tax credits. Following consultation, **the Government announces:**

- **an increase in the SME rate of R&D tax credit to 200 per cent from April 2011, and 225 per cent from April 2012, subject to State aid approval; and**
- **simplification of the R&D tax credit schemes** (see Chapter 2 for detail).

1.93 The Government will invest an additional £100 million in 2011-12 in science capital development to provide facilities for the commercialisation of research, accommodation for innovative SMEs and new research capabilities.

1.94 The Government will launch the first Technology and Innovation Centre in high value manufacturing which will integrate the activities of a number of existing high performing centres in Rotherham, Coventry, Strathclyde, Sedgefield, Redcar and Bristol.

To encourage investment and exports as a route to a more balanced economy

Investment

1.95 To encourage investment in plant and machinery, **the Government announces that, from April 2011, the limit on the capital allowances short life assets election will be extended from four to eight years,** more closely aligning tax and economic depreciation. **It will also extend the Business Premises Renovation Allowance for a further five years from 2012,** providing relief on renovation of business premises in assisted areas.

Infrastructure

1.96 Over the next four years, the Government will invest over £30 billion in transport projects, which is more than was invested during the past four years. **This Budget announces £200 million of new funding for rail projects.**

1.97 The Government announces £100 million of funding for local authorities to repair potholes caused by the exceptionally cold winter, funded from within existing budgets. This is in addition to the £100 million announced in February 2011.

1.98 To give industry the confidence to invest in economic infrastructure, **the Government will publish the UK's long-term forward view of projects and programmes in autumn 2011 as part of the National Infrastructure Plan.** The Government will also enable building contractors to respond more effectively to emerging market opportunities by publishing quarterly, **from autumn 2011, a rolling two-year forward programme of infrastructure and construction projects where public funding has been agreed.**

Trade and inward investment

1.99 UK Trade and Investment (UKTI) will make better use of private sector expertise and talent with a clear focus on winning business for the UK, led by the Minister for Trade and Investment. The Government will provide a bespoke service to major inward investors giving them direct access to UK Ministers and speedy resolution of bureaucratic obstacles to investment.

1.100 The Government will make permanent two facilities for exporters introduced in response to the financial crisis: the Export Credits Guarantee Department's (ECGD) Letter of Credit Guarantee Scheme and a facility that allows ECGD's guarantees to be used to raise long-term finance in capital markets for UK exports.

Growth in all parts of the UK

1.101 The Government announces the location of ten new urban Enterprise Zones within the following Local Enterprise Partnership (LEP) areas: Birmingham and Solihull; Leeds City Region; Sheffield City Region; Liverpool City Region; Greater Manchester; West of England; Tees Valley; North Eastern; the Black Country; and Derby, Derbyshire, Nottingham and Nottinghamshire.

1.102 In addition, London will have an Enterprise Zone and be able to choose its site. This reflects the Mayor of London's unique economic development responsibilities.

1.103 The Government will also launch a competitive process for interested LEPs to establish ten more Enterprise Zones.

1.104 The Government will make a range of policy tools available to all 21 zones:

- **a 100 per cent business rate discount worth up to £275,000 over a five year period for businesses that move into an Enterprise Zone during the course of this Parliament;**
- **all business rates growth within the zone for a period of at least 25 years will be retained and shared by the local authorities in the LEP area to support their economic priorities;**
- **Government and local authority help to develop radically simplified planning approaches in the zone; and**
- **Government support to ensure superfast broadband is rolled out in the zone. This will be achieved through guaranteeing the most supportive planning environment and, if necessary, public funding.**

1.105 In addition, the Government will work with individual LEPs to consider:

- **the scope for introducing enhanced capital allowances to support zones in assisted areas where there is a strong focus on high value manufacturing;**
- **the use of Tax Incremental Finance to support the long-term viability of the zone, in tandem with the Local Government Resource Review; and**
- **UKTI support on inward investment and trade opportunities.**

1.106 The Government will work with the devolved administrations to explore opportunities for employing the new Enterprise Zone model across the UK.

1.107 The Regional Growth Fund was set up to support private sector growth in the areas most dependent on the public sector. **The Government will confirm all successful bids shortly and will launch the second round in April 2011.**

1.108 Following a thorough review, **the Government is approving a revised Sheffield retail quarter regeneration scheme. The Government is also announcing approval of an important, and re-designed, element of the Milton Keynes residential quarter scheme.**

1.109 On 24 March 2011, the Government will publish a consultation paper on rebalancing the Northern Ireland economy, including looking at mechanisms for devolving the rate of corporation tax to Northern Ireland.

Environment

1.110 The Government is committed to being the greenest Government ever. A simple, efficient and cost effective policy framework will meet environmental objectives while supporting growth and maintaining a sound fiscal position. Market-based solutions to price carbon are at the heart of this approach, achieving objectives at the lowest possible cost.

1.111 The Government will increase the proportion of tax revenue accounted for by environmental taxes. Tax policy will be developed in the context of wider Government levers (such as voluntary agreements and regulation) and overlap of policy instruments will be avoided. The Government announces that:

- following consultation, **a carbon price floor for electricity generation will be introduced from 1 April 2013. The carbon price floor will start at around £16 per tonne of carbon dioxide and follow a linear path to £30 per tonne in 2020 to drive investment in the low-carbon power sector.** The carbon price support rates for 2013-14 will be equivalent to £4.94 per tonne of carbon dioxide.

- **Climate Change Agreements (CCAs) will be extended to 2023. The climate change levy discount on electricity for CCA participants will be increased from 65 to 80 per cent from April 2013 to continue to support energy intensive businesses exposed to international competition.** A consultation on proposals to simplify the agreements will be published by summer 2011; and
- **it remains committed to providing public funding for four Carbon Capture and Storage (CCS) demonstration plants. However, consistent with its objectives for tax simplification, it will not proceed with the CCS levy. It will instead fund its commitments to CCS demonstrations from general taxation.**

1.112 The Government is committed to ensuring that the Green Investment Bank (GIB) has the resources to help the UK to move towards a low-carbon economy. **The Government announces that the initial capitalisation of the GIB will be £3 billion** and that the GIB will begin operation in 2012-13, a year earlier than previously anticipated. Government investment alongside private finance should mean that there is in the region of an additional £18 billion of investment in green infrastructure by 2014-15 as a result of the GIB. The Spending Review allocated £1 billion for the GIB and the Government is aiming for the remaining £2 billion to be funded from the sale of assets. This will include the £775 million net proceeds already received from the sale of High Speed I, ensuring that funding is in place to allow GIB investments from 2012-13. **The Government will enable the GIB to have borrowing powers from 2015-16 and once the target for debt to be falling as a percentage of GDP has been met**.

1.113 The Government is committed to the success of the Green Deal and will act to encourage and incentivise take-up so that the Green Deal will appeal to households, businesses and prospective providers alike, before it is introduced in 2012.

To create a more educated workforce that is the most flexible in Europe

Skills and youth employment

1.114 Youth unemployment rose by 100,000 between 2004 and 2008, and has risen by a further 250,000 since the start of the recession. While participation in learning by 16 to 18 year olds has continued to rise, currently 9.4 per cent of all 16 to 24 year olds are unemployed and not in education.[18]

1.115 The Government is already investing £7.6 billion in 2011-12 in education and training for 16 to 19 year olds in addition to the £1.4 billion apprenticeship programme. The Government will also give young people earlier access to the Work Programme, benefiting up to 100,000 young people in 2011-12.

1.116 The Government will fund an additional 80,000 work experience places for young people, ensuring up to 100,000 places will be available over the next two years.

1.117 The Government also announces £180 million for up to 50,000 additional apprenticeship places over the next four years. 40,000 places will provide additional capacity to support young unemployed people, in particular through progression from the work experience programme. To address the specific barriers faced by SMEs in accessing apprenticeships, the Government will support business consortia to set up and maintain advanced and higher apprenticeships schemes, supported by grants, creating a further 10,000 apprenticeships.

[18] *Educational Status, economic activity and inactivity of young people by sex – Statistical Bulletin dataset,* Office for National Statistics.

1.118 The Government will expand the University Technical Colleges programme to establish at least 24 new colleges by 2014. Formed through partnerships between universities, colleges and businesses, University Technical Colleges will provide technical training opportunities for 11 to 19 year olds. The sponsors will help set curricula to match the needs of the local economy and of their sectors, provide high quality work placements, and allow the colleges to use their specialist facilities.

Housing

1.119 The affordable supply of new homes in the right places helps to create a dynamic economy and a flexible labour force. Housing supply is constrained by the lack of viable land for development. As set out above, the Government is announcing reforms to the planning system which will increase the amount of land brought forward and improve incentives for local communities to support development.

1.120 Over the long term, increased macroeconomic and financial stability will create a favourable environment for house-building. Stability in the labour market and the availability of mortgage finance will support sustainable demand for housing. The associated increase in certainty for the construction sector will aid the supply of new homes.

1.121 The Budget provides help for homeowners and new buyers, and supports the capacity of the house-building industry to ensure a more efficient housing market:

- **the Government will help homeowners facing difficulties by extending for a further year temporary changes to the Support for Mortgage Interest (SMI) scheme. The 13-week waiting period and £200,000 limit on eligible mortgage capital will now remain in force for new working age SMI claimants until January 2013;**
- **the Government will provide £250 million to support first time buyers to purchase a new-build property. The FirstBuy programme will assist over 10,000 households with equity investments jointly funded with house-builders; and**
- **the Government will strengthen demand for residential property by reforming the stamp duty land tax rules applied to bulk purchases.** This will reduce a barrier to investment in residential property, promoting private rented housing supply.

1.122 The Government will announce the outcome of its review of the stamp duty land tax relief for first time buyers in autumn 2011.

1.123 The Government will make Real Estate Investment Trusts easier to set up and more accessible to investors. This will encourage investment in the private rented sector over the longer term.

Fairness

1.124 Fairness is integral to the Government's fiscal strategy and to sustainable growth. Tackling the deficit will ensure that future generations are not burdened with unsustainable debt and will underpin private sector confidence, supporting growth and job creation over the medium term.

1.125 This Budget sets out the next steps in realising the Government's vision of a fair, simple and efficient tax, benefit and pensions system which rewards work, saving and personal responsibility. This supports the Government's strategy to increase social mobility in the UK.

Personal tax

1.126 The Government's objective is to support lower and middle income earners by raising the personal allowance to £10,000, with real terms progress towards that goal every year.

1.127 From April, the personal allowance for under 65s increases by £1,000 to £7,475. **This Budget announces that the personal allowance for under 65s will increase by a further £630 to £8,105 in 2012-13, with an equivalent £630 reduction in the basic rate limit to leave the higher rate threshold unchanged.** As a result, this Budget does not create any additional higher rate taxpayers. In combination the increases in the personal allowances announced by this Government will benefit 25 million individuals, taking 1.1 million out of income tax altogether. This year's increase occurs alongside the switch to using the CPI as the basis for indexation of the employee and self-employed National Insurance threshold.

1.128 As announced in the June Budget 2010, the Government has reviewed how the CPI can be used for the indexation of taxes and duties while protecting revenues. **Consistent with this, the default indexation assumption for direct taxes will be the CPI from April 2012.** To ensure employers and older people do not lose out, **for the duration of this Parliament the annual increases in the employer NICs threshold, and the age related allowance and other thresholds for older people, will be over-indexed compared to the CPI, and will increase by the equivalent of the RPI. The Government will review the use of the CPI for indirect taxes once its fiscal consolidation plans have been implemented and the duty increases it inherited from the previous Government have come to an end.**

Pensions

1.129 The Government will simplify the state pension system so that it is fair and supports personal responsibility, and so that costs are sustainable, both today and for future generations.

1.130 The state pension system is complex. It is not clear to working-age individuals what they might receive from the state, in particular from the State Second Pension, making it difficult to plan retirement saving. **The Government will look to reform the state pension for future pensioners so that it provides simple, contributory, flat-rate support above the level of the means-tested Guarantee Credit.** DWP will shortly publish a Green Paper to consult on options for reform, which will include a proposal for a single tier pension, currently estimated to be worth around £140 a week. Moving to single tier provision would end contracting out for defined benefit pension schemes. In itself, this could bring significant simplification of the personal tax system. However, the Government will investigate the potential impact on employees and schemes in both the private and public sectors. The Government will honour contributions to the current system. Given longer-term pressures on the public finances, these reforms will be designed so as not to increase public spending dedicated to state pensions. Final proposals are subject to confirmation, including on affordability, and will reflect the projections set out in the Office for Budget Responsibility's forthcoming Fiscal Sustainability Report.

1.131 The Government has already decided to bring forward the increase in State Pension Age to 66 to April 2020. Given the continuing increases in life expectancy **the Government will bring forward proposals to manage future changes in the State Pension Age more automatically, including the option of a regular independent review of longevity changes.** This should ensure the costs arising from increased longevity are spread more fairly between generations, with cost savings and improved economic growth helping to ensure sustainable public finances in the future. The Government has also established a commission, chaired by Andrew Dilnot, to make recommendations by July for a sustainable social care system, and the Government will set out its plans for reform in due course.

1.132 The final report of Lord Hutton's Independent Public Service Pensions Commission was published on 10 March 2011.[19] **The Government accepts Lord Hutton's recommendations as a basis for consultation with public sector workers, trades unions and others, recognising that the position of the uniformed services will require particularly careful consideration. The Government will set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer.**

Residence and domicile

1.133 At Budget last year, the Government confirmed that it would review the taxation of non-domiciled individuals. The Government recognises that non-domiciled individuals make a valuable contribution to the UK economy and the current tax rules can discourage them from investing their foreign income and gains in the UK. However there must be a balance to ensure that non-domiciled individuals, especially those who have been resident in the UK for many years, make a fair tax contribution in return.

1.134 The Government will therefore reform the taxation of non-domiciled individuals by:

- **increasing the existing £30,000 annual charge to £50,000 for non-domiciled individuals who have been UK resident for twelve or more years and who wish to retain access to the remittance basis of taxation. The £30,000 charge will be retained for those who have been resident for at least seven years but less than twelve years;**
- **removing the tax charge when non-domiciled individuals remit foreign income or capital gains to the UK for the purpose of commercial investment in UK businesses; and**
- **making technical simplifications to some aspects of the current rules to remove undue administrative burdens for non-domiciled individuals.**

The Government will consult on the detail in June ahead of legislating in Finance Bill 2012.

1.135 The current rules that determine tax residence for individuals are unclear and complex. The Government will consult in June on the introduction of a statutory definition of residence to provide greater certainty for taxpayers.

1.136 The Government intends to implement the reforms to non-domicile taxation and the statutory definition of residence from April 2012. **There will be no other substantive changes to these rules for the remainder of this Parliament.**

Charitable giving

1.137 The Government wants to encourage charitable giving and philanthropy and to support the voluntary sector.

1.138 Building on the 10 point action plan for philanthropy,[20] the Government will encourage giving by the wealthiest by:

- **reducing the rate of inheritance tax by 10 per cent for those estates leaving 10 per cent or more to charity, from a rate of 40 per cent to 36 per cent. This will reduce**

[19] *Independent Public Service Pensions Commission: Final Report*, March 2011.
[20] *Culture Secretary announces plan to boost philanthropy*, Department for Culture, Media and Sport, December 2010.

the cost of giving to charity through bequests. The relief is designed so that the benefit of the tax saving is reflected in the bequests received by charities and not in payments to other beneficiaries;

- **increasing the Gift Aid benefit limit from £500 to £2,500 from April 2011 to enable charities to give 'thank you' gifts, to recognise the generosity of significant donors; and**
- **consulting on proposals to encourage donations of pre-eminent works of art or historical objects to the nation in return for a tax reduction.**

1.139 Building on the *Giving* Green Paper,[21] this Budget will support the voluntary sector by:

- **reducing bureaucracy for charities through the introduction of a new system of online filing which will bring Gift Aid into the 21st century; and**
- **introducing a Gift Aid small donations scheme. This will allow charities to claim Gift Aid on up to £5,000 of small donations per year without the need for Gift Aid declarations.**

1.140 The Government will also explore how to increase the take up of Payroll Giving, which allows individuals to give through their pay and reduce their income tax bills.

Tax avoidance

1.141 The Government is determined to reduce tax avoidance in order to protect the Exchequer and maintain fairness for the taxpayer. The Government is introducing measures which will raise around £4 billion over the current Parliament, balancing long-term improvements to the anti-avoidance framework with targeted measures to prevent particular schemes spreading.

1.142 Building on the commitments made last year, **the Government has today published *Tackling Tax Avoidance*, which:**

- **initiates reviews of legislation which have been subject to repeated attempts at tax avoidance;**

[21] *Giving*, Cabinet Office, December 2010.

- **outlines proposals to counter the continued use and marketing of highly aggressive and artificial tax avoidance schemes; and**
- **sets the criteria for deciding whether to announce a change to tax law that has immediate effect.**

1.143 This Budget also includes measures which target specific avoidance schemes. **This includes new measures to address the abuse of stamp duty land tax rules (effective from 24 March 2011); to amend the sale of lessors anti-avoidance legislation (effective from today); and to clarify the degrouping charge rules affecting corporate gains (effective from today).**

Duties and North Sea oil and gas

1.144 The Government is committed to fair duties and taxes which contribute to deficit reduction while supporting households and businesses. Recognising the impact of record pump prices, the Government announces a £1.9 billion package to ease the burden on motorists.

Motoring

1.145 In recognition of high current oil prices, fuel duty will be cut by 1 penny per litre from 6pm today.

1.146 The Government will abolish the fuel duty escalator and replace it with a fair fuel stabiliser. When oil prices are high, as now, fuel duty will increase by inflation only. UK oil and gas production is more profitable at such times, so it is fair that companies should contribute more. **The Supplementary Charge on oil and gas production will therefore increase to 32 per cent from midnight tonight.**

1.147 In addition, to ease the burden on motorists, **the 2011-12 inflation-only increase in fuel duty will be deferred to 1 January 2012. The 2012-13 increase in fuel duty will be implemented on 1 August 2012.**

1.148 In future years, if the oil price falls below a set trigger price on a sustained basis, the Government will reduce the Supplementary Charge back towards 20 per cent on a staged and affordable basis while prices remain low. Fuel duty will increase by RPI plus 1 penny per litre in each such year. The Government believes that a trigger price of $75 per barrel would be appropriate, and will set a final level and mechanism after seeking the views of oil and gas companies, and motoring groups.

1.149 As the increased rate of Supplementary Charge will only apply when prices are high, **the Government will restrict tax relief for decommissioning expenditure to the 20 per cent rate to avoid incentivising accelerated decommissioning. There will be no restrictions to decommissioning relief below this level over the course of this Parliament, and the Government will work with the industry with the aim of announcing further, longer-term certainty on decommissioning at Budget 2012.** Recognising the importance of continued investment in the North Sea, including in marginal gas fields, the Government will also consider with the industry the case for introducing a new category of field that would qualify for field allowance.

1.150 This Budget announces three further steps to support motorists:

- **vehicle excise duty rates will increase by RPI indexation only in 2011-12, and rates for Heavy Goods Vehicles will be frozen;**
- **for motorists who are required to use their own vehicle for work, the Approved Mileage Allowance Payments (AMAPs) rate will rise to 45 pence per mile for**

the first 10,000 miles and 25 pence per mile thereafter. In addition to claiming AMAPs rates, an allowance for passenger payments currently in place for business employees, at 5 pence per passenger per mile, will be extended to volunteers; and

- **the Government has today formally submitted a derogation request to the European Commission for a rural fuel duty rebate pilot scheme.** This is intended to deliver a 5 pence per litre duty discount on petrol and diesel across the Inner and Outer Hebrides, the Northern Isles, the islands in the Clyde and the Isles of Scilly.

1.151 To encourage businesses to use ultra low carbon cars, **the Government will freeze Company Car Tax for cars emitting less than 95g/km from April 2013. The Government will increase Company Car Tax for all vehicles with carbon dioxide emissions between 95g/km and 219g/km by 1 percentage point from the same date.**

Air Passenger Duty

1.152 In the June Budget 2010, the Government undertook to explore changes to the aviation tax system, including switching from a per-passenger to a per-plane duty. The UK's international obligations in this area include Air Service Agreements with over 150 different countries and the 1944 Chicago Convention. The Government will not introduce a per-plane duty at the present time, given concerns over the legality and feasibility of this approach. The Government will start a programme of intensive work with our international partners to build consensus for a per-plane duty in the future.

1.153 Today the Government is launching a consultation on reform of Air Passenger Duty. The Government wants a simple tax system for air transport services which does not hamper growth, which ensures a fair contribution toward the public finances and which will support the reduction of global emissions. The consultation includes plans to extend the tax system to flights taken aboard business jets for the first time. **The Government will also freeze Air Passenger Duty rates for 2011-12, with the RPI increase assumed in the forecast deferred to April 2012.**

Tobacco and alcohol

1.154 The Government is committed to fair excise duties on tobacco and alcohol which contribute to deficit reduction whilst supporting health objectives. **In addition to the duty increases that the Government inherited, it is restructuring cigarette duty and increasing duty on hand-rolling tobacco by a further 10 per cent.**

1.155 From 1 October 2011, the Government will introduce an additional duty on high-strength beers, and a reduced rate of duty on lower-strength beers to encourage their production and consumption. This will reduce the health and social harms resulting from problem drinking, and is designed to avoid unfairly penalising responsible drinkers.

Water

1.156 The Government is committed to supporting households who face water affordability pressures and households in areas with particularly high water bills, such as the South West. **The Government will consult shortly on proposals to address water affordability.** This will include reforms to the existing WaterSure scheme, the approach to Company Social Tariffs and options for additional Government spending to provide further support.

Social mobility and child poverty

1.157 The Government is developing a broad strategy to tackle the causes of poverty and to ensure that children born in low income families realise their full potential.

1.158 This Budget confirms that the Government's modelled tax and welfare reforms, including the measures announced today, could reduce child poverty by up to 50,000 over the next two years.[22] However, such estimates are uncertain and may be on the edge of statistical significance. The way that child poverty is currently measured means that, perversely, reducing the income tax paid by millions of lower earners, or providing additional support to low income pensioners, could push the poverty line up. This would increase the number of children calculated as being in poverty.

1.159 Drawing on the recommendations in Frank Field MP's *Independent Review on Poverty and Life Chances* and the first report of Graham Allen MP's review of early intervention,[23] **the Government will therefore develop improved ways to measure poverty which better capture the reality of living in poverty and reflect the Government's commitment to increase social mobility.**

[22] Estimates calculated using HM Treasury tax and benefit microsimulation model.
[23] *Report of the Independent Review on Poverty and Life Chances*, Frank Field MP, December 2010; *Early Intervention: The Next Steps*, Graham Allen MP, January 2011.

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), and changes to Departmental Expenditure Limits (DEL). Measures that are financed from existing DEL provisions are not included. 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 2015-16.[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 scrutinised the Government's assessment of the direct costs 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 fiscal impact. This includes tax measures, NICs measures, measures affecting AME and additions to DEL. Table 2.2 shows the cost or yield of all measures with a fiscal impact announced at or before the publication of Spending Review 2010 which take effect from April 2011 or later. Consistent with its commitment to increase transparency in public life, the Government is following the approach taken at the June Budget 2010 in publishing the methodology underlying the calculation of the fiscal impact of each Budget policy decision. This is included in the supplementary document *Budget 2011 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 2011 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 2011 policy costings*, HM Treasury and HM Revenue & Customs (HMRC), March 2011.

Table 2.1: Budget policy decisions[1]

	Head	£ million 2011-12	2012-13	2013-14	2014-15	2015-16
Growth and Enterprise						
1 Corporation tax: decrease main rate to 26% in 2011-12, 25% in 2012-13, 24% in 2013-14 and 23% from 2014-15	Tax	-425	-810	-910	-1,000	-1,075
2 Corporation tax: interim improvements to Controlled Foreign Company rules	Tax	-55	-15	-25	-25	-25
3 Corporation tax: taxation of foreign branches reform	Tax	0	-30	-70	-80	-80
4 Corporation tax: corporate capital gains simplification	Tax	+5	-5	-15	-35	-55
5 Corporation tax: full reform to Controlled Foreign Company rules	Tax	0	-210	-540	-770	-840
6 Bank Levy: increase first year effective rate to 0.075% and rate to 0.078% from January 2012	Tax	+630	+285	+100	+105	+100
7 Enterprise Investment Scheme and Venture Capital Trusts: reform	Tax	0	-105	-115	-110	-120
8 R&D tax credits: increase SME rate to 200% from 2011-12 and to 225% from 2012-13	Spend	-20	-75	-105	-105	-
9 Capital allowances: extension of short life assets limit	Tax	-10	-40	-70	-100	-170
10 Capital allowances: extension of business premises renovation allowance	Tax	0	-5	-30	-25	-30
11 Business rates: Enterprise Zones	Tax	0	-20	-40	-65	-80
12 Business rates: one-year extension of relief for small business from October 2011	Tax	-190	-185	+5	0	0
13 Capital gains tax: increase Entrepreneurs' relief lifetime limit to £10 million	Tax	0	-50	-70	-90	-100
14 Science facilities: additional investment	Spend	-100	0	0	0	-
Housing and Employment						
15 Stamp Duty Land Tax: bulk purchasing	Tax	-70	-90	-120	-130	-150
16 Support for Mortgage Interest: one-year extension from January 2012	Spend	-10	-110	-15	0	-
17 FirstBuy: support for first-time buyers	Spend	-250	0	0	0	-
18 Enterprise Allowance: extension	Spend	-5	-15	-5	0	-
19 Work experience: 80,000 additional placements	Spend	-20	-20	0	0	-
20 University Technical Colleges: additional investment	Spend	-150	0	0	0	-
21 Apprenticeships: 50,000 additional places	Spend	-100	-60	-45	-5	-
Personal tax						
22 Personal allowance: increase by £630 in 2012-13, with adjustment to basic rate limit and no change to higher rate threshold	Tax	0	-1,050	-1,210	-1,200	-1,230
23 Direct taxes: switch the default indexation assumption to CPI from 2012-13	Tax	0	+105	+235	+630	+1,080
24 Direct taxes: over-index employer NICs threshold, age related allowances and other allowances [2]	Tax	0	0	0	0	0
25 NICs: implement Government Actuary's 'best estimate' approach on contracted-out rebates from 2012-13 [3]	Tax	0	+640	+630	+620	+610
26 Non-domicile taxation: reform	Tax	0	0	+110	+70	+50
Motoring tax						
27 Fuel duty: 1ppl reduction from 23 March 2011, removal of previously announced above-RPI increases and delay of RPI increases	Tax	-1,900	-1,600	-1,700	-2,100	-2,100
28 North Sea: increase in supplementary charge from 20% to 32% and restriction on decommissioning relief from 2011-12	Tax	+1,780	+2,240	+2,120	+2,090	+1,870
29 Fuel duty: rural rebate	Tax	*	-5	-5	-5	-5

30 Vehicle excise duty: freeze rates for Heavy Goods Vehicles in 2011-12	Tax	-15	-15	-15	-20	-20
31 Approved Mileage Allowance Payments: increase allowances from 2011-12	Tax	-35	-35	-35	-35	-35
Environmental tax						
32 Carbon price floor: introduce from 2013-14 with £30 per tonne of CO_2 target	Tax	0	0	+740	+1,070	+1,410
33 Climate Change Agreements: reform	Tax	0	0	-40	-50	-50
34 Climate change levy exemption: supplies of gas in Northern Ireland	Tax	*	*	+5	+5	+5
35 Company car tax: adjustment to rates for 2013-14	Tax	0	0	+125	+130	+135
36 Air passenger duty: defer RPI increase in 2011-12 to 2012-13	Tax	-145	0	0	0	0
37 Aggregates levy: postpone rate increase until 2012-13	Tax	-15	-15	-20	-20	-20
Indirect tax						
38 VAT: decrease low value consignment relief threshold to £15 from November 2011	Tax	+5	+10	+10	+10	+15
39 Tobacco duty: rebalance for cigarettes and increase for hand rolled tobacco from 2011-12	Tax	+80	+60	+65	+70	+80
Avoidance, evasion and administration						
40 Disguised remuneration: avoidance	Tax	+750	+760	+730	+770	+760
41 Currency for tax calculations: avoidance	Tax	+60	+60	+60	+60	+60
42 Sale of lessor companies: avoidance	Tax	+25	+20	+20	+15	+15
43 Leasing double allowances: avoidance	Tax	+80	+130	+130	+120	+120
44 Stamp Duty Land Tax: avoidance	Tax	+30	+30	+40	+40	+50
45 VAT: supply splitting using printed matter	Tax	+40	+50	+50	+50	+60
46 VAT: fraud on imported road vehicles	Tax	0	0	+125	+110	+105
47 Protection life insurance	Tax	0	0	+60	+90	+120
48 Qualifying Time Deposit accounts: change to tax treatment	Tax	0	*	+35	+40	+40
49 PAYE: holding security	Tax	*	+5	+5	+5	+5
Philanthropy						
50 Inheritance tax: reduce rate to 36% for estates with charitable donations of more than 10% from 2012-13	Tax	0	-25	-75	-125	-170
51 Gift Aid: small donations scheme	Spend	0	0	-50	-85	-
Other spending measures						
52 Housing Benefit: not introduce reductions for long term jobseekers	Spend	0	0	-105	-115	-
53 Disability Living Allowance: mobility components for claimants in residential care	Spend	0	-75	0	0	-
54 Local Housing Allowance: transitional protection for existing claimants	Spend	+30	-30	0	0	-
55 Employment and Support Allowance Youth: abolish National Insurance concession	Spend	0	+10	+10	+15	-
56 Benefit fraud: sanctions and debt recovery	Spend	0	+25	+45	+65	-
57 Coinage: delay implementation of reduction in metal cost	Spend	-10	0	0	0	-
TOTAL POLICY DECISIONS		-10	-265	+25	-115	+335

* *Negligible.*

- Spending measures do not affect borrowing in 2015-16 as they fall within the Total Managed Expenditure assumption.

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

[2] *The employer NICs threshold, starting rate limit of savings income, income tax age related allowances, age-related income limits, married couples allowance will continue to rise by the cash equivalent of RPI for the course of the Parliament. The personal allowance is assumed to increase from 2013-14 by at least the cash equivalent of RPI.*

[3] *Announced by DWP on 3 February 2011.*

Table 2.2: Measures announced at Spending Review 2010 or earlier which take effect from April 2011 or later[1]

		Head	£ million				
			2011-12	2012-13	2013-14	2014-15	2015-16
Measures announced at Spending Review 2010							
a	Contributory Employment and Support Allowance: time limit for those in the Work Related Activity Group to one year from 2012-13	Spend	0	+450	+815	+1,100	+1,180
b	Housing Benefit: increase age limit for shared room rate from 25 to 35 from January 2012	Spend	+10	+170	+230	+215	+205
c	Total household benefit payments capped on the basis of average take-home pay for working households from 2013-14	Spend	0	0	+225	+270	+270
d	Disability Living Allowance: remove mobility components for claimants in residential care from April 2013 [2]	Spend	0	0	+155	+160	+160
e	Savings Credit: freeze maximum award for four years from 2011-12	Spend	+225	+280	+330	+415	+425
f	Council Tax Benefit: 10 per cent reduction in expenditure and localisation	Tax	0	0	+490	+490	+490
g	Child Benefit: remove from families with a higher rate taxpayer from January 2013	Spend	0	+600	+2,435	+2,485	+2,530
h	Working Tax Credit: freeze in the basic and 30 hour elements for three years from 2011-12	Spend	+270	+750	+975	+1,030	+1,035
i	Working Tax Credit: reduce payable costs through childcare element from 80 per cent to 70 per cent restoring 2006 rate from 2011-12	Spend	+335	+350	+370	+390	+405
j	Child Tax Credit: increase the child element by £30 in 2011 and £50 in 2012	Spend	-270	-695	-690	-690	-655
k	Working Tax Credit: increase working hours requirement for couples with children to 24 hours	Spend	0	+515	+510	+505	+515
l	Child and Working Tax Credits: use real time information	Spend	0	0	0	+395	+355
m	Public service pensions: increase in employee contribution rates	Spend	0	+160	+1,270	+1,760	+1,850
n	Renewable Heat Incentives: efficiency savings from 2011-12	Spend	+5	+15	+45	+110	+180
o	Carbon Reduction Commitment: no recycling of revenues from 2011-12	Spend	+715	+735	+1,010	+1,040	+1,080
p	Coinage: reduction in metal cost	Spend	0	+10	+10	+10	+10
q	Equitable life payments	Spend	-520	-315	-210	-100	-70
r	Capitalisation: support for local authority restructuring	Spend	-240	0	0	0	0
s	Public Works Loan Board: interest rate increase	Spend	+165	+330	+400	+465	+525
t	TfL Metronet: replace borrowing with central government grant	Spend	+325	+300	+200	+185	0
u	Right to Buy: surrender full receipts to Exchequer receipts	Spend	+25	+30	+40	+40	+45
v	Housing Revenue Account System: reform	Spend	+25	+25	+25	+25	+5
w	Northern Ireland Reinvestment and Reform Initiative	Spend	-175	0	0	0	0
Measures announced at the June Budget 2010							
x	Corporation tax: decrease to 27 per cent in 2011-12, 26 per cent in 2012-13, 25 per cent in 2013-14 and 24 per cent from 2014-15	Tax	-430	-1,200	-2,150	-3,300	-4,100
y	Small Profits Rate: decrease to 20 per cent from 2011-12	Tax	-50	-800	-1,200	-1,300	-1,400
z	Capital allowances: decrease main rate to 18 per cent and special rate to 8 per cent from 2012-13	Tax	0	+600	+1,600	+1,700	+1,700
aa	Annual Investment Allowance: decrease to £25,000 from 2012- 13	Tax	0	+200	+1,200	+1,000	+1,000
ab	Business rates: backdated bills in 2011-12	Tax	-70	-15	-15	-15	-15
ac	Employer NICs: increase threshold in 2011-12	Tax	-3,110	-3,270	-3,490	-3,690	-3,890
ad	Personal allowance: increase by £1,000 in 2011-12, with adjustments to basic rate limit and upper earnings limit	Tax	-3,340	-3,580	-3,620	-3,710	-3,820
ae	Basic rate limit: freeze in 2013-14	Tax	0	0	+370	+800	+760
af	Council Tax: reduction to receipts due to a one year freeze in 2011-12	Tax	-700	-740	-715	-775	-745

ag	Furnished holiday lettings: reverse plans to repeal existing rules	Tax	-20	+5	*	*	*
ah	Benefits, tax credits and public service pensions: switch to CPI indexation from 2011-12	Spend	+1,500	+3,050	+4,885	+7,555	+10,595
ai	Disability Living Allowance: reform gateway from 2013-14	Spend	0	0	+360	+1,070	+1,450
aj	Lone parent benefits: extend conditionality to those with children aged 5 and above from January 2012	Spend	0	+70	+210	+290	+320
ak	Sure Start Maternity Grant: apply to first child only from 2011-12	Spend	+75	+75	+75	+75	+75
al	Local Housing Allowance: set at the 30th percentile of local rents from April 2011 with transitional protection for existing claimants [3]	Spend	+130	+375	+445	+475	+505
am	Deductions for non-dependents: reverse previous freezes on uprating and maintaining link with prices from 2011-12	Spend	+70	+135	+195	+210	+215
an	Social sector: limit working age entitlements to reflect size of family from 2013-14	Spend	0	0	+490	+490	+490
ao	Switch to CPI indexation for Local Housing Allowance from 2013-14	Spend	0	+45	+140	+290	+465
ap	Additional bedroom for carers from 2011-12		-15	-15	-15	-15	-15
aq	Local Housing Allowance: caps on maximum rates for each property size, with 4-bed limit from 2011-12 with transitional protection for existing claimants [3]	Spend	+35	+115	+145	+165	+185
ar	Additional Discretionary Housing Payments from 2011-12	Spend	-10	-40	-40	-40	-40
as	Tax credits second income threshold: reduce to £40,000 from 2011-12	Spend	+130	+125	+125	+135	+145
at	Tax credits: first and second withdrawal rates: increase to 41 per cent from 2011-12	Spend	+645	+700	+730	+755	+780
au	Child Tax Credit: taper the family element immediately after the child element from 2012-13	Spend	0	+475	+445	+425	+400
av	Child Tax Credit: remove the baby element from 2011-12	Spend	+300	+275	+275	+275	+270
aw	Working Tax Credit: remove the 50 plus element from 2012-13	Spend	0	+45	+50	+50	+55
ax	Child Tax Credit: reverse the supplement for children aged one and two from 2012-13	Spend	0	+180	+180	+180	+180
ay	Tax credits: reduce the income disregard from £25,000 to £10,000 for 2 years in 2011-12 then to £5,000 from 2013-14	Spend	+130	+165	+455	+540	+605
az	Tax credits: introduce an income disregard of £2,500 for falls in income from 2012-13	Spend	0	+245	+510	+510	+520
ba	Tax credits: new claims and changes of circumstances: reduce backdating from 3 months to 1 month from 2012-13	Spend	0	+345	+355	+360	+360
bb	Child Tax Credit: increase the child element by £150 in 2011-12 and £60 in 2012-13 above indexation	Spend	-1,220	-1,865	-1,920	-1,940	-1,965
bc	Child Benefit: freeze rates for three years from 2011-12	Spend	+385	+930	+1,250	+1,285	+1,335
bd	Basic State Pension: introduce triple guarantee from 2011-12	Spend	0	-1,130	-1,450	-1,530	-1,620
be	Pension Credit Minimum Income guarantee: matching basic State Pension cash increase in 2011-12	Spend	-600	-630	-630	-650	-660
Measures announced before June Budget 2010							
bf	Freeze higher rate threshold in 2012-13 (2009 Pre-Budget Report)	Tax	0	+590	+1,310	+1,260	+1,340
bg	Increase NICs primary threshold in 2011-12 (2009 Pre-Budget Report)	Tax	-1,340	-1,360	-1,380	-1,520	-1,660
bh	Increase main employee NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+3,580	+3,700	+3,890	+4,100	+4,330
bi	Increase additional employee NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+600	+600	+620	+660	+710
bj	Increase employer NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+4,580	+4,690	+4,930	+5,200	+5,490
bk	Increase main self-employed NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+220	+200	+200	+190	+180
bl	Increase additional self-employed NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+70	+70	+60	+50	+50
bm	Pensions tax: restrict tax relief [4]	Tax	+1,200	+2,300	+4,400	+4,400	+4,300
bn	Auto-enrolment: slower introduction (2009 Pre-Budget Report)	Tax	0	+100	+700	+1,700	+2,100

bo	Individual savings account: indexation from 2011-12 (March Budget 2010)	Tax	-5	-15	-40	-90	-175
bp	SDLT: properties over £1m from 2011-12 (March Budget 2010)	Tax	+50	+170	+210	+250	+290
bq	Inheritance tax: freeze threshold from 2011-12 to 2014-15 (March Budget 2010)	Tax	+50	+170	+295	+420	+505
br	Salary sacrifice: workplace canteens from 2011-12 (2009 Pre-Budget Report)	Tax	+110	+110	+110	+110	+110
bs	Seafarers' Earning Deduction (2009 Pre-Budget Report)	Tax	-5	-5	-5	-5	-5
bt	Alcohol duty: increase in rates in 2013-14 and 2014-15 (March Budget 2010)	Tax	0	0	+110	+215	+210
bu	Patent box from 2013-14 (2009 Pre-Budget Report)	Tax	0	0	-500	-800	-900
bv	Venture Capital Schemes: State Aid changes (2009 Pre-Budget Report)	Tax	-20	-30	-40	-40	-40
bw	Landfill tax: increase in 2014-15 (2009 Pre-Budget Report)	Tax	0	0	0	+70	+70
bx	Climate change levy: reduction of relief from 2011-12 (2009 Pre-Budget Report)	Tax	+40	+50	+50	+50	+55
by	Company car tax: extend bands from 2012-13 (Budget 2009)	Tax	0	+120	+120	+125	+125
bz	Company car tax: changes to bands and abolition of cap from 2011-12 (Budget 2009)	Tax	+85	+75	+70	+65	+65
ca	EU Emissions Trading Scheme auctions: amendments from 2011-12 (March Budget 2010)	Tax	-10	0	0	0	0
cb	Childcare: employer supported childcare tax relief from 2011-12 (2009 Pre-Budget Report)	Tax	+15	+40	+65	+85	+100
cc	Working tax credit: extend eligibility for over 60s from 2011-12 (March Budget 2010)	Spend	-20	-20	-20	-20	-20

** Negligible.*

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

[2] See table 2.1 and paragraph 2.63.

[3] See table 2.1 and paragraph 2.62.

[4] See paragraph 2.51.

2.4 As part of its new approach to tax policy making, the Government committed to improving and rationalising the wide range of supporting documents that accompany tax changes, in order to improve the level of information provided to interested parties.[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.[5]

2.5 The Government has published *The Plan for Growth* alongside this Budget.[6] The main measures in that document are set out in Chapter 1 of this Budget. This chapter includes new measures from *The Plan for Growth* which will have a fiscal impact.[7]

Public spending

Total Managed Expenditure

2.6 Table 2.3 sets out the path for Total Managed Expenditure (TME), Public Sector Current Expenditure (PSCE) and Public Sector Gross Investment (PSGI) to 2015-16. This reflects the Spending Review 2010 announcement of an increase in PSGI of £2.3 billion a year by 2014-15 relative to the spending envelopes set out at the June Budget 2010, to ensure that capital projects of high long term economic value are funded. It also reflects updated estimates of savings from AME policies as set out in Table 2.2. Budget 2011 confirms that TME in 2015-16 will increase in line with general inflation in the economy.

[4] *The new approach to tax policy making: a response to the consultation*, HM Treasury and HMRC, December 2010.
[5] *Overview of tax legislation and rates*, HM Treasury and HMRC, March 2011.
[6] *The Plan for Growth*, HM Treasury and Department for Business, Innovation and Skills, March 2011.
[7] Measures included in *The Plan for Growth* document are indicated in this chapter by the symbol (GR) after the text describing that measure.

Table 2.3: Total Managed Expenditure

	£ billion					
		Forecasts				
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
CURRENT EXPENDITURE						
Resource Annually Managed Expenditure	287.4	314.4	324.9	333.3	346.4	360.8
Resource Departmental Expenditure Limits[1]	345.4	342.3	344.7	349.1	348.2	352.5
of which						
RDEL excluding depreciation [2]	*326.1*	*326.3*	*327.1*	*331.1*	*329.0*	*333.1*
Public sector current expenditure	632.8	656.7	669.6	682.4	694.6	713.4
CAPITAL EXPENDITURE						
Capital Annually Managed Expenditure	11.5	9.2	8.0	8.5	8.8	7.7
Capital Departmental Expenditure Limits[1]	50.0	44.5	42.6	39.2	40.3	42.7
Public sector gross investment	61.6	53.7	50.7	47.7	49.1	50.4
TOTAL MANAGED EXPENDITURE	694.4	710.4	720.2	730.1	743.6	763.8
Memo:						
TME if AME margin as set for Spending Review 2010 period is spent		*711.4*	*722.2*	*733.1*	*747.6*	

[1] The Government has not set DEL for 2015-16. Implied DEL numbers for 2015-16 are calculated as the difference between Resource AME and PSCE for Resource DEL (RDEL) and the difference between Capital AME and PSGI in the case of Capital DEL.

[2] RDEL excluding ring-fenced non-cash depreciation is the Treasury's primary control within resource budgets and the basis on which Spending Review settlements were agreed.

Departmental Expenditure Limits

2.7 Spending Review 2010 announced departmental spending allocations for 2011-12 to 2014-15. The detailed allocation of DELs is shown in Table 2.4. In line with previous practice, DEL figures for 2010-11 reflect the latest available information and include the OBR's allowance for shortfall reflecting anticipated underspends against departmental provisions.

2.8 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;
- Wales and Northern Ireland taking their share of the £6.2 billion in-year savings in 2010-11. It had been assumed in the June Budget 2010 that these would be made in 2011-12;
- Reserve claims and drawdown of End Year Flexibility voted in 2010-11;
- Reserve claims expected to be voted in the Main Estimates for 2011-12, including £3.6 billion (excluding depreciation) for the Ministry of Defence with respect to the net additional cost of military operations; and
- other classification or budgetary changes, which have no impact on National Accounts definitions.

Table 2.4: Departmental Expenditure Limits

	£ billion				
	Estimate[1]	Plans			
	2010-11	2011-12	2012-13	2013-14	2014-15
Departmental Programme and Administration Budgets (Resource DEL excluding depreciation[2])					
Education	51.3	51.2	52.1	52.9	53.9
NHS (Health)	98.4	101.5	104.0	106.9	109.8
Personal Social Services (Health)[3]	1.6	0.0	0.0	0.0	0.0
Transport	5.2	5.3	5.0	5.0	4.4
CLG Communities	3.6	2.0	1.7	1.6	1.2
CLG Local Government	26.0	26.1	24.4	24.2	22.9
Business, Innovation and Skills	17.2	16.5	15.7	14.7	13.7
Home Office	8.9	8.9	8.5	8.1	7.8
Justice	8.6	8.2	7.8	7.4	7.1
Law Officers' Departments	0.7	0.6	0.6	0.6	0.6
Defence[4]	28.4	27.3	25.2	24.9	24.7
Foreign and Commonwealth Office	2.1	1.5	1.5	1.4	1.2
International Development	5.9	6.7	7.2	9.4	9.4
Energy and Climate Change	1.3	1.5	1.4	1.3	1.0
Environment, Food and Rural Affairs	2.2	2.2	2.1	2.0	1.8
Culture, Media and Sport[5]	1.5	1.4	1.9	1.2	1.1
Work and Pensions	8.7	7.6	7.4	7.4	7.6
Scotland	25.2	24.8	25.1	25.3	25.4
Wales	13.4	13.3	13.4	13.5	13.5
Northern Ireland	9.7	9.4	9.4	9.5	9.5
Chancellor's Departments	3.8	3.8	3.7	3.6	3.4
Cabinet Office	2.0	2.1	2.1	2.0	2.2
Small and Independent Bodies	1.6	1.7	1.5	1.5	1.4
Reserve	0.0	2.4	2.5	2.6	2.5
Special Reserve	0.0	0.1	3.1	3.0	2.8
Green Investment Bank	0.0	0.0	0.0	1.0	0.0
OBR allowance for shortfall	-1.1	0.0	0.0	0.0	0.0
Total Resource DEL excluding depreciation[2]	**326.1**	**326.3**	**327.1**	**331.1**	**329.0**
Capital DEL					
Education	7.3	5.1	4.2	3.3	3.4
NHS (Health)	4.5	4.4	4.4	4.4	4.6
Transport	7.1	7.7	8.1	7.5	7.5
CLG Communities	6.4	3.5	2.3	1.8	2.0
CLG Local Government	0.0	0.0	0.0	0.0	0.0
Business, Innovation and Skills	2.1	1.3	1.1	0.8	1.0
Home Office	0.8	0.5	0.5	0.4	0.5
Justice	0.6	0.4	0.3	0.3	0.3
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0
Defence[4]	9.6	10.0	9.1	9.2	8.7
Foreign and Commonwealth Office	0.2	0.1	0.1	0.1	0.1
International Development	1.6	1.4	1.6	1.9	2.0
Energy and Climate Change	2.0	1.5	2.0	2.2	2.7
Environment, Food and Rural Affairs	0.6	0.4	0.4	0.4	0.4
Culture, Media and Sport[5]	0.6	1.3	0.4	0.1	0.1
Work and Pensions	0.3	0.2	0.3	0.4	0.2
Scotland	3.3	2.5	2.5	2.2	2.3
Wales	1.8	1.3	1.2	1.1	1.1
Northern Ireland	1.2	0.9	0.9	0.8	0.8
Chancellor's Departments	0.2	0.3	0.2	0.1	0.1
Cabinet Office	0.4	0.4	0.4	0.4	0.4
Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1
Reserve	0.0	0.9	1.0	1.0	1.1
Special Reserve	0.0	0.2	0.8	0.8	0.8
Green Investment Bank	0.0	0.0	0.8	0.0	0.0
OBR allowance for shortfall	-0.6	0.0	0.0	0.0	0.0
Total Capital DEL	**50.0**	**44.5**	**42.6**	**39.2**	**40.3**

[1] 2010-11 DEL estimated outturns are not necessarily comparable with Spending Review baselines, as baselines exclude one-off and time-limited expenditure and other changes.

[2] Resource DEL (RDEL) excluding ring-fenced non-cash depreciation is the Treasury's primary control within resource budgets and the basis on which Spending Review settlements were agreed. The limit for RDEL excluding depreciation for 2010-11 set at the time of the June 2010 Budget was £326.7bn.

[3] As set out in the 2010 Spending Review, Personal Social Services (PSS) resource grants form part of CLG Local Government RDEL from 2011-12 onwards. PSS Capital DEL has been moved into NHS (Health).

[4] The Defence budget for 2011-12 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 2012-13 onwards; the funding remains within the Special Reserve for these years.

[5] Includes the Olympics budget which falls to £0bn after 2012-13.

The spending framework

2.9 Replacement of End Year Flexibility – The Government announces the introduction of a new Budget Exchange system from 2011-12 to replace the End Year Flexibility system which has now been abolished. This will provide departments with flexibility to deal with slippage in expenditure while strengthening spending control. Budget Exchange will allow departments to surrender an underspend in advance of the end of the financial year in return for a corresponding increase in their budget in the following year, subject to a prudent limit.

2.10 The Government is introducing a new framework to control the levy-funded spending of the Department of Energy and Climate Change (DECC).

Pay and pensions

2.11 Response to the Hutton Review of Fair Pay in the Public Sector – The final report of the Hutton Review of Fair Pay in the Public Sector was published on 15 March.[8] The Government welcomes this report as a basis for setting senior pay in the public sector. Departments will give consideration to these proposals and bring forward implementation plans for their sectors by July 2011.

2.12 Response to the Independent Public Service Pensions Commission – The Government accepts the recommendations of Lord Hutton's commission as a basis for consultation with public sector workers, trades unions and others, recognising that the position of the uniformed services will require particularly careful consideration.[9] The Government will in the autumn set out proposals that are affordable, sustainable and fair to both the public sector workforce and taxpayers.

2.13 Discount rate for public service pensions – Following a full public consultation, the Government has decided that the appropriate discount rate for calculating unfunded public service pension contribution rates should be based on the long term expectation of Gross Domestic Product (GDP) growth.[10] This will ensure that employment decisions made today take into account the costs passed to future taxpayers on a fair and sustainable basis. The latest OBR forecast for long-term GDP growth is 2.2 per cent above the assumed GDP deflator, equivalent to a discount rate of 2.9 per cent above the Consumer Prices Index (CPI).[11] Given the range of uncertainties inherent in these calculations, the Government believes that a rounded figure should be used. A discount rate of 3 per cent above CPI will therefore be adopted under this methodology for future valuations. The Government proposes to review the level of discount rate every five years, and the methodology every ten years. The Government has confirmed that this change in the discount rate will not lead to an increase in member contribution rates beyond those already announced at Spending Review 2010. (m)

2.14 State pension reform – The Government intends to reform the state pension system for future pensioners so that it provides simple, contributory, flat-rate support above the level of the means-tested Guarantee Credit. The Government will honour contributions to the current system. The Department for Work and Pensions (DWP) will shortly publish a Green Paper to consult on options for reform, which will include a proposal for moving towards a single tier pension. These reforms will be designed so as not to increase public spending dedicated to state

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[8] *Hutton Review of Fair Pay in the public sector: Final Report*, Hutton Review of Fair Pay, March 2011.
[9] *Independent Public Service Pension Commission: Final Report*, Independent Public Service Pensions Commission, March 2011.
[10] *Consultation on the discount rate used to set unfunded public service pension contributions*, HM Treasury, December 2010.
[11] The OBR's provisional projection for GDP growth for the period 2016-2050, set out in the *Economic and Fiscal Outlook November 2010*, taking into account the difference between the OBR's assumptions for CPI and for the GDP deflator of 0.7 percentage points.

pensions. Final proposals are subject to confirmation, including on affordability, and will reflect the projection set out in the OBR's Fiscal Sustainability Report.

2.15 State pension age – Given the continuing increases in life expectancy, the Government will bring forward proposals to manage future changes in the state pension age more automatically, including the option of a regular independent review of the implications of longevity changes.

Government assets

2.16 The Government will continue its policy of asset sales, where there is no longer a good case in public policy terms for continued public ownership of assets. As part of this, the Government:

- intends to realise value from its shareholding in NATS, subject to considering the views of key interested parties;
- intends to sell its stake in Actis, if the terms of a potential sale offer good value for taxpayers' money;
- will complete the final stages of the open market process to resolve the future of the Tote, and will announce the outcome later in the spring; and
- publish an implementation plan for the phased release of 500MHz of surplus spectrum from the public sector by 2020. In addition, Ofcom has recently published a consultation on awarding 800MHz and 2.6GHz spectrum, which is suitable for mobile broadband. This award will take place in early 2012.

2.17 Following work on realisation of value from the student loan book, a decision on whether to proceed to a transaction will be made in the summer. Whether or not a transaction takes place, a number of measures have been identified which could make collection methods more efficient and effective.

2.18 As part of the programme for the more efficient use and consolidation of its property holdings, the Government continues to look at property disposals, where the property is surplus and market conditions are right, and will provide updates when specific transactions are envisaged.

2.19 The Government is considering the merits of machinery of government changes to facilitate the development of a Public Data Corporation (PDC) through a sponsoring department. If the Government decides to proceed, a first step would be to establish a PDC Shadow Board. It will also create an inventory of datasets from key data-holding organisations. The Government, through the Cabinet Office, will also put in place a policy statement on data by autumn 2011 covering access and licensing terms for public data.

Other spending measures

2.20 Local government capitalisation – In March 2011, the Government published guidance for the 2011-12 capitalisation scheme which permits UK local authorities to treat revenue costs as capital costs. This will help councils to deliver efficiency savings early through organisational restructuring. The Government is not providing local authorities with extra funding for this purpose, but will allow some extension of their existing flexibilities to borrow, or to fund spending on redundancies from capital receipts. The upfront cost is met through a reduction in the Capital DEL Reserve.

2.21 Delayed implementation of reduction in metal costs for coinage – As announced on 16 February 2011, the Treasury has delayed the implementation of the change in metal composition of 5p and 10p coins. From 1 January 2012, 5p and 10p coins will be made from nickel-plated steel (rather than the current cupro-nickel alloy). This will deliver estimated savings of £7-8 million per year from 2012-13. (57)

2.22 Green Investment Bank (GIB) – The Government is committed to ensuring that the GIB has the resources to help the UK to move towards a low-carbon economy. This Budget announces that the initial capitalisation of the GIB will be £3 billion and that the GIB will begin operation in 2012-13, a year earlier than previously anticipated. Government investment alongside private finance should mean that there is in the region of an additional £18 billion of investment in green infrastructure by 2014-15, as a result of the GIB. Spending Review 2010 allocated £1 billion for the GIB, and the Government is aiming for the remaining £2 billion to be funded from the sale of assets. This will include the £775 million net proceeds already received from the sale of High Speed I, ensuring that funding is in place to allow GIB investments from 2012-13. The Government will enable the GIB to have borrowing powers from 2015-16 and once the target for debt to be falling as a percentage of GDP has been met. (GR)

2.23 FirstBuy programme – The Government will provide an equity investment, jointly funded with house builders, through a FirstBuy programme assisting over 10,000 first-time buyers to purchase a new-build property. (GR) (17)

2.24 Apprenticeships and Higher Level Apprenticeships – the Government will create 40,000 new apprenticeship places targeted on young people not in employment, education or training. The Government will also provide grant funding to stimulate the development of 10,000 new Higher Level Apprenticeship places in small and medium-sized enterprises (SMEs). (GR) (21)

2.25 Support for unemployed young people – The Government will fund an additional 80,000 work experience placements for young people, ensuring up to 100,000 places will be available over the next two years. (GR) (19)

2.26 Science capital – The Government will provide £100 million of new capital funding in 2011-12 for science and innovation campuses. (GR) (14)

2.27 University Technical Colleges – The Government will provide £150 million of new capital funding to support improved technical and vocational education, including an expansion of the University Technical Colleges programme, to establish at least 24 new colleges by 2014. (GR) (20)

2.28 Funding for the devolved administrations – All spending figures above include Barnett consequentials where appropriate. The Government is commited to fair and accountable funding for Wales, including taking forward discussions on all aspects of the final Holtham report. The Government is working with the Northern Ireland Executive to rebalance the Northern Ireland economy and will publish a consultation paper on 24 March 2011, including looking at mechanisms for devolving the rate of corporation tax to Northern Ireland. Through the Scotland Bill, which is currently going through Parliament, the Government will be increasing financial accountability in Scotland.

Income tax and National Insurance Contributions

2.29 Income tax rates and thresholds (including personal allowance) – All income tax rates for 2011-12 will remain at their 2010-11 levels. As announced at the June Budget 2010, the income tax personal allowance for those aged under 65 will increase by £1,000 in cash terms to £7,475 in 2011-12. There will also be a £2,400 cash decrease in the basic rate limit, taking it to £35,000. This means that the income tax higher rate threshold, which equals the sum of the personal allowance and basic rate limit, will be £42,475. (Finance Bill 2011) (ad)

2.30 NICs rates and thresholds – Under inherited plans for 2011-12, the main and additional rates of NICs will increase by one per cent. The primary threshold will increase by £24 per week above the Retail Prices Index (RPI), or £29 in cash terms, to £139 per week. As announced at the June Budget 2010, the secondary threshold for employer NICs will increase by £21 per week above RPI indexation, or £26 in cash terms, to £136 per week. The upper earnings and profits limits for NICs will be reduced by £1,400 so that they remain aligned to the higher rate threshold. (bh-bl, bg, ac)

2.31 Indexation of direct taxes – From April 2012 the default indexation assumption for all direct taxes including income tax, NICs, inheritance tax, capital gains tax and ISAs will move from the RPI to the CPI. The change will apply for each year from 2012-13 except where there are specific policy commitments to increase these by a different amount. (23)

2.32 From April 2012 the CPI will be used as the default indexation assumption for the employee NICs primary threshold, small earnings exception, lower earnings limit, lower profits limit; for Class 2 NICs and Class 3 NICs voluntary rate. The upper earnings limit and upper profits limit will remain aligned with the higher rate threshold. (23)

2.33 The employer NICs secondary threshold, the starting rate limit for savings income, income tax age-related allowances, age-related income limits, married couples allowances and blind persons allowance will be over-indexed compared to the CPI and continue to rise by the equivalent of the RPI for the course of this Parliament. For forecast purposes this is assumed to be until April 2016. (24)

2.34 In 2012-13, the personal allowance is assumed to increase for those aged under 65 by £630 in cash terms, taking it to £8,105. There will be a corresponding £630 decrease in the basic rate limit, taking it to £34,370. The higher rate threshold will therefore remain unchanged in 2012-13 at £42,475. The personal allowance will increase from 2013-14 by at least the equivalent of the RPI, until the Government’s goal of increasing the personal allowance to £10,000 is achieved. (Future Finance Bills) (22) (bf)

2.35 Income tax and NICs reform – The Government will consult in 2011 on the options, stages and timing of reforms to integrate the operation of income tax and NICs.

2.36 Personal tax administration review – The Government will consult in 2011 on modernising the administration of the personal tax system to make it more transparent and accessible to taxpayers.

2.37 Online tax calculator – The Government will build an online personal tax calculator by 2012 to allow individuals to estimate how much income tax and NICs they pay.

2.38 Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) – The Government will reform the EIS and VCT, raising the rate of EIS income tax relief to 30 per cent from April 2011. From April 2012 the Government will increase the annual EIS investment limit for individuals to £1 million, increase the qualifying company limits to 250 employees and gross assets of £15 million (EIS and VCT), and increase the annual investment limit for qualifying companies to £10 million (EIS and VCT). The Government will consult on options to provide further support for seed investment, simplification of the EIS rules by removing some restrictions on qualifying shares and types of investor and refocusing both EIS and VCTs to ensure they are targeted at genuine risk capital investments. Feed in tariffs businesses will be added to the excluded activities list. All changes are subject to EU State aid clearance. (Finance Bill 2011 for rate increase in 2011, Finance Bill 2012 for other changes) (GR) (7)

2.39 Future of the Community Investment Tax Relief (CITR) – The Government will renotify CITR to the European Commission and consult in advance of renotification on how the scheme can be made more effective. (Finance Bill 2012)

2.40 Review of non-domicile taxation – Following the announcement in the June Budget 2010, the Government will consult in June 2011 on the detail of reforms to the taxation of resident non-domiciled individuals. Further details is set out in the Fairness section of Chapter 1. (Finance Bill 2012) (26)

2.41 Statutory residence test – The Government will consult in June 2011 on the introduction of a statutory tax residence test for individuals to give greater clarity and certainty for taxpayers. (Finance Bill 2012)

2.42 Furnished holiday lettings (FHL) – From April 2011, new tax rules for FHL will take effect, so that loss relief may only be offset against income from the same FHL business. Letting and availability thresholds will be increased from April 2012. (Finance Bill 2011) (ag)

2.43 Employer supported childcare: relaxation of the open generally condition – The Government will amend the qualifying condition for availability of employer-supported childcare schemes in respect of employees with earnings at or near the National Minimum Wage. The amended condition will apply from 6 April 2005. (Finance Bill 2011)

2.44 Employer supported childcare: changes to tax reliefs – From April 2011, the weekly amount that parents joining an employer-supported childcare scheme will be able to claim exempt of income tax and disregarded of NICs will remain at £55 for basic rate taxpayers, but will be reduced to £28 and £22 per week for higher and additional rate taxpayers respectively. All current users will continue to enjoy the same exemption and disregards beyond April 2011. (Finance Bill 2011) (cb)

2.45 European Banking Authority and other EU agencies based in the UK – As announced in a Written Ministerial Statement on 16 December 2010, the Government will introduce legislation to create an exemption from income tax for subsistence allowances paid to experts seconded to EU bodies located in the UK. These bodies are the European Banking Authority, the European Medicines Agency and the European Police College. The exemption will have effect from 1 January 2011. (Finance Bill 2011)

2.46 Expenses paid to MPs – As announced when draft Finance Bill legislation was published in December, the Government will introduce legislation to ensure that the existing tax treatment of MPs' accommodation expenses will continue to apply following a simplification made to the MPs' expenses scheme by the Independent Parliamentary Standards Authority. This legislation will have effect from 1 November 2010. (Finance Bill 2011)

2.47 Protection of Vulnerable Groups Scheme – As announced when draft Finance Bill legislation was published in December, the Government will introduce legislation to ensure that, following the introduction of the Protection of Vulnerable Groups Scheme in Scotland, an income tax charge does not arise on the fee for registering with the scheme. This legislation will have effect from 6 April 2010. (Finance Bill 2011)

Taxation of savings

2.48 ISA limits – From April 2012, the CPI will be used as the default indexation assumption for ISA limits. (23)

2.49 Junior ISAs – The Government announced in October 2010 that it will introduce new tax-advantaged accounts for saving for children, called Junior ISAs. All UK resident children aged under 18 who do not have a Child Trust Fund will be eligible for Junior ISAs, and the accounts are expected to be available from autumn 2011. Draft Regulations setting out further detail will be published in the week commencing 28 March 2011, alongside the introduction of Finance Bill 2011. The Government is also working with charities and others to identify how children in care can be supported through Junior ISAs. (Finance Bill 2011)

2.50 Qualifying Time Deposits (QTD) – The Government will change the way in which the tax due on income from QTD accounts is collected, by bringing these accounts within the Tax Deduction Scheme for Interest from 2012-13. (Finance Bill 2012) (48)

Taxation of pensions

2.51 Restricting pensions tax relief – On 14 October 2010 the Government announced that, from April 2011, the annual allowance for tax-privileged pension saving will be £50,000 and that, from April 2012, the lifetime allowance will be £1.5 million. On 3 March 2010, in response to an informal consultation, the Government announced that individuals with annual allowance charges over £2,000 will be able to meet these from their pension benefit, with schemes paying the tax at the point the charge arises. (Finance Bill 2011) (bm)

2.52 Pensions annuitisation – The June Budget 2010 announced that the effective requirement to annuitise by age 75 would be removed from April 2011. Draft clauses were published on 9 December 2010 following consultation on the details of the change during summer 2010. (Finance Bill 2011)

2.53 Pensions taxation: enabling retirement savings programme – As announced at the June Budget 2010 the Government will remove an unintended tax charge that would arise for the National Employment Savings Trust, and prevent other unintended pensions tax consequences that might arise due to the interaction of existing tax rules with the introduction of automatic enrolment duties from 2012. (Finance Bill 2011)

2.54 Reduction in the contracting out rebate – As announced by the Secretary of State for Work and Pensions in February, the level of the contracted out rebate for Defined Benefit pension schemes will be set at 4.8 per cent from April 2012. (25)

Capital gains tax

2.55 Capital gains tax: annual exempt amount – The annual exempt amount for capital gains tax will increase in line with statutory indexation to £10,600, with effect from 6 April 2011. The Government will simplify the process for setting the exempt amount for years where indexation does not require an increase. From April 2012 the CPI will be used as the default indexation assumption for capital gains tax annual exempt amounts. (Finance Bill 2011 for 2011 increase, Finance Bill 2012 for other changes) (23)

2.56 Entrepreneurs' relief – From 6 April 2011, the Government will increase to £10 million the lifetime limit on capital gains qualifying for entrepreneurs' relief. (Finance Bill 2011) (GR) (13)

2.57 Single payment scheme and capital gains tax roll-over relief – Following changes to the underlying EU legislation, the Government will restore entitlements under the EU Single Payment Scheme to the list of assets that qualify for capital gains tax roll-over relief. (Finance Bill 2012)

Inheritance tax

2.58 Inheritance tax: thresholds – The inheritance tax nil rate band is frozen until April 2015, after which point the CPI will be used as the default indexation assumption. (bq, 23)

Tax credits and benefits

2.59 New Enterprise Allowance – As announced on 5 January 2011 by DWP, the New Enterprise Allowance scheme will be extended to provide support nationwide to individuals entering self-employment who have been unemployed for more than six months. Under the scheme, claimants will be able to access mentoring support, loans and an Allowance payment for up to six months. (18)

2.60 Support for Mortgage Interest (SMI) – The waiting period for new working-age SMI claimants will remain at 13 weeks for one year from January 2012. The limit on eligible mortgage capital for working age SMI claimants will remain at £200,000 for one year from January 2012. (16)

2.61 Housing Benefit: amendment to ten per cent reduction for Jobseeker's Allowance (JSA) claimants – As announced by DWP as part of the Welfare Reform Bill 2011, Government will not take forward the planned 10 per cent reduction in Housing Benefit for long-term JSA claimants. (52)

2.62 Housing Benefit: transitional arrangements for Local Housing Allowance (LHA) claimants – As announced in the June 2010 Budget, LHA rates will be set at the 30th percentile of local market rents and LHA rates will be capped at £250 per week for a one bedroom property, £290 per week for a two bedroom property, £340 per week for a three bedroom property and £400 per week for four bedrooms or more. As announced by DWP in November 2010, these measures will now come into effect from April 2011 for new claimants, and January 2012 for existing claimants. (al, aq, 54)

2.63 Disability Living Allowance (DLA) – As announced by DWP at the introduction of the Welfare Reform Bill 2011, the Government will no longer remove the mobility component of DLA for people in residential care in October 2012. Mobility provision for people in residential care will be reviewed as part of the wider reform of DLA to be introduced from 2013-14. (ai, 53)

2.64 Strengthening the fraud sanctions regime in the benefits system and debt recovery – As part of the wider package of measures announced in the Fraud and Error Strategy published in October 2010, the Government will introduce a tougher fraud sanctions regime for the benefits system from April 2012, together with new arrangements for recovering debt from overpaid benefits. (56)

2.65 Employment Support Allowance (ESA) – As set out in the Welfare Reform Bill 2011, DWP will remove the national insurance concession, which enabled those aged under 20 (or aged under 25 if in education or training) to access contributory ESA without meeting contribution conditions. The concession will be abolished for all new claims from April 2012. (55)

Corporation tax

2.66 Corporation tax: main rate – The Government will reduce the main rate of corporation tax from 28 per cent to 26 per cent from April 2011. The rate will then be reduced by a further 1 per cent in each of the following three years, and as a result will be 23 per cent by 2014. (Finance Bill 2011 and future Finance Bills) (1, x)

2.67 Corporation tax: small profits rate – As announced in the June Budget 2010, from 1 April 2011 the small profits rate of corporation tax will fall from 21 per cent to 20 per cent. (Finance Bill 2011) (y)

2.68 Taxation of foreign branches – As announced in the June Budget 2010, the Government will legislate for the reform of the taxation of foreign branches. This will provide an opt-in exemption from corporation tax on the profits of foreign branches of UK companies. The new regime will be available for accounting periods beginning on or after the date Finance Bill 2011 receives Royal Assent. (Finance Bill 2011) (3)

2.69 Interim improvements to Controlled Foreign Company (CFC) rules – The Government will introduce a package of improvements to the current CFC rules for accounting periods beginning on or after 1 January 2011 to make the rules easier to operate. The proposals reflect the outcome of consultation and include extending the three-year temporary exemption so that it is also available to previously UK-headed groups if they return to the UK. (Finance Bill 2011) (2)

2.70 Full CFC reform – New CFC rules will be introduced in 2012. The new rules will 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 (equivalent to 5.75 per cent by 2014). A consultation document with details on the new CFC rules will be published in May 2011. (Finance Bill 2012) (5)

2.71 Patent Box – As announced on 29 November 2010, the Government confirms that it will introduce a reduced 10 per cent rate of corporation tax for profits arising from patents, effective from 1 April 2013. A consultation document will be published in May 2011. (Finance Bill 2012) (bu)

2.72 Capital allowances: writing down allowances – As announced in the June Budget 2010, writing down allowances will be reduced to 18 per cent from April 2012. (Finance Bill 2011) (z)

2.73 Capital allowances: annual investment allowance – As announced in the June Budget 2010, the Annual Investment Allowance will be reduced to £25,000 from April 2012. (Finance Bill 2011) (aa)

2.74 Capital allowances for Enterprise Zones – The Government will consider, in a limited number of cases, the scope for introducing enhanced capital allowances to support Enterprise Zones in assisted areas, where there is a strong focus on high value manufacturing. (GR)

2.75 Capital allowances: feed-in tariffs and Renewable Heat Incentives – The Government will consult in May 2011 on the appropriate capital allowances treatment of expenditure on plant and machinery that attracts tariffs under the feed-in tariffs or Renewable Heating Incentives schemes. (Finance Bill 2012)

2.76 Update of enhanced capital allowance scheme for energy saving technologies – The list of designated energy saving technologies qualifying for enhanced capital allowances will be updated during summer 2011, subject to agreement with the European Commission.

2.77 Capital allowances: short life assets – The disposal time limit on the capital allowances short life assets election will be extended from four to eight years. (Finance Bill 2011) (GR) (9)

2.78 Business premises renovation allowance – The Government will extend the Business Premises Renovation Allowance for a further five years from 2012. (Finance Bill 2012) (10)

2.79 Research and Development (R&D) tax credits – Following consultation on the effectiveness of the schemes, the Government will increase the SME scheme rate of relief to 200 per cent from April 2011 and 225 per cent from April 2012, subject to EU State aid approval. It will simplify the schemes, including removing the Pay As You Earn (PAYE)/NICs cap on the amount of payable credit that can be claimed, removing the minimum expenditure rules and allowing relief through the large company scheme for subcontracted activity which forms part of a wider R&D project. The Government will publish a response to the consultation in May 2011, which will include a consultation on the detail of proposed changes. Vaccines Research Relief will be reduced to 20 per cent for SMEs from April 2011 and not available to SMEs from April 2012. (Finance Bill 2011 for April 2011 increase to the SME scheme rate of relief and April 2011 decrease to Vaccines Research Relief, Finance Bill 2012 for other changes) (8)

2.80 Film tax relief: EU State aid renotification – The Government will renotify film tax relief to the European Commission.

2.81 Corporate capital gains simplification: capital losses – This measure was announced on 9 December 2010, and will have effect in relation to the deduction of a 'pre-entry' capital loss on and after the date that Finance Bill 2011 receives Royal Assent. It will make it easier for a group to integrate an acquired business into its existing operations without losing relief for any capital losses incurred by the acquired business. The changes are also intended to reduce the overlap with an anti-avoidance rule that prevents capital loss buying. (Finance Bill 2011) (4)

2.82 Corporate capital gains simplification: value shifting – This measure, announced on 9 December 2010, provides a shorter and clearer value shifting rule, and restricts the scope of the rule to instances where companies have entered into tax-motivated arrangements intended to secure a reduction in a charge to corporation tax on chargeable gains. It also eliminates the need for companies to retain records of depreciatory transactions beyond six years. (Finance Bill 2011) (4)

2.83 Corporate capital gains simplification: degrouping charges – This measure was announced on 9 December 2010, and will have effect where companies leave a group on and after the date that Finance Bill 2011 receives Royal Assent. It will remove a potential degrouping charge where a gain on the disposal of the company is otherwise exempt from tax. It will also reduce the potential for double taxation. (Finance Bill 2011) (4)

2.84 Associated companies – The Government confirmed in the June Budget 2010 that it will proceed with the reform of the associated company rules for the small profits rate. From 1 April 2011 the rules will be simplified to ensure that companies can only be associated, through an attribution of rights between connected individuals, when substantial commercial interdependence exists between the companies concerned. (Finance Bill 2011)

Business rates

2.85 Business rate discount in Enterprise Zones – The Government will offer up to 100 per cent discount on business rates to businesses located in Enterprise Zones for five years. (GR) (11)

2.86 Small business rate relief holiday: extension – The small business rate relief holiday will be extended by one year from 1 October 2011. (GR) (12)

Taxation of the financial services sector

2.87 Bank Levy – The Government announced its intention to introduce the Bank Levy in the June Budget 2010. The levy came into effect on 1 January 2011. On 8 February 2011, the Government announced an increase in the levy rates. The full levy rates are 0.05 per cent from 1 January 2011 until 28 February 2011, 0.1 per cent from 1 March 2011 until 30 April 2011, 0.075 per cent from 1 May 2011 until 31 December 2011 and 0.078 per cent thereafter. (Finance Bill 2011) (6)

2.88 New bank capital instruments – The Government will set up an industry working group from April 2011 to explore any tax issues associated with the development of new bank capital instruments in light of the Basel III proposals and, if necessary, will legislate in 2012. (Finance Bill 2012)

2.89 Tax transparent fund – The Government will legislate to introduce a tax transparent fund vehicle from 2012. The Government will consult in June 2011 on the regulatory and tax aspects of the regime. (Finance Bill 2012)

2.90 Undertakings for Collective Investments in Transferable Securities (UCITS) IV – Following the consultation on transposing the UCITS IV Directive, the Government will introduce legislation to enable UCITS funds to be managed from the UK without adverse tax consequences. Regulations will also be introduced to amend the Genuine Diversity of Ownership conditions for Master/Feeder structures. (Finance Bill 2011)

2.91 Offshore Funds amendments – As announced on 28 February 2011, the Government is consulting on amendments to certain elements of the offshore funds regime.

2.92 Protection life insurance – The Government will introduce legislation to remove protection business from the 'income minus expenses (I-E)' life tax system designed to tax investment type business and align it with the tax treatment of other trading entities. The change will be effective from 1 January 2013. (Finance Bill 2012) (47)

2.93 Solvency II and the taxation of life insurance companies – The Government will legislate on the new post-Solvency II life insurance tax regime. The new regime will deal with essential adjustments arising from Solvency II and at the same time deliver significant changes to create a simpler and more stable tax basis better aligned with the taxation of companies generally. (Finance Bill 2012)

2.94 General insurance Claims Equalisation Reserves (CERs) – The Government will look to industry to give a robust justification for continuing the CERs tax relief. Dependent on this, the Government intends to legislate to retain the tax relief. The case for CERs will be reviewed again in the light of future insurance accounting developments currently expected in 2014. (Finance Bill 2012)

2.95 Stop loss and quota share insurance – The Government will consult with industry on proposals to amend the timing of the tax deduction for Lloyd's member-level stop-loss premiums. (Finance Bill 2012)

2.96 Islamic finance – The Government will make regulations to introduce direct tax rules for sharia-compliant variable loan arrangements and derivatives in 2011, following informal consultation with industry representatives.

2.97 Tax consequences of the Financial Services and Markets Act (FSMA) 2000 (Regulated Activities)(Amendment) Order 2010 – The FSMA 2000 (Regulated Activities) (Amendment) Order 2010 which came into force on 24 February 2010 unintentionally created a number of potential adverse consequences for the tax and regulatory treatment of some types of debt securities. The Government will legislate to ensure that no unintended tax consequences arise for the potentially affected debt securities between 24 February 2010 and the date on which the remedying amendments came into force. (Finance Bill 2011)

2.98 Modernisation of investment trust companies – The Government will legislate to enable the implementation of a modernised regime for investment trust companies. (Finance Bill 2011)

2.99 Life insurance apportionment rules – The Government will introduce legislation to amend the current apportionment rules to modify their operation in certain circumstances. (Finance Bill 2011)

2.100 Stamp Duty Reserve Tax (SDRT): changes to "Schedule 19" – The Government will legislate to widen the current definition of when an investment in an underlying collective investment scheme is classed as an 'exempt investment' under the SDRT Schedule 19 rules. (Finance Bill 2011)

Oil and gas taxes

2.101 Supplementary Charge – The rate of the Supplementary Charge levied on profits from UK oil and gas production will increase to 32 per cent from midnight on 24 March 2011. (Finance Bill 2011) (28)

2.102 As part of the fair fuel stabiliser, if in future years the oil price falls below a set trigger price on a sustained basis, the Government commits to reduce the Supplementary Charge back towards 20 per cent on a staged and affordable basis while prices remain low. The Government considers that a trigger price of $75 per barrel would be appropriate, and will set a final level and mechanism after seeking the views of oil companies and motoring groups. Recognising the importance of continued investment in the North Sea, including in marginal gas fields, the Government will also consider with the industry the case for introducing a new category of field that would qualify for field allowance.

2.103 Oil and gas decommissioning tax relief – The Government will introduce legislation to restrict tax relief for decommissioning expenditure to the 20 per cent rate of Supplementary Charge. There will be no restrictions to decommissioning relief below this level for the lifetime of this Parliament. The Government commits to work with the industry with the aim of announcing further, longer term, certainty on decommissioning at Budget 2012. (Finance Bill 2012) (28)

2.104 Oil and gas technical measures – The Government will introduce legislation to clarify the scope of the Intangible Fixed Asset Regime as it applies to oil and gas companies operating in the UK and on the UK Continental Shelf. (Finance Bill 2011)

2.105 Oil and gas minor measures – As announced when draft legislation was published in December 2010, the Government will introduce legislation to make minor changes to the tax regime for oil and gas companies that operate in the UK or on the UK continental shelf. (Finance Bill 2011)

Other corporate taxes

2.106 Distributions working party – Legislation was introduced in Finance (No.3) Act 2010 covering the tax treatment of company distributions received in a narrow set of circumstances. An industry working group will assist HM Revenue & Customs (HMRC) in identifying and resolving the areas of difficulty. Issues will be addressed by publishing comprehensive guidance or enacting legislation. If legislation is required, the Government will consult on draft clauses in the autumn. (Finance Bill 2012)

2.107 Amendments to the tax treatment of financing costs and income – The consultation on the debt cap has identified practical issues with the application of the rules, such as the de minimis amount, that need to be addressed. Following further consultation in June 2011, the Government will introduce legislation to allow businesses to more easily apply the debt cap rules. (Finance Bill 2012)

2.108 Amendments to the loan relationship and derivative contract disregard regulations – The Government will introduce secondary legislation in 2011 to implement changes to the Disregard Regulations. These changes will align tax treatment with the economic position for companies which use loan relationships and derivative contracts to reduce their exposure to foreign exchange fluctuations in certain circumstances.

2.109 Leasing into tonnage tax – Draft legislation was published on 9 December 2010 to equalise, with effect from 1 January 2011, the rates of writing down allowances for capital allowance purposes for ships leased into UK Tonnage Tax with assets held outside Tonnage Tax. (Finance Bill 2011)

2.110 Tax and accounting leases: changes to accounting standards – As announced on 9 December 2010, the Government will introduce legislation to ensure that the rules governing the treatment of leases for tax purposes continue to apply as now in the event of the adoption of a new accounting standard. (Finance Bill 2011)

2.111 Organisation for Economic Cooperation and Development (OECD) Transfer Pricing Guidelines – As announced on 9 December 2010, the Government will introduce legislation, effective from 1 April 2011, which will update the definition of "transfer pricing guidelines" to refer to the most recent version of the OECD Transfer Pricing Guidelines. (Finance Bill 2011)

Tax measures affecting charities

Gift Aid

2.112 Gift Aid benefit limits – The Gift Aid benefit limit will be increased from £500 to £2,500, subject to the existing 5 per cent limit, from April 2011. New guidance will be published to help clarify what constitutes a benefit. (Finance Bill 2011)

2.113 Gift Aid small donations scheme – From April 2013, the Government will introduce a new scheme to allow charities to claim Gift Aid on up to £5,000 of small donations without the need for Gift Aid declarations. (51)

2.114 Gift Aid online filing – The Government confirms that it will introduce an online system for charities to claim Gift Aid and as a first step will shortly be publishing 'intelligent' forms (which contain automatic checks) for charities to use to apply for and claim tax reliefs.

2.115 Self Assessment (SA) Donate – To help fund the introduction of Gift Aid online filing, the Government will withdraw SA Donate for tax returns for 2011-12 onwards. (Finance Bill 2012)

Other tax measures affecting charities

2.116 Inheritance tax: reduced rate for charitable donations – From 6 April 2012, the Government will introduce a reduced rate of inheritance tax of 36 per cent for estates leaving 10 per cent or more to charity. (Finance Bill 2012) (50)

2.117 Gifts of works of art – The Government will consult in 2011 on proposals to encourage donations of pre-eminent works of art or historical objects to the nation in return for a tax reduction.

2.118 In-year repayments on tax to charities – The Government will legislate an extra statutory concession under which HMRC makes repayments of tax to certain charities without requiring a tax return to be completed. (Finance Bill 2012)

2.119 Changes to the substantial donors rules – In December 2010, the Government published draft clauses to replace the substantial donors to charities legislation. This anti-avoidance legislation denies relief where the donor enters into arrangements with the main purpose of obtaining a financial advantage from the charity. The new rules will commence from April 2011. (Finance Bill 2011)

Indirect taxes

Alcohol duties

2.120 Alcohol duty rates – As first announced at Budget 2008, alcohol duty rates will increase by 2 per cent above the RPI on 28 March 2011. This will add 4 pence to the price of a pint of beer, 15 pence to the price of a bottle of wine, and 54 pence to the price of a bottle of spirits. (Finance Bill 2011)

2.121 Changes to the beer duty regime – The review of alcohol taxation in November 2010 announced measures to encourage the consumption of lower strength beers. The Government will introduce a new additional duty on beers over 7.5 per cent alcohol by volume (abv) in strength at a rate of 25 per cent of general beer duty. This will add 25 pence to the price of a can of "super strength" lager. A reduced rate of 50 per cent of general beer duty will be introduced for beers of 2.8 per cent abv or below and above 1.2 per cent abv in strength. This will reduce the price of a pint of beer at 2.8 per cent abv by 18 pence. These changes will come into effect from 1 October 2011. (Finance Bill 2011)

2.122 Repeal of Alcoholic Liquor Duties Act 1979 (ALDA) section 22 – 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)

2.123 Potential legislative measures to tackle alcohol fraud and duty avoidance – The Government will explore potential legislative measures to tackle existing and emerging threats to alcohol duty receipts. (Finance Bill 2012)

Tobacco duties

2.124 Tobacco duty rates – As announced in the March Budget 2010, tobacco duty rates will increase by 2 per cent above the RPI. Duty on hand rolling tobacco will increase by an additional 10 per cent. These changes will come into effect from 6pm on 23 March 2011. (Finance Bill 2011) (39)

2.125 Changes to the tobacco duty regime – The Government is also restructuring cigarette duty to support health objectives. As a result, ad valorem duty on cigarettes will decrease to 16.5 per cent, and specific duty will increase by 25 per cent above the RPI. This will target the duty increase on cheaper cigarettes, adding 50 pence to a packet of economy cigarettes and 33 pence to a packet of premium cigarettes. These changes will come into effect from 6pm on 23 March 2011. (Finance Bill 2011) (39)

2.126 Tobacco: tackling fraud – The Government is fully committed to tackling the illicit trade in tobacco to protect public finances and support health objectives. HMRC and the UK Border Agency will be introducing a renewed strategy to tackle this fraud from April 2011.

Gambling duties

2.127 Gaming duty revalorisation – Gaming duty bands will increase in line with the RPI for accounting periods starting on or after 1 April 2011. (Finance Bill 2011)

2.128 Amusement machine licence duty (AMLD) revalorisation – All rates of amusement machine licence duty will be increased in line with the RPI from 4pm on 25 March 2011. (Finance Bill 2011)

2.129 AMLD reform – paving legislation – As announced in December 2010, the Government will reform the taxation of gaming machines and introduce a machine games duty. The Government intends to consult on the design of the new tax in May 2011. Subject to legislation in Finance Bill 2012, implementation will follow in early 2013. (Finance Bill 2011 for paving legislation, Finance Bill 2012 for other changes)

2.130 Lottery taxation – As announced in the June Budget 2010, the Government has reviewed the taxation of the National Lottery. It has concluded that no change will be made.

Fuel duties

2.131 Fuel duty – The fuel duty escalator that was announced in Budget 2009 will be abolished and replaced by a fair fuel stabiliser. The main fuel duty rate will be cut by 1 penny per litre from 6pm on 23 March 2011. Fuel duty will increase by RPI (by 3.02 pence per litre) on 1 January 2012. As part of the fair fuel stabiliser, fuel duty will increase by RPI when oil prices are high. However, in years when the oil price falls below a set trigger price on a sustained basis, the Government will increase fuel duty by RPI plus 1 penny per litre. The Government believes that a trigger price of $75 per barrel would be appropriate, and will set a final level and mechanism after seeking the views of oil companies and motoring groups. The 2012-13 increase will be implemented on 1 August 2012. (Finance Bill 2011 for March 2011 decrease and January 2012 increase, Finance Bill 2012 for August 2012 increase) (27)

2.132 Minor fuel duties From 6pm on 23 March 2011, and on 1 January 2012, the duty rate for leaded petrol and compressed natural gas will change by the same monetary amount as main fuel duty; and the duty rate for aviation gasoline and rebated oils will change in proportion to the main rate. The duty differential for liquefied petroleum gas will be maintained until 1 January 2012 when it will be reduced by 1 penny per litre. The duty differential for used cooking oil biofuel will end as intended on 31 March 2012. (Finance Bill 2011)

2.133 On 1 August 2012 rebated oils will also rise in proportion to the main rate; and the duty differential for compressed natural gas will be maintained, but the differential for liquefied petroleum gas will be reduced by 1 penny per litre. (Finance Bill 2012)

2.134 Rural fuel duty rebate – On 23 March 2011, the Government formally submitted a derogation request to the European Commission for a rural fuel duty rebate pilot scheme. This is intended to deliver a 5 pence per litre duty discount on petrol and diesel across the Inner and Outer Hebrides, Northern Isles, the islands in the Clyde and the Isles of Scilly. (Finance Bill 2012) (29)

Other transport taxes

2.135 Vehicle excise duty (VED) uprating – From 1 April 2011, VED rates will increase by the RPI as assumed in the forecast; apart from VED rates for Heavy Goods Vehicles which will be frozen in 2011-12. In addition, discount rates for Euro VI Reduced Pollution Certificates (RPCs) will remain the same as for previous Euro standards. RPCs will be available for Euro VI standard vehicles from 1 January 2012 until 31 December 2016, applying to vehicles purchased before the standard becomes mandatory. The RPC will be backdated for Euro VI vehicles purchased before 1 January 2012. All Euro VI vehicles will return to standard VED rates when their tax disc naturally expires from 31 December 2016. (Finance Bill 2011) (30)

2.136 Approved Mileage Allowance Payments (AMAPs) rates from 2011-12 – From 6 April 2011, the AMAPs rates will rise to 45 pence per mile for the first 10,000 miles and 25 pence per mile thereafter. In addition to claiming AMAPs rates, an allowance for passenger payments currently in place for business employees, at 5 pence per passenger per mile, will be extended to volunteers. (Finance Bill 2011) (31)

2.137 Company car tax rate 2013-14 – From April 2013, the appropriate percentages for all vehicles with carbon dioxide emissions between 95g and 220g per kilometre will be increased by 1 percentage point. This results in a freeze in rates for cars emitting less than 95g per kilometre. (Finance Bill 2011) (35)

2.138 Fuel benefit charge 2011-12 – From 6 April 2011, the fuel benefit charge multiplier used to calculate the tax payable on free fuel for company cars will increase by indexation only from £18,000 to £18,800.

2.139 Van fuel benefit charge 2011-12 and van benefit charge 2011-12 – The Government announces a freeze in the level of van fuel benefit charge at £550 for 2011-12. The van benefit charge will also be frozen at £3,000 in 2011-12.

2.140 Aviation tax: rates – Air Passenger Duty (APD) rates will be frozen for 2011-12. The RPI increase assumed in the forecast will be deferred and implemented alongside the April 2012 RPI increase. (Finance Bill 2012) (36)

2.141 Aviation tax: consultation and business jets – At the June Budget 2010, the Government announced it would explore changes to the aviation tax system and that major changes would be subject to consultation. A consultation on the structure of APD, launched on 23 March 2011, includes plans to extend the duty to flights taken aboard business jets. (Finance Bill 2012)

Carbon taxes

2.142 Carbon price floor – The Government announces a floor price for carbon in the power sector from 1 April 2013 to target a price for carbon of £30 per tonne of carbon dioxide in 2020. The floor will start at around £16 per tonne of carbon dioxide and the carbon price support rates for 2013-14 will be equivalent to £4.94 per tonne. The Government intends to introduce relief for carbon capture and storage and combined heat and power (CHP), and remove an existing exemption in the climate change levy for electricity CHP plants supply indirectly to an energy consumer. Anti-avoidance provisions will be introduced to prevent forestalling with effect from 23 March 2011. (Finance Bill 2011) (32)

2.143 Climate change levy rates – Climate change levy rates will increase in line with the RPI in 2012-13. (Finance Bill 2011)

2.144 Reform of Climate Change Agreements (CCAs) – CCAs will be extended to 2023. The climate change levy discount on electricity for CCA participants will be increased from 65 per cent to 80 per cent from April 2013. A consultation on proposals to simplify the agreements will be published by summer 2011. (Finance Bill 2012) (33)

2.145 Climate change levy exemption: certain forms of transport – The climate change levy exemption for taxable commodities used in rail freight will be suspended from 1 April 2011 pending EU State aid re-approval. The exemption will be re-instated upon receipt of the further approval, with retrospective effect if the approval allows. (Finance Bill 2011)

2.146 Climate change levy exemption: recycling processes – The climate change levy exemption for taxable commodities used in steel and aluminium recycling will be suspended from 1 April 2011 if EU State aid re-approval has not been received by then. The exemption will be re-instated upon receipt of the further approval, with retrospective effect if the approval allows. (Finance Bill 2011)

2.147 Climate change levy exemption: gas in Northern Ireland – The climate change levy exemption for supplies of gas in Northern Ireland will be replaced with a lower rate. This change is necessary to ensure compliance with EU State aid rules. From 1 April 2011 to 31 March 2012 the rate will be £0.00059 per kilowatt hour. From 1 April 2012 the rate will be £0.00062 per kilowatt hour. (Finance Bill 2011) (34)

2.148 Carbon Reduction Commitment – Allowances will be priced at £12 per tonne of carbon dioxide. The Government will publish draft regulations to implement allowance sales later in 2011.

2.149 Funding for Carbon Capture and Storage (CCS) demonstration programme – The Government remains committed to providing public funding for CCS demonstration plants. However, consistent with its objectives for tax simplification, it will not proceed with the CCS levy. It will instead fund its commitments to CCS demonstration from general taxation.

Landfill taxes

2.150 Landfill tax rates – The Government is legislating for an increase in the standard rate of landfill tax by £8 per tonne to £64 per tonne on 1 April 2012, as announced in the June 2010 Budget, and will continue to freeze the lower rate of landfill tax at £2.50 per tonne in 2012-13. (Finance Bill 2011)

2.151 Landfill communities fund: value of the fund – The value of the landfill communities fund will rise in line with inflation in 2011-12 to £78.1 million. Future decisions on the value of the fund will take into account the success of environmental bodies in reducing the level of unspent funds that they hold.

Aggregates levy

2.152 Aggregates levy – Following the suspension of the aggregates levy credit scheme in Northern Ireland, the increase in the aggregates levy rate from £2.00 to £2.10 scheduled for

1 April 2011 will not go ahead. The Government is legislating to enable the operation of the scheme until 2021, pending EU State aid approval. (Finance Bill 2011) (37)

2.153 The Government intends that the aggregates levy rate will increase to £2.10 in April 2012. (Finance Bill 2012) (37)

Water

2.154 Water charging and water assistance – The Government is committed to supporting households who face water affordability pressures and households in areas with particularly high water bills, such as the South West. The Government will consult shortly on proposals to address water affordability. This will include reforms to the existing WaterSure scheme, the approach to company social tariffs and options for additional government spending to provide further support.

Property taxes

2.155 Stamp Duty Land Tax (SDLT): reform of the rules for bulk purchases – The Government will introduce changes to the SDLT rules for bulk purchases of residential properties. If the buyer chooses, the rate of SDLT on purchases of multiple residential properties will be determined by the mean value of the dwellings purchased (subject to a minimum rate of 1 per cent), rather than their aggregate value as is currently the case. (Finance Bill 2011) (GR) (15)

2.156 SDLT: relief for first-time buyers – The Government will announce in the autumn the outcome of its review of the SDLT relief for first-time buyers.

2.157 Real Estate Investment Trusts (REITs) – Subject to informal consultation, the Government will legislate in Finance Bill 2012 to support good business practices and remove barriers to entry, and investment in, the REITs regime, including removing the REITs 2 per cent conversion charge. (Finance Bill 2012) (GR)

VAT measures

2.158 VAT: low value consignment relief (LVCR) – The Government will reduce the LVCR threshold from £18 to £15 from November 2011. The Government will also explore options with the European Commission to limit the scope of the relief so that it can no longer be exploited for a purpose it was not intended for, and will revisit the level of the LVCR in Budget 2012 if discussions with the European Commission do not produce a workable solution to the problem of exploitation of the relief. (Finance Bill 2011) (38)

2.159 VAT: revalorisation of registration and deregistration thresholds – From 1 April 2011, the VAT registration threshold will be increased from £70,000 to £73,000 and the deregistration threshold from £68,000 to £71,000.

2.160 VAT: revalorisation of fuel scale charges – The VAT fuel scale charges will be revalorised with effect from 1 May 2011. The VAT fuel scale charges scheme is a simplified means of taxing the private use of business fuel.

2.161 VAT: diplomatic privilege – The Government will introduce indirect tax reliefs to replace existing extra statutory concessions which need to be withdrawn for diplomatic missions, international bodies, NATO visiting forces, and introduce a relief for European Research Infrastructure Consortia. (Finance Bill 2012)

2.162 VAT: grouping extra statutory concession – Subject to consultation, the Government will legislate for an existing extra statutory concession in order to maintain its effect. The concession ensures that VAT groups and businesses with overseas branches are treated equally in respect of services bought in from third parties. (Finance Bill 2012)

2.163 Tackling VAT fraud on imported road vehicles – The Government will introduce a new online notification system for road vehicles brought into the UK from 2013 in order to combat fraud in this area. This will be a joint HMRC and Driver and Vehicle Licensing Agency (DVLA) initiative. (Finance Bill 2012) (46)

2.164 VAT: online registration and online filing – Following the Minister for the Cabinet Office's statement of 23 November 2010 on the "Digital Agenda", subject to consultation on the detail, the Government will mandate online VAT registration, de-registration and variations, and make other changes, including removal of the UK VAT registration threshold for non-established businesses, with effect from 1 August 2012. The Government will also put forward regulations which, subject to consultation, will require all remaining VAT customers to file their VAT returns online and pay electronically from 1 April 2012. (Finance Bill 2012)

2.165 VAT: business samples – As announced on 9 December 2010, UK VAT legislation will be amended to reflect a judgment of the Court of Justice of the EU which extended the relief available to businesses providing samples for marketing purposes. Previously VAT relief applied only to the first sample in a series of identical samples given to any one individual. (Finance Bill 2011)

2.166 VAT: status of public bodies – The Government will amend UK law to ensure clear transposition of EU legislation relating to the VAT treatment of public bodies when carrying out their statutory duties and when in competition with the private sector. (Finance Bill 2012)

2.167 VAT: refund scheme for academies – As set out in the draft Finance Bill 2011 clauses published in autumn 2010, the Government is introducing a new VAT refund scheme with effect from 1 April 2011 to ensure that funding for academies' non-business VAT costs is consistent with that for local authority maintained schools. (Finance Bill 2011)

2.168 VAT: cost sharing – The Government will continue to consult on implementation of a VAT exemption for services shared by VAT-exempt bodies, including charities.

Tax reliefs

2.169 Office of Tax Simplification (OTS) review of reliefs and Government response – The Chancellor of the Exchequer commissioned the OTS to undertake a review into the reliefs and allowances available in the tax system. The OTS published their final report on 3 March 2011 in which they recommended that over 40 reliefs be abolished.[12] The Government welcomes the recommendations and, based on the findings of the OTS and ongoing work by HMRC, intends to abolish only those reliefs set out below.

2.170 The Government will consider the other areas raised in the report within a wider programme of work for the OTS. The Exchequer Secretary to the Treasury will write to the OTS before the summer, providing greater detail on the Government's plans on tax simplification.

2.171 The following reliefs are obsolete and so will be abolished in Finance Bill 2011:

- charities – transitional relief on distributions;
- Millennium Gift Aid;
- National Savings Bank ordinary account interest;
- payroll giving 10 per cent supplement;

[12] *Review of Tax Reliefs: Final Report*, Office of Tax Simplification, March 2011.

- exemption for certain assignments by seamen;
- instruments relating to National Savings; and
- transfers in relation to ships and vessels.

2.172 The Government intends to abolish the following reliefs in Finance Bill 2012 after a period of consultation:

- payments to mariners to be disregarded;
- 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;
- cycle to work days – provision of meals;
- late night taxis;
- luncheon vouchers;
- Pools payment for football ground improvements;
- Pools payment for support for games;
- disregard for certain apprentices and students coming to the UK;
- assistance in identifying lost or stolen credit cards;
- nationalisation schemes; and
- tax reserve certificates issued by HM Treasury.

2.173 The Government recognises that it would be desirable to provide a period of notice before the abolition of some reliefs. Therefore, the Government intends that the following reliefs will be abolished after 2012 in future Finance Bills or other legislative vehicles, with a final date set out after the consultation:

- Class 1A NICs – Exemption for prescribed general earnings;
- Class 4 NICs – Allows deduction in next tax year of losses incurred in 1989-90 or previous tax year where losses from income other than trade or profession or vocation;
- deeply discounted securities – incidental expenses;
- life assurance premium relief;
- life assurance premiums paid by employers under employer-financed retirement benefit schemes;
- capital allowances – flat conversion allowances;
- capital allowances – safety at sports grounds;
- certain leases granted by registered social landlords;
- disadvantaged area relief (Stamp Duty);
- exempt instruments;

- partial relief for company acquisitions;
- shared ownership transactions;
- transfers to registered social landlords;
- visiting forces and allied headquarters;
- disadvantaged area relief (SDLT);
- Angostura bitters;
- Black Beer;
- land remediation relief;
- compensation for mis-sold pensions;
- harbour authorities;
- harbour reorganisation schemes; and
- transfers in relation to harbour reorganisation schemes.

Anti-avoidance

2.174 Corporate gains: degrouping charges – The Government will introduce legislation, with effect from 23 March 2011 to amend the degrouping charge rules to ensure that they operate as intended. This change may affect companies that cease to be a member of a group on or after today. (Finance Bill 2011)

2.175 Sale of lessor companies – The Government will introduce legislation with effect from 23 March 2011 amends the sale of lessors anti-avoidance legislation to ensure it remains effective and withdraws the option to elect for alternative treatment. (Finance Bill 2011) (42)

2.176 Loan relationships avoidance: derecognition – As announced on 6 December 2010, the Government will introduce legislation to prevent avoidance of corporation tax by addressing schemes where a company derecognises certain amounts involving loans and derivatives in its accounts. Following publication of draft clauses, the legislation has been amended to require a company to recognise differences between the accounting and fair value of a derivative as a credit for the period in which tax avoidance arrangements are entered into. This change will have effect from 23 March 2011. (Finance Bill 2011)

2.177 SDLT – The Government will introduce legislation, with effect from 24 March 2011, to address three SDLT avoidance risks. The changes cover avoidance techniques that use the subsales rules, the Alternative Finance reliefs and the rules for exchanges of land. These techniques have been used to attempt to avoid tax on both residential and non-residential property transactions, including on high value property transactions. (Finance Bill 2011) (44)

2.178 Programme of reviews of high risk areas – The Government has today set out in the Budget document *Tackling Tax Avoidance* a programme of work to improve areas of legislation that have been subject to repeated attempts at tax avoidance.[13] The first areas for review will be income tax losses and Unauthorised Unit Trusts.

2.179 Protocol on unscheduled announcements of changes to tax law – The Government has today published in *Tackling Tax Avoidance* a Protocol on the circumstances in which it will be prepared to announce a change to tax law that has immediate effect, other than at the Budget.

[13] *Tackling Tax Avoidance*, HM Treasury and HMRC, March 2011.

2.180 Listed tax avoidance schemes – The Government will consult in May 2011 on proposals to counter the continued marketing and use of highly aggressive and artificial tax avoidance schemes. Subject to consultation, the Disclosure of Tax Avoidance Schemes (DOTAS) regime will be extended to enable the listing of specific tax avoidance schemes for direct taxes so that the subsequent use of such schemes will carry consequences for the user. Options under consideration include a surcharge for late payment of the tax. (Finance Bill 2012)

2.181 DOTAS: improvements – A group of measures improving the DOTAS regime took effect on 1 January 2011 following consultation. The measures included some refinements to the hallmarks (the descriptions of schemes to be disclosed). The Government will hold further informal consultations with stakeholders over the summer on the remaining changes to the hallmarks. Subject to consultation changes will be implemented in 2011-12.

2.182 DOTAS: inheritance tax – Regulations have now been laid to bring inheritance tax, as it applies to transfers of property into trust, within DOTAS. They come into effect on 6 April 2011 and will require disclosure of new and innovative IHT avoidance schemes involving transfers into trust.

2.183 Tax treaties – The Government will introduce legislation that will ensure that relief from tax is not given where a claim is made under UK double taxation treaties and where tax avoidance arrangements have been made in relation to the claim. (Finance Bill 2012)

2.184 Employer asset-backed pension contributions – The Government will consult on changing tax rules to limit the amount of tax relief available to employers when they make asset-backed contributions to their defined benefit pension schemes so that the tax relief accurately reflects the increase in fair value of pension plan assets, while maintaining flexibility for employers and schemes. (Finance Bill 2012)

2.185 Changes to capital allowances anti-avoidance legislation – The Government will consult in May 2011 on replacing the existing test for the application of the capital allowances anti-avoidance rules with a new test to bring it in line with other anti-avoidance rules and on amendments to make the rules more effective. (Finance Bill 2012)

2.186 Capital allowances: fixtures mandatory pooling – The Government will consult in May 2011 on introducing a requirement that businesses pool their expenditure on fixtures within a short period after acquisition in order to qualify for capital allowances. (Finance Bill 2012)

2.187 Leasing double allowances – As announced on 9 March 2011, the Government will introduce legislation to counter avoidance involving the leasing of plant or machinery where taxpayers claim capital allowances twice on one amount of expenditure. (Finance Bill 2011) (43)

2.188 Disguised remuneration – As announced in the June 2010 Budget, the Government will introduce legislation to target arrangements intended to disguise remuneration or avoid restrictions on pensions tax relief. The measure ensures that where a reward or a loan is provided, via a third party, in connection with the employee's employment, an income tax charge arises and the employer is required to account for PAYE. (Finance Bill 2011) (40)

2.189 UK resident investment companies: currency for tax calculations – As announced on 6 December 2010, the Government will introduce legislation to counter avoidance involving investment companies retrospectively changing the functional currency they prepare their accounts in for tax purposes. It will also allow investment companies to elect, prospectively, for a different functional currency. (Finance Bill 2011) (41)

2.190 Group mismatches – As announced on 6 December 2010, the Government will introduce legislation to prevent tax avoidance involving groups of companies using intra-group loans or derivatives to reduce the group's tax bill. (Finance Bill 2011)

2.191 VAT: prevention of supply-splitting using printed matter – As announced on 6 December 2010 the Government will introduce legislation to withdraw zero-rating for ancillary printed matter where it is connected to the supply of a differently rated service. (Finance Bill 2011) (45)

Tax administration

2.192 Amendment to the Provisional Collection of Taxes Act (PCTA) 1968 – The Government will make amendments to the PCTA 1968 to maintain the Government's ability to collect income tax and certain other taxes and duties on a provisional basis following changes to the parliamentary timetable. (Finance Bill 2011)

2.193 Transposing the Mutual Assistance Recovery Directive – The Government will legislate to transpose the EU Mutual Assistance Recovery Directive into UK law, providing for mutual assistance between Member States in the recovery of tax debts and related measures. (Finance Bill 2011)

2.194 Provision for neutral taxation of CPI and RPI-linked gilts – The Government will amend the taxation legislation to ensure that the taxation treatment of index-linked gilts is neutral with respect to the measure of inflation that is used to index the value of an index-linked gilt. (Finance Bill 2011)

2.195 Incapacitated persons – Following the Budget, HMRC will be consulting on how best to modernise the language used to define an incapacitated person for tax purposes. (Finance Bill 2012)

2.196 Simplification of regulatory penalties – Formal consultation will be published in June 2011 on options to simplify regulatory penalties.

2.197 Dishonest tax agents – Further consultation and draft legislation will be published in July 2011 on HMRC's approach to tackling dishonest tax agents. (Finance Bill 2012)

2.198 Data gathering – Following consultation, from 1 April 2012 HMRC data-gathering powers will be updated so that they can more effectively target non-compliant taxpayers. (Finance Bill 2011)

2.199 Tax consultation framework – Following consultation earlier in 2011, the Government will publish a finalised tax consultation framework shortly.

2.200 Customer cost reduction announcement – HMRC will expand the existing administrative burden reduction target to include wider taxpayer compliance costs. Over the Spending Review period any increase in administrative burdens must be met by equal reductions in other areas of the tax system.

2.201 Time to pay – HMRC will continue to offer time to pay agreements to viable businesses which are experiencing genuine but short term difficulties in paying their tax. (GR)

2.202 OTS review of small business tax and next OTS reviews – As part of the second stage of the OTS review of small business tax, the OTS will look at improving tax administration for small business, with recommendations to the Government for Budget 2012. Further detail on this work, the Government's response to OTS reviews, and future work of the OTS will be announced before the summer.

2.203 IR35 – Following the publication of the OTS review of small business tax, the Government commits to making clear improvements in the way IR35 is administered. These improvements will include setting up a dedicated helpline staffed by specialists, publishing guidance on those types of cases HMRC view as outside the scope of IR35, targeting compliance activity by restricting reviews to high risk cases and setting up an IR35 Forum which will monitor HMRC's new approach. The Government has decided to retain IR35, as abolition would put substantial revenue at risk.

2.204 Digital by Default consultation – Following the "Digital by Default" announcement by the Minister for the Cabinet Office on 23 November 2010, the Government will consult in the summer on the implementation of mandatory online registration for the main business taxes by 2012-13. (GR)

2.205 Financial securities for PAYE and NICs – Following consultation, HMRC will be able from April 2012 to require a security from employers where there is a serious risk that tax due under PAYE or Class 1 NICs will go unpaid. (Finance Bill 2011) (49)

Banking measures

2.206 Lending commitments – This Budget announces that both Lloyds Banking Group (LBG) and The Royal Bank of Scotland (RBS) met their year two lending commitments for business and mortgage lending. During the 12 months to February 2011, LBG provided £11.7 billion of gross lending to SMEs and £37 billion to larger businesses. This exceeded its business lending commitment by £4.7 billion. During the same period, RBS provided £30 billion of gross lending to SMEs and £26.9 billion to larger businesses, exceeding its business lending commitment by £6.9 billion. For mortgages, during the 12 months to February 2011, LBG delivered £23.5 billion in gross mortgage lending compared to its commitment of £23 billion, with RBS delivering £9.4 billion compared to a net commitment of £8 billion.

2.207 Review of covered bonds – The Government and the Financial Services Authority (FSA) will shortly publish a review of the UK's regulatory framework for covered bonds. The review will consult on measures to enhance the attractiveness of UK covered bonds to investors, making it easier for banks and building societies to raise funding in order to lend to households and businesses. (GR)

A Impact on households

Transparency

A.1 The Government has taken steps to increase transparency and enable the effective scrutiny of policy making. At the June Budget 2010, the Government presented distributional analysis of how changes to taxes, tax credits and benefits affected households. At Spending Review 2010, the Government undertook and published additional analysis of the impact of its spending decisions on households. This was innovative, requiring the development of a new methodology within Government.

A.2 This Annex builds on this. It shows how changes to taxes, tax credits and benefits may affect household incomes. It also shows how such changes may impact on the choices individuals make, by providing a more complete picture of how changes will impact on incentives to enter and progress in work. This distributional analysis goes further than any government before.

Measuring impacts

A.3 There are a number of different ways of showing the combined impact of policy changes on households. To present as full a picture as possible, this Annex shows the impact of changes in a number of ways. This section summarises the different strengths and limitations of each approach.

A.4 The standard way of showing the immediate impact of changes to taxes, tax credits and benefits on household incomes is to compare average changes in income for households at different points of the income distribution. This is particularly relevant when assessing the impacts of changes in direct taxes, tax credits and benefits which change the net income of a household; or for analysis of the short-term impacts of a policy.

A.5 As at the June Budget 2010, this analysis is complemented by showing the impact of changes by expenditure decile. This may be a better indicator of the impact on households.[1] This is because analysis of the income distribution can be potentially misleading. 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.[2] Because such households are smoothing their lifetime consumption, expenditure may be a better indicator of their standard of living.

A.6 The policies modelled account for the vast majority of tax and around two-thirds of tax credit and benefit changes coming into effect in 2012-13. There is an acknowledged trade-off between how accurately analysis shows the impact of changes, and how complete a picture it attempts to show. Data and modelling limitations mean it is not currently possible to model all measures robustly using the approach explained above. As at previous fiscal events, the Data Sources document sets out which measures have been modelled.

[1] 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."

[2] *An expenditure-based analysis of the redistribution of household income*, Office for National Statistics, March 2010.

A.7 This Annex repeats the analysis published alongside the Spending Review 2010 showing the overall impact of the consolidation on households. This approach involved presenting analysis at a less disaggregated level to enable additional assumptions to be made; meaning a wider range of measures can be modelled and impacts can be shown further ahead. The analysis published at this Budget builds on this and includes a further six measures. This analysis also allows the impact of changes to taxes, tax credits and benefits to be shown alongside the impact of public spending decisions in 2014-15.

A.8 The approaches set out above share one common limitation in that they focus on the "next day" impact of policy changes. This ignores the impacts that policy changes may have on the choices people make. For example, increases to the personal allowance will improve work incentives, encouraging people to move into work. Such behavioural effects could be significant over time, and this Annex therefore considers more fully how policy changes may impact on incentives to enter and progress in work.

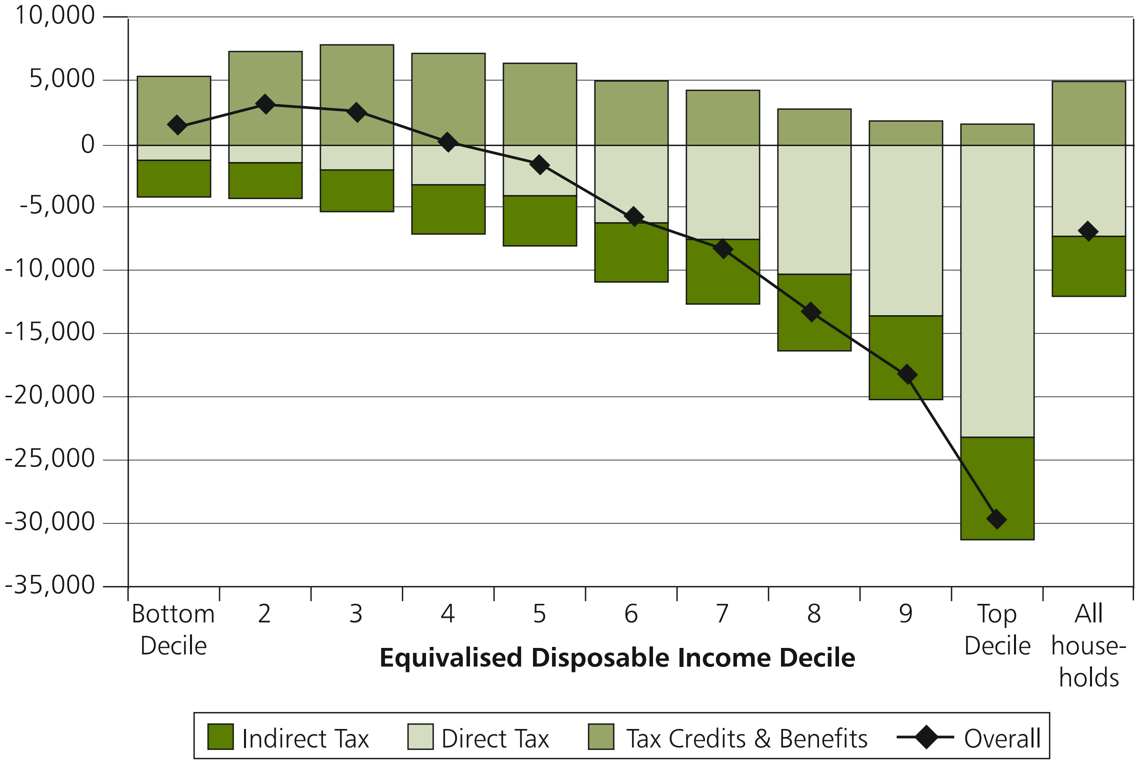
A.9 One other important final limitation that cannot be corrected for is that it is not possible to know what the world would have looked like in the absence of measures introduced. The analysis in this Annex cannot show what the consequences for households would have been had the Government not taken action to control an unsustainable deficit. Nor can it show the longer-term benefits to household incomes from steps taken at this Budget to boost economic growth.

Impact of the tax and benefit system

A.10 Any consideration of the distributional impact of changes on households needs to take account of the overall impact of the tax and welfare system on households. This is important contextual information when evaluating the significance of policy impacts at different points of the income or expenditure distribution. Chart A.1 below is based on the latest published data from the Office for National Statistics (ONS) publication *The Effects of Taxes and Benefits on Household Income, 2008/09*.[3] It shows the average amount of taxes, tax credits and benefits paid or received by income decile. Taken as a whole, the tax and benefit system leads to a more equal distribution of income between households.

[3]This chart is derived from table 14 of the ONS publication *The Effects of Taxes and Benefits on Household Income, 2008/09* published in June 2010. For more information on the methodology, see this document.

Chart A.1: Summary of the average amount of taxes paid and benefits received (£ per year) by households by income decile (2008-09)



Source: Office for National Statistics data.

Impacts on household incomes

A.11 The analysis presented here is for the year 2012-13. It has been produced using HM Treasury's tax and benefit model. Publishing analyses of tax, tax credit and benefit changes further into the future may not be representative of the impact of Government policy. For example, the Government's objective is to increase the personal allowance to £10,000. At future fiscal events, the Government will take a view on tax and welfare policy that is responsive to the emerging fiscal position.

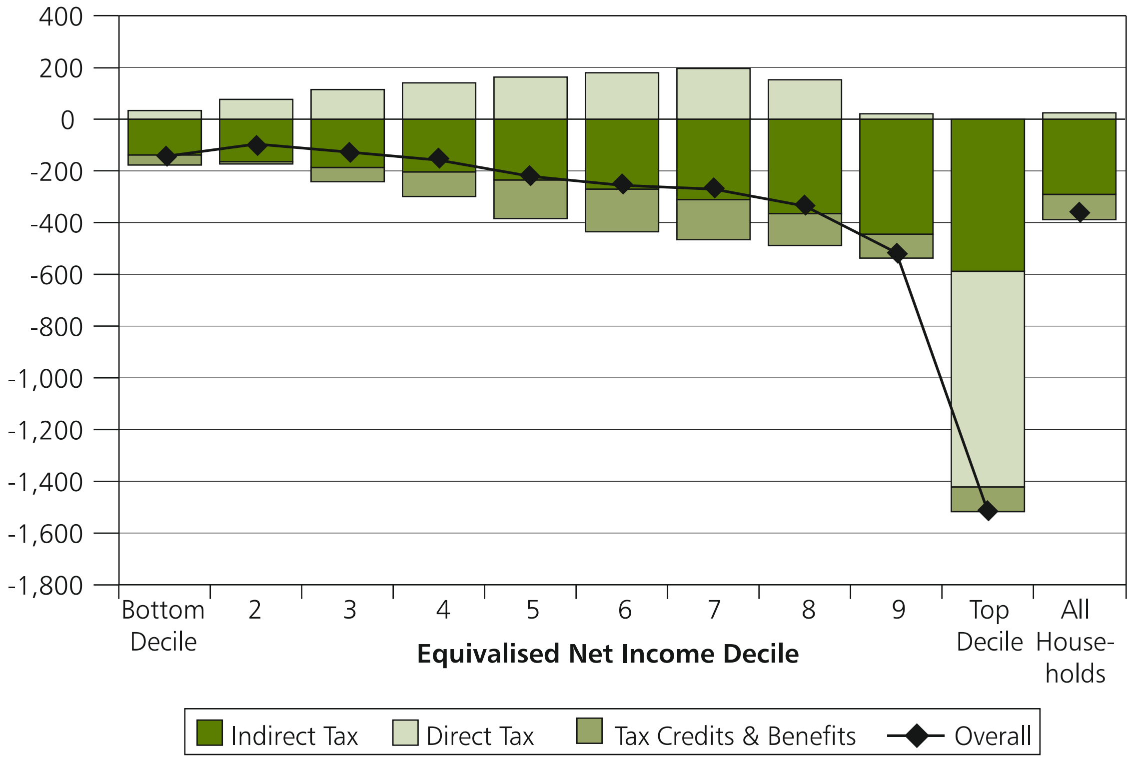
A.12 In addition, economic assumptions on which analysis of this kind is based inevitably become more uncertain the further ahead one looks. Behavioural and macroeconomic effects, which are not captured by the model, are also likely to become more significant over time.

A.13 The analysis shows the cumulative impacts of measures introduced by this Government to date including Budget 2011 measures. Charts A.2 to A.5 present the impact across the income and expenditure distribution of Budget 2011 measures along with Spending Review 2010 announcements and announcements from the June Budget 2010 (including measures that were announced in the March Budget 2010 or earlier on which this Government has introduced or will be introducing legislation).

A.14 Households are ordered by their income or alternatively their expenditure and then divided into 10 equally sized groups called deciles. The first decile contains the tenth of households with the lowest income (or lowest spending) while the top decile contains the tenth of households with the highest income (or highest spending). As households with more individuals require higher levels of household income and expenditure to achieve the same standard of living, an internationally standard process of adjustment called equivalisation is used to ensure households are compared on an equal basis.[4] This analysis assumes 100 per cent take up of tax credits and income-related benefits.

A.15 The impact of tax, tax credit and benefit changes as an absolute amount by income decile is shown in Chart A.2. The top decile sees the largest absolute losses, more than twice as much as the ninth decile and more than 10 times as much as the bottom decile.

Chart A.2: Impact of all tax, tax credit and benefit measures in cash terms (£ per year) by income distribution (2012-13)

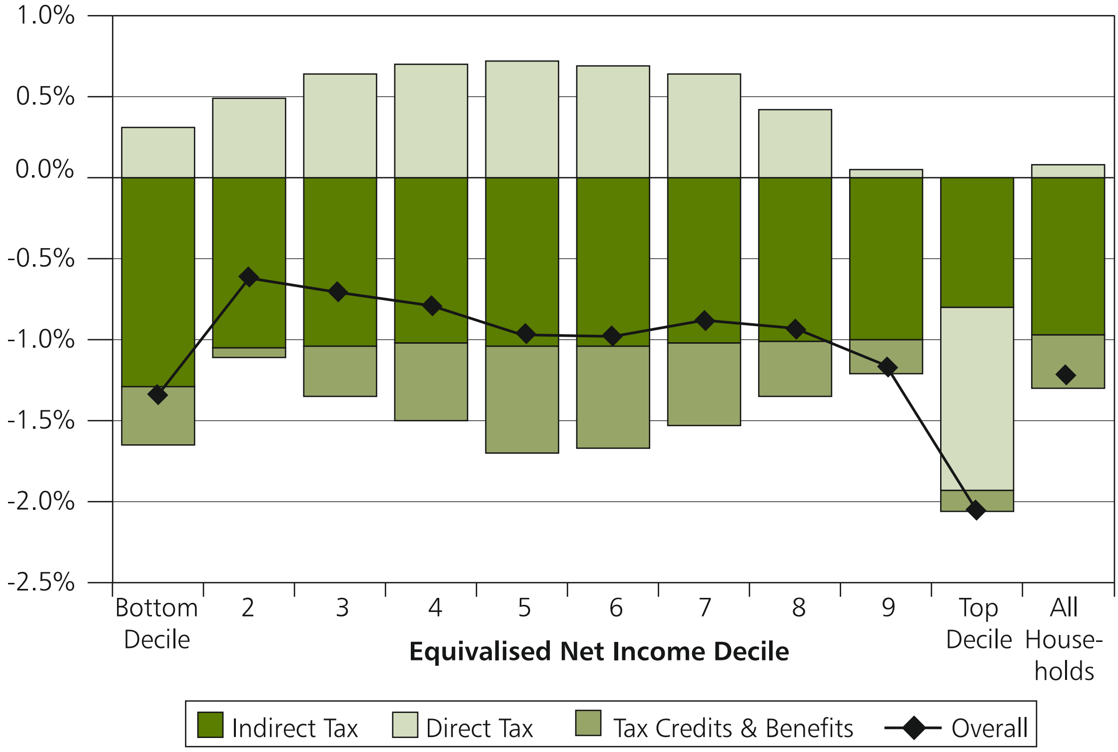


Source: HM Treasury tax and benefit microsimulation model.

A.16 Chart A.3 shows the overall impact as a per cent of net income to be more evenly spread across the income distribution.

[4]See the supplementary Data Sources document for an explanation of equivalisation.

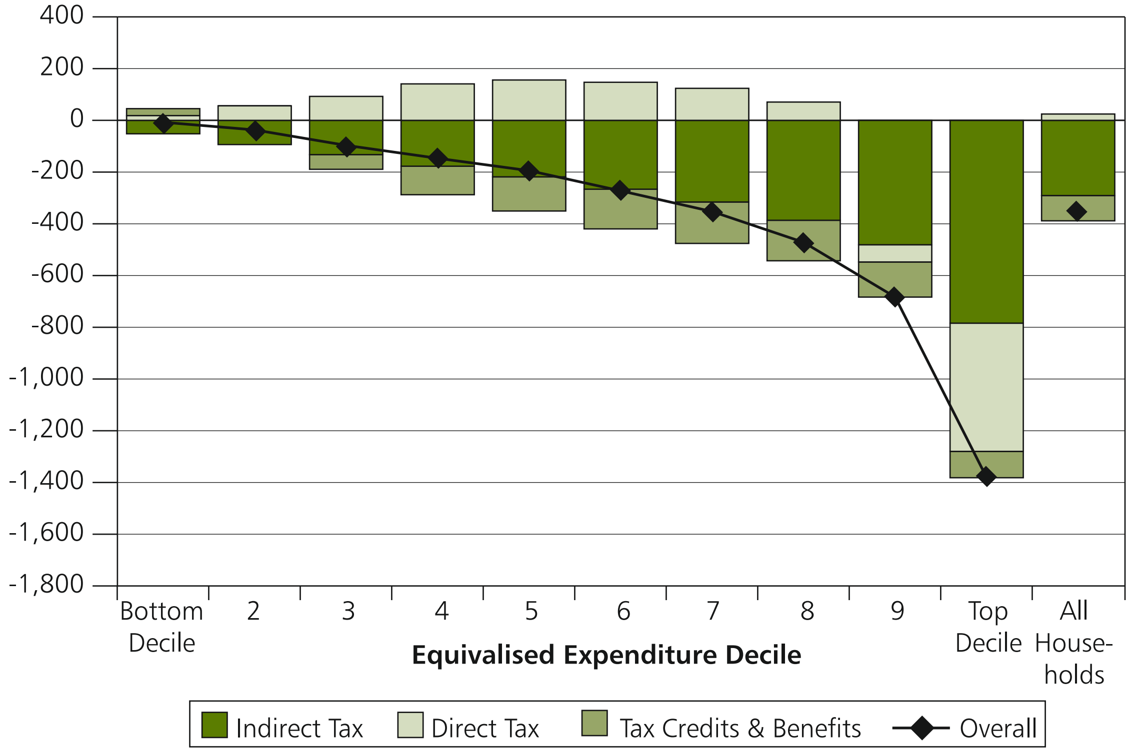
Chart A.3: Impact of all tax, tax credit and benefit measures as a per cent of net income by income distribution (2012-13)



Source: HM Treasury tax and benefit microsimulation model.

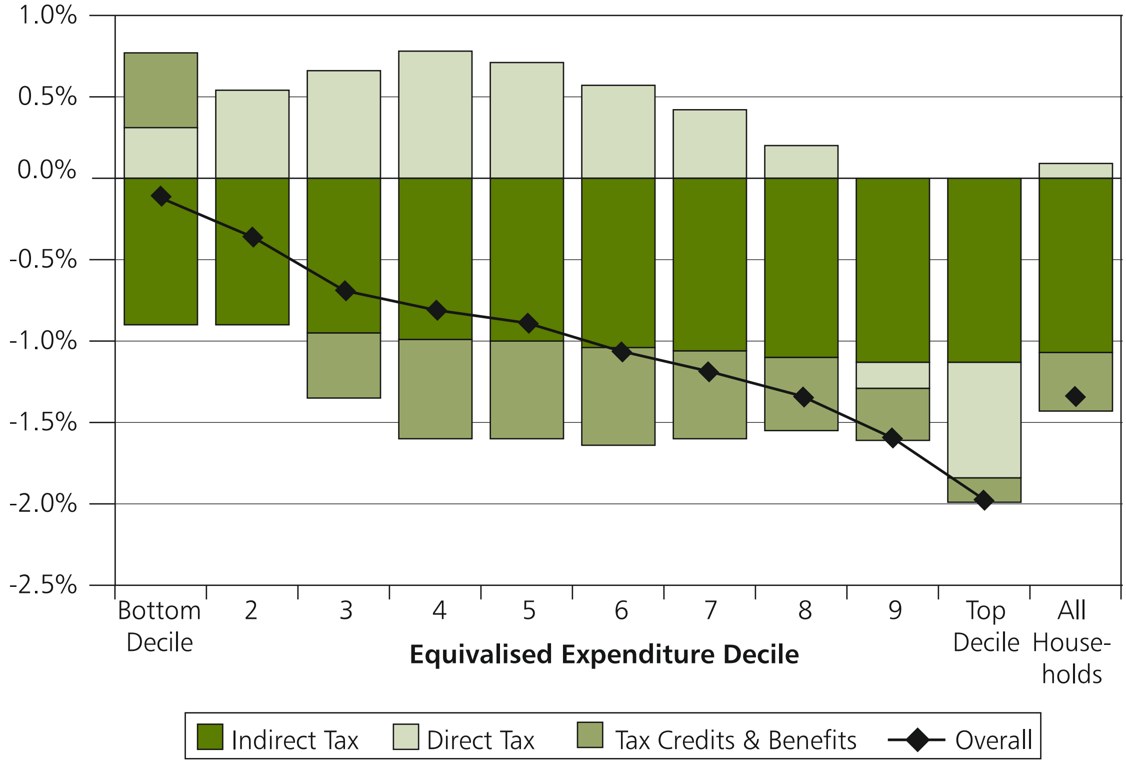
A.17 As previously discussed, analysis by expenditure decile may provide a better way of considering distributional impacts. This is shown in Charts A.4 and A.5. Of the household losses, the higher deciles contribute more both in cash terms and as a proportion of their expenditure. While the bottom income decile in Chart A.2 loses by over £100 per year, in Chart A.4 the bottom expenditure decile loses by under £10 per year.

Chart A.4: Impact of all tax, tax credit and benefit measures in cash terms (£ per year) by expenditure distribution (2012-13)



Source: HM Treasury tax and benefit microsimulation model.

Chart A.5: Impact of all tax, tax credit and benefit measures as a per cent of net expenditure by expenditure distribution (2012-13)



Source: HM Treasury tax and benefit microsimulation model.

Income tax and National Insurance

A.18 Table A.1 below shows estimates of income tax and National Insurance Contributions (NICs) paid for individuals under the age of 65 at different income levels. It shows amounts paid in 2010-11 and 2011-12, and estimates for amounts in 2012-13 following the changes announced at the June Budget 2010, and changes at this Budget.

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

Gross Income (£)	2010-11 (£)	2011-12 (£)	2012-13 at June Budget 2010 (£)	2012-13 after this Budget (£)
10,000	1,170	840	710	670
20,000	4,270	4,040	3,910	3,870
30,000	7,370	7,240	7,110	7,070
40,000	10,470	10,440	10,310	10,270
50,000	14,200	14,400	14,280	14,240
75,000	24,450	24,900	24,780	24,740
100,000	34,700	35,400	35,280	35,240
150,000	57,790	59,390	59,420	59,480

Calculations based on individual aged under 65 paying employee NICs (not contracted out). Gross income refers to pay only before the personal allowance is deducted (i.e. all gross income is subject to income tax and class 1 NICs).
Calculations assume no other allowances or deductions. NIC calculations are on a weekly basis and then annualised.
Source: HM Revenue & Customs.

A.19 23 million working age people earning over £7,865 a year will gain from the personal allowance increase announced in this Budget. They will pay more NICs when this is indexed by the Consumer Prices Index, but will still gain in 2012-13 by £42 on average a year. Around 370,000 individuals earning between £7,500 and £7,900 will pay up to £6.25 extra NICs a year in 2012-13 and will not gain from the personal allowance increase. However, this is because they will all be lifted out of income tax in 2011-12 by the £1,000 increase in the personal allowance announced at the June Budget 2010, worth at least £100 a year. Overall, these individuals will be better off over the whole of the Parliament from the Government's changes to direct tax as a result of the increase in personal allowance this April.

Gains from work

A.20 Ensuring individuals are rewarded from entering and progressing in work is an essential part of an effective tax and benefit system. For the first time in the Budget Report this Government is presenting detailed analysis of the impact on work incentives of future reforms that are being introduced.

A.21 At Spending Review 2010 the Government announced that the Universal Credit, to be introduced from 2013-14, will replace the current complex system of means-tested working age benefits with a simple streamlined payment. Given the significance of this reform in boosting incentives to enter and progress in work, the subsequent analysis focuses on 2014-15 and presents the projected tax and benefit system (including Budget 2011 measures), with and without Universal Credit. Disregards and tapers for Universal Credit are illustrative and consistent with those set out in *Universal Credit: welfare that works.*[5] Actual disregards and tapers will be set closer to implementation. Further details on the measures included, and assumptions used to project to 2014-15 can be found in the Data Sources document.

A.22 There are two main areas of interest in work incentives: the incentive to work at all, and the incentive to progress when in work. No single way can adequately capture both of these,

[5] *Universal Credit: welfare that works*, Department for Work and Pensions, 11 November 2010.

and so in order to give as complete a picture as possible, the following sections present impacts in a range of different ways.

A.23 The most straightforward way of demonstrating incentives to work is through presenting cash gains from entering work. This is provided in Table A.2 for some example individuals.

A.24 Participation tax rates are another measure of incentives to enter work, and are an estimate of the proportion of total gross earnings that are lost through tax or lower benefits when an individual enters work. The lower a participation tax rate is, the greater the gain from entering work. Table A.3 presents estimates of rates for example individuals.

A.25 Incentives to progress in work are most commonly shown using marginal deduction rates, which represent the proportion of a £1 increase in earnings that is lost through tax and benefit withdrawal. Table A.4 presents estimates of marginal deduction rates in 2014-15 for example individuals including and excluding Universal Credit. Estimates of the numbers facing high marginal deduction rates under the current system for the forthcoming tax year are unchanged from those provided at the June Budget 2010.

Incentives to enter work

A.26 The following table provides estimates of how much better off some example individuals would be in work when working a certain number of hours. This is shown at 10 and 35 hours.

Table A.2: Illustrative weekly increase in income from entering work at the minimum wage 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
Lone parent with one child	£20	£105	£53	£102
First earner in couple, no children	£10	£67	£30	£79
First earner in couple, with two children	£10	£89	£41	£90
Second earner in couple, no children First earner working 10 hours	£1	£95	£23	£72
Second earner in couple, two children First earner working 10 hours	£4	£93	£23	£72
Single, under 25, no children	£6	£72	£23	£72

Assumes no Council Tax Benefit entitlement. Further details of the assumptions underpinning the estimates in this table can be found in the Data Sources document.
Source: HM Treasury estimates.

A.27 Table A.3 shows estimates of participation tax rates for a set of example individuals.

Table A.3: Illustrative participation tax rates 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
Lone parent with one child	69%	54%	19%	55%
First earner in couple, no children	85%	70%	54%	65%
First earner in couple, with two children	85%	60%	37%	60%
Second earner in couple, no children First earner working 10 hours	98%	58%	65%	68%
Second earner in couple, two children First earner working 10 hours	94%	59%	65%	68%
Single, under 25, no children	91%	68%	65%	68%

Assumes no Council Tax Benefit entitlement. Further details of the assumptions underpinning the estimates in this table can be found in the Data Sources document.
Source: HM Treasury estimates.

Incentives to progress in work

A.28 Table A.4 shows estimates of marginal deduction rates for a set of example individuals.

Table A.4: Illustrative marginal deduction rates 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
Lone parent with one child	100%	91%	65%	76%
First earner in couple, no children	100%	73%	65%	76%
First earner in couple, with two children	100%	91%	65%	76%
Second earner in couple, no children First earner working 10 hours	65%	73%	65%	76%
Second earner in couple, two children First earner working 10 hours	0%	91%	65%	76%
Single, under 25, no children	65%	32%	65%	32%

Assumes no Council Tax Benefit entitlement. Further details of the assumptions underpinning the estimates in this table can be found in the Data Sources document.
Source: HM Treasury estimates.

Combined impacts of all Government spending

A.29 This section shows the combined impact of changes to Government spending and tax, tax credit and welfare measures. Chart A.6 shows the overall average impact of the consolidation in 2014-15 by income quintile as a percentage of net equivalised household income, including benefits in kind from public services. The modelling of tax, tax credit and benefit impacts in this section contains a number of policies in addition to those included in the previous section. These are:

- limiting pensions tax relief to £50,000;
- introducing objective medical assessments for all Disability Living Allowance (DLA) claimants;

- time-limiting contributory Employment Support Allowance to one year for those in the Work Related Activity Group;
- increasing the rate of capital gains tax to 28 per cent;
- changes to tax credit income disregards and backdating of claims;
- setting Local Housing Allowance rents at the 30th percentile; and
- limiting working age social sector Housing Benefit entitlements to reflect family size.

A.30 Since the analysis presented in this section is for 2014-15, the standard methodology used earlier in the Annex also allows the modelling of impacts of the household benefit cap, which will come into effect in 2013-14.

A.31 The measures in A.29 were excluded from the distributional analysis in the previous section because it is not currently possible to formulate robust assumptions about how policy impacts would be felt at an individual level. For example, the introduction of objective medical assessments for DLA claimants is excluded because it is not possible to model how individual claimants might fare against medical assessment.

A.32 However, building on the June Budget 2010 and Spending Review 2010, and in line with the Government's commitment to transparency, the following analysis makes some stronger assumptions around the likely impact of some measures. This presents a fuller though less precise picture of the overall impact of 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.

A.33 Rather than attempting to attribute gains and losses at an individual level as before, this is now done by apportioning Exchequer savings to quintiles. This has been done for the larger unmodelled measures (those with an impact 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.

A.34 Not all measures can be captured by this approach. For example, the measure to fully localise Council Tax Benefit from 2013-14 is still excluded. As announced by the Secretary of State for Communities and Local Government, consultation on the system of local council tax rebate schemes in England will be undertaken in due course.[6] There will be additional consequences for the Devolved Administrations in Scotland and Wales. Reforms to public service pensions are also excluded. This is because suitable data do not exist to enable the identification of households containing public sector workers.

A.35 At Spending Review 2010 the Government, for the first time, undertook indicative distributional analysis of public services spending. This has been updated for Budget 2011 and Chart A.6 displays the results. The methodology for this analysis is the same as that used at Spending Review 2010. However, the analysis has been updated to take account of the latest inflation forecasts as well as latest data from departments on how spend will be allocated over the next four years.

A.36 The impacts are based on information provided by departments from surveys of public service usage. This has been completed only for public services which are differentially used 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.

A.37 The modelling does not include spending by: the Ministry of Defence, the Home Office, HM Treasury, the Cabinet Office, the Foreign and Commonwealth Office, the Department for

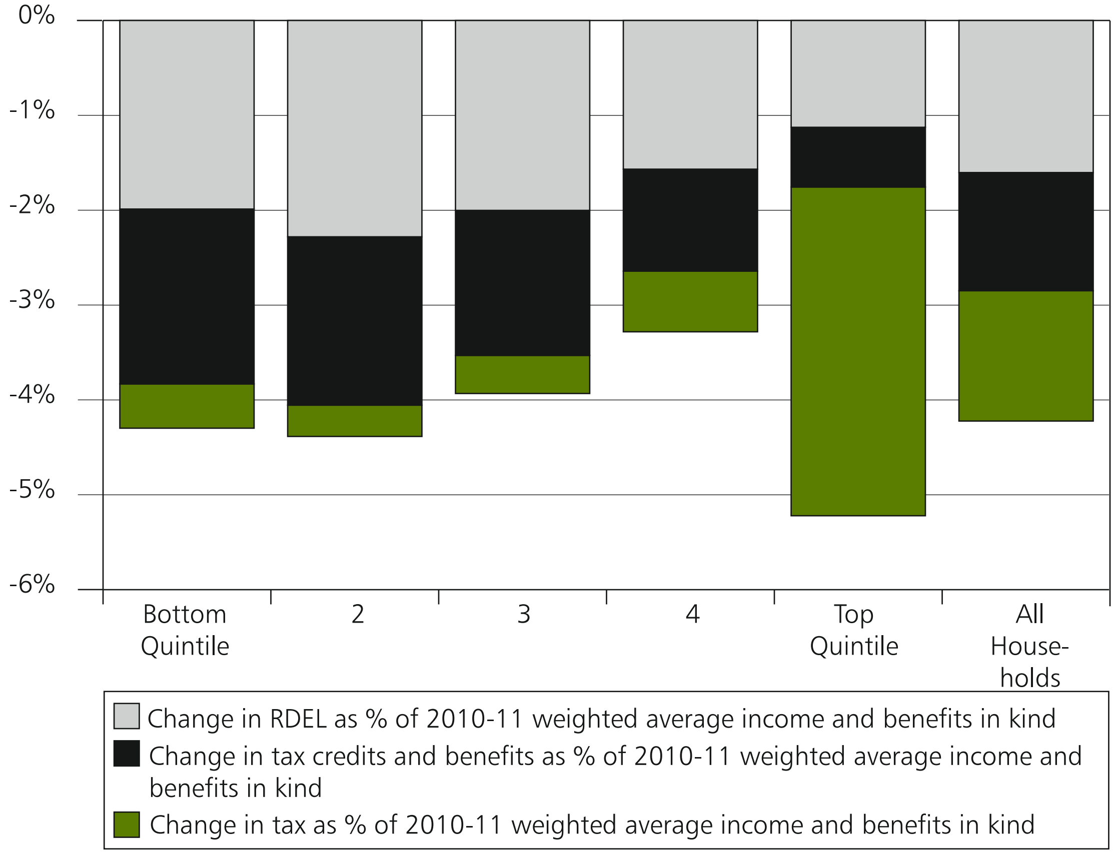
[6] Written Ministerial Statement by the Secretary of State for Communities and Local Government, 17 February 2011.

International Development, HM Revenue & Customs, the Department for Environment, Food and Rural Affairs, the Law Officers' Departments, and Independent Bodies. The nature of the services provided by these departments means it is not possible to identify end-users as they benefit the population as a whole. For this reason central government administration costs have also been excluded. In addition, since it is not possible to assess the beneficiaries of capital projects within this analysis because they have geographically specific and multi-generational benefits, capital investment has not been included in the analysis.

A.38 The analysis presents the distribution of spending plans announced at the Spending Review 2010 across different household income groups. To do this, households are ordered by their income and then divided into five equally sized groups called quintiles. As households with more adults and children require higher levels of household income and expenditure to achieve the same standard of living, an internationally standard adjustment called equivalisation is used to ensure households are compared on an equal basis. The equivalisation process is consistent with HM Treasury's analysis of tax and benefit decisions.

A.39 This update does not significantly alter the distributional impact of public services spending changes from those presented at the Spending Review 2010. Quintile one is still expected to experience the lowest absolute change in benefits in kind across all income quintiles. As shown in Chart A.6, when the distributional impact of public services spending changes is combined with the impact of tax and benefits changes, the highest quintile of earners is still expected to make the greatest contribution towards reducing the deficit as a percentage of their income and benefits in kind from public services. Note that this analysis does not take into account any impacts from Universal Credit which will benefit some in-work households on low incomes.

Chart A.6: Overall impact of the consolidation 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.

A.40 The Government is committed to fairness and considers this analysis to be an important ongoing piece of work in ensuring that the impact on households of changes to services is thoroughly considered in decision-making. However, as highlighted in the Spending Review 2010 document, the Government notes that there are methodological limitations in trying to make this assessment. Therefore, the Government is continuing to work on improving this analysis in consultation with external experts and plans to run a seminar later this year as part of this process.

Child poverty

A.41 At the June Budget 2010 and the Spending Review 2010 this Government has taken steps to help protect lower-income families from the impacts of welfare reforms. This Budget confirms that the Government's modelled tax and welfare reforms could reduce child poverty by up to 50,000 in 2011-12 and 2012-13.[7] This new estimate is based on the combined impact of reforms introduced at the June Budget 2010, Spending Review 2010 and Budget 2011; and is based on the OBR's latest economic assumptions and data from the 2008-09 Family Resources Survey.

A.42 Such estimates are uncertain. As they are based on survey data, they are subject to sampling variation. This will affect the data that underlie these estimates, and means that the estimates will be subject to sampling error. Particularly when estimating the poverty impacts of a large set of reforms, this means that the confidence intervals around such estimates can be very high. These estimates may therefore be on the edge of statistical significance.

[7] Estimates calculated using HM Treasury's tax and benefit microsimulation model.

A.43 In addition estimates of the poverty impacts of reforms are based on the OBR's forecasts of earnings and inflation. This means that poverty estimates are subject to the uncertainties surrounding the economic assumptions used. This is exacerbated by the high density of the income distribution around the poverty line which means that small changes in the OBR's economic assumptions can lead to significant changes in the estimates of poverty impacts.

A.44 Finally, data and modelling limitations mean that not all reforms can currently be modelled robustly. As at previous fiscal events, the Data Sources document sets out which measures have been modelled.

A.45 The way that child poverty is currently measured also means that policies that impact on median income can have perverse impacts on measured poverty by raising or lowering the poverty line. For example reducing the income tax paid by millions of lower earners or providing additional support to low-income pensioners could push up the poverty line and increase the number of children calculated as being in poverty.

B Financing

B.1 This annex sets out details of the Government's financing plans for 2011-12. Further details can be found in the *Debt and reserves management report* 2011-12, published with the Budget on HM Treasury's website www.hm-treasury.gov.uk.

B.2 The Central Government Net Cash Requirement (CGNCR), which is the fiscal aggregate that determines gross debt sales, is derived from Public Sector Net Borrowing (PSNB). The relationship between PSNB and the CGNCR is set out in Annex C and in the OBR's March 2011 *Economic and fiscal outlook*.

B.3 The projection for the CGNCR in 2011-12 is £120.4 billion. Gross gilt redemptions are £49 billion and National Savings and Investments (NS&I) is expected to make a contribution to net finance of £2 billion. The Government will provide £6 billion of financing for the Official Reserves. The planned short-term financing adjustment will, as a result of overfunding in 2010-11, reduce the Net Financing Requirement (NFR) in 2011-12 by £6 billion. The projection for the NFR in 2011-12 is £167.4 billion. As set out in Table B.1, the NFR will be met by:

- gross gilt sales of £169.0 billion; and
- a reduction in the Treasury bill stock of £1.6 billion to £60.8 billion as at 31 March 2012.

B.4 The planned amount of issuance in 2011-12 is expected to be split as follows:

- £58.0 billion of short conventional gilts (34.3 per cent of total issuance);
- £34.9 billion of medium conventional gilts (20.7 per cent of total issuance);
- £37.7 billion of long conventional gilts (22.3 per cent of total issuance); and
- £38.4 billion of index-linked gilts (22.7 per cent of total issuance).

B.5 It is anticipated that:

- £132.8 billion (78.6 per cent of total issuance) will be issued by pre-announced auctions;
- £31.6 billion (18.7 per cent of total issuance) will be issued by syndication; and
- £4.6 billion (2.7 per cent of total issuance) will be issued by mini-tenders.

Table B.1: Forecast financing requirement in 2010-11 and 2011-12

	2010 -11	2011 -12
£ billion		
Central Government Net Cash Requirement	141.2	120.4
Gilt redemptions	38.6	49.0
Financing for the Official Reserves	6.0	6.0
Buy -backs [1]	0.2	0.0
Planned short-term financing adjustment [2]	-26.3	-6.0
Gross financing requirement	159.7	169.4
less :		
National Savings & Investments	0.3	2.0
Net financing requirement	159.4	167.4
Financed by:		
1. Debt issuance by the Debt Management Office		
a) Treasury bills	-0.9	-1.6
b) Gilts	166.4	169.0
of which:		
Conventional:		
short	53.2	58.0
medium	38.1	34.9
long	41.1	37.7
Index -linked:	34.0	38.4
2. Other planned changes in net short-term debt [3]		
Change in the Ways and Means Advance	0.0	0.0
3. Unanticipated changes in net short-term cash position [4]	6.0	0.0
Total financing	165.5	167.4
Short-term debt levels at end of financial year		
Treasury bill stock [5]	62.5	60.8
Ways and Means Advance	0.4	0.4
DMO net cash position	6.5	0.5

[1] *Purchases of "rump" gilts which are older, for which there is a small outstanding stock, declared as such by the DMO and 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 current year's financing requirement resulting from: (i) publication of the previous year's outturn CGNCR; (ii) an increase in the DMO's cash position at the Bank of England; and / or (iii) carry over of unanticipated changes to the cash position from the previous year.*

[3] *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.*

[4] *The DMO's net short-term cash position at the end of a year will also 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). A negative (positive) number indicates an addition to (reduction in) the financing requirement for the following year.*

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

C OBR's Economic and fiscal outlook: selected tables

1.1 The Office for Budget Responsibility has published their March 2011 *Economic and fiscal outlook* alongside Budget 2011. This Annex reproduces the OBR's key projections for the economy and public finances. Further detail and explanation can be found in their report.

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

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast[1]					
	2009	2010	2011	2012	2013	2014	2015
World economy							
World GDP at purchasing power parity	-0.7	5.0	4.2	4.3	4.3	4.4	4.4
Euro Area GDP	-4.0	1.7	1.4	1.8	1.8	1.9	1.9
World trade in goods and services	-11.1	12.7	6.9	6.8	6.9	7.0	7.0
UK export markets[1]	-11.4	10.7	5.8	5.8	5.8	6.1	6.0
UK economy							
Gross domestic product (GDP)	- 4.9	1.3	1.7	2.5	2.9	2.9	2.8
Expenditure components of GDP							
Domestic demand	-5.5	2.5	1.1	1.5	2.2	2.3	2.3
Household consumption[2]	-3.2	0.8	0.6	1.3	1.8	2.1	2.2
General government consumption	1.0	1.0	0.8	-1.2	-1.8	-2.4	-1.8
Fixed investment	-15.4	3.1	2.3	6.0	8.8	8.7	7.0
Business	-18.9	2.5	6.7	8.9	10.6	10.2	7.8
General government	16.9	4.4	-12.0	-9.9	-5.6	-1.4	2.4
Private dwellings	-25.5	5.2	5.3	6.9	8.5	7.8	6.5
Change in inventories[3]	-1.2	1.4	0.2	0.0	0.0	0.0	0.0
Exports of goods and services[4]	-10.1	5.8	7.9	6.5	6.2	5.7	5.6
Imports of goods and services[4]	-11.9	8.5	5.0	2.9	3.8	3.8	4.1
Balance of payments current account							
£ billion	-24	-35	-41	-34	-28	-22	-15
Per cent of GDP	-1.7	-2.4	-2.7	-2.1	-1.6	-1.2	-0.8
Inflation							
CPI	2.2	3.3	4.2	2.5	2.0	2.0	2.0
RPI	-0.5	4.6	5.1	3.6	3.5	3.6	3.8
Terms of trade[5]	-0.9	-0.3	-2.6	-1.0	-0.2	-0.1	0.0
GDP deflator at market prices	1.5	3.0	3.0	2.4	2.7	2.7	2.7
Labour market							
Employment (millions)	29.0	29.0	29.0	29.2	29.5	29.7	30.0
Wages and salaries	- 0.1	1.5	1.8	2.8	4.8	5.3	5.4
Average earnings[6]	1.8	1.7	2.0	2.2	3.8	4.3	4.5
ILO unemployment (% rate)	7.6	7.9	8.2	8.1	7.6	7.0	6.4
Claimant count (millions)	1.53	1.50	1.54	1.53	1.43	1.31	1.18
Household sector							
Real household disposable income	1.1	-0.7	-0.4	1.4	1.6	1.9	2.1
Saving ratio (level, per cent)	6.0	4.9	3.6	3.6	3.4	3.4	3.4
House prices	-7.8	7.4	-2.3	0.1	3.5	4.3	4.3
Nominal indicators							
Nominal GDP	-3.5	4.4	4.8	5.0	5.7	5.6	5.6
Non-oil PNFC profits[7]	-6.5	1.8	6.9	11.4	9.0	8.8	7.3

[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] *Contribution to GDP growth, percentage points*

[4] *Trade levels are distorted by MTIC fraud*

[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 C.2: Determinants of the OBR central fiscal forecast

	Percentage change on previous year unless otherwise specified						
	Outturn	Forecast					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
GDP and its components							
Real GDP	-3.6	1.9	1.8	2.7	2.9	2.9	2.8
Nominal GDP (£ billion)[1]	1405	1473	1544	1625	1717	1814	1915
Nominal GDP[1]	-1.9	4.9	4.8	5.2	5.7	5.6	5.6
Nominal GDP (centred end-March)	2.9	4.5	5.0	5.6	5.7	5.6	5.5
Wages and salaries[2]	0.2	1.7	1.8	3.3	5.1	5.3	5.4
Non-oil PNFC profits[2,3]	-6.5	1.8	6.9	11.4	9.0	8.8	7.3
Consumer spending[2,3]	-1.9	5.1	5.2	4.2	4.6	4.8	5.0
Prices and earnings							
GDP deflator	1.8	2.9	2.9	2.5	2.7	2.7	2.7
RPI (September)	-1.4	4.6	5.2	3.4	3.5	3.6	3.8
CPI (September)	1.1	3.1	4.3	2.3	2.0	2.0	2.0
Whole economy earnings growth	2.4	1.3	2.0	2.5	4.1	4.4	4.5
Key fiscal determinants							
Claimant count unemployment	1.58	1.48	1.55	1.51	1.40	1.28	1.16
Employment (millions)	28.9	29.1	29.0	29.2	29.5	29.8	30.0
VAT gap (per cent)	13.3	11.9	12.0	12.0	12.0	12.0	12.0
Financial and property sectors							
Equity prices (FTSE All-share index)	2619	2892	3168	3333	3524	3721	3929
HMRC financial sector profits[1,3,5]	2.4	4.0	5.3	5.3	5.8	5.6	5.6
Residential property prices[6]	-2.9	5.5	-2.9	1.2	3.9	4.3	4.3
Residential property transactions	14.2	-1.9	-1.9	20.2	20.4	10.5	5.2
Commercial property prices[7]	5.9	4.7	2.1	3.9	5.6	5.2	4.2
Commercial property transactions[7]	-17.5	11.0	4.5	3.1	5.1	5.3	5.2
Volume of share transactions	8.7	-10.7	-2.0	3.3	3.6	1.9	1.4
Oil and gas							
Oil prices ($ per barrel)[3]	62	80	113	112	109	107	107
Oil prices (£ per barrel)[3]	39.5	52.0	69.3	68.6	67.0	66.3	66.2
Gas prices (p/therm)	38.3	43.3	53.1	58.4	61.4	61.9	63.3
Oil production (million tonnes)[3,8]	67.8	63.0	60.2	57.1	55.3	53.4	50.8
Gas production (billion therms)[3,8]	21.6	20.6	18.9	18.0	17.3	16.6	15.8
Interest rates and exchange rates							
Market short-term interest rates	0.8	0.7	1.6	2.7	3.4	4.0	4.4
Market gilt rates (per cent)[10]	3.6	3.8	3.8	4.3	4.7	4.9	5.1
Euro/Sterling exchange rate	1.13	1.18	1.16	1.16	1.16	1.16	1.15

[1] *Not seasonally adjusted*

[2] *Nominal*

[3] *Calendar year*

[4] *UK seasonally-adjusted claimant count*

[5] *HMRC Gross Case 1 trading profits*

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

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

[8] *DECC forecasts available at www.og.decc.gov.uk*

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

[10] *Weighted average interest rate on conventional gilts*

Table C.3: Current receipts: OBR forecast

	£ billion						
	Outturn	Forecast					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Income tax (gross of tax credits)[1]	147.5	151.5	157.6	165.7	180.0	192.1	204.6
of which: Pay as you earn	*126.5*	*129.1*	*131.9*	*136.3*	*145.9*	*156.1*	*167.0*
Self assessment	*21.7*	*22.7*	*25.4*	*28.1*	*30.8*	*32.5*	*34.1*
Tax credits (negative income tax)	-5.6	-5.5	-4.7	-4.3	-4.2	-4.2	-4.2
National insurance contributions	96.6	96.5	100.7	106.1	111.8	118.6	125.7
Value added tax	73.5	86.1	100.3	103.5	108.1	112.8	117.8
Corporation tax[2]	36.5	42.7	49.0	50.3	51.7	53.7	55.0
of which: Onshore	*31.0*	*35.3*	*37.6*	*39.5*	*41.6*	*43.4*	*45.6*
Offshore	*5.6*	*7.4*	*11.4*	*10.8*	*10.1*	*10.3*	*9.5*
Corporation tax credits[3]	-0.7	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0
Petroleum revenue tax	0.9	1.5	2.0	2.0	1.8	1.8	1.6
Fuel duties	26.2	27.3	26.9	28.5	30.0	31.3	32.7
Business rates	23.4	23.8	25.5	27.2	28.5	29.7	30.1
Council tax	25.3	25.7	26.1	27.1	28.8	30.0	31.2
VAT refunds	11.2	13.2	15.0	15.0	14.7	14.6	14.9
Capital gains tax	2.5	3.2	3.4	2.9	3.7	4.6	5.1
Inheritance tax	2.4	2.7	2.7	2.8	2.9	3.1	3.3
Stamp duty land tax	4.9	6.0	5.8	6.9	8.4	9.8	11.0
Stamp taxes on shares	3.0	3.0	3.3	3.6	3.9	4.2	4.5
Tobacco duties	8.8	9.1	9.3	9.5	9.7	10.0	10.2
Spirits duties	2.7	2.7	2.7	2.7	2.8	2.9	3.0
Wine duties	3.0	3.1	3.3	3.5	3.7	4.0	4.3
Beer and cider duties	3.5	3.7	3.7	3.9	4.0	4.2	4.4
Air passenger duty	1.9	2.2	2.5	2.8	3.1	3.3	3.6
Insurance premium tax	2.3	2.5	2.9	3.0	3.0	3.1	3.2
Climate Change Levy	0.7	0.7	0.7	0.7	1.4	1.7	2.0
Other HMRC taxes[4]	5.4	6.0	6.4	6.7	6.9	7.2	7.4
Vehicle excise duties	5.6	5.7	5.9	6.0	6.1	6.2	6.2
Temporary bank payroll tax	0.0	3.5	0.0	0.0	0.0	0.0	0.0
Bank levy	0.0	0.0	1.9	2.6	2.7	2.7	2.7
Licence fee receipts	3.0	3.1	3.1	3.1	3.2	3.2	3.2
Environmental levies	0.5	0.6	1.8	2.1	2.9	3.3	3.9
EU ETS Auction Receipts	0.0	0.4	0.3	0.7	2.0	2.1	2.2
Other taxes	5.3	5.3	5.3	6.1	6.5	6.7	6.9
National Accounts taxes	**490.3**	**525.3**	**562.4**	**589.8**	**627.2**	**661.7**	**695.7**
Less own resources contribution to EU budget	-3.8	-4.8	-4.9	-5.0	-5.2	-5.4	-5.5
Interest and dividends	3.4	3.3	5.2	7.8	10.0	11.8	13.8
Gross operating surplus	23.3	24.5	25.8	27.1	28.3	29.5	30.7
Other receipts	0.1	0.2	0.1	0.0	-0.1	-0.1	-0.1
Current receipts	**513.3**	**548.5**	**588.6**	**619.7**	**660.3**	**697.5**	**734.5**
Memo:							
UK oil and gas revenues[5]	*6.5*	*8.8*	*13.4*	*12.8*	*11.9*	*12.1*	*11.1*

[1] *Income tax includes PAYE and Self Assessment receipts, and also includes tax on savings income and other minor income tax 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 C.4: Total managed expenditure: OBR forecast

	£ billion						
	Outturn	Forecast					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Public sector current expenditure (PSCE)							
PSCE in RDEL[1]	**319.8**	**327.2**	**327.6**	**328.9**	**331.9**	**330.9**	**335.4**
PSCE in Annually Managed Expenditure	**281.1**	**305.6**	**329.1**	**340.7**	**350.4**	**363.6**	**378.0**
of which:							
Social security benefits [2, 3]	162.8	169.0	174.3	179.4	178.8	183.2	189.3
Tax credits [2, 3]	24.3	25.2	26.9	28.4	28.8	28.9	29.6
Net public service pension payments [3]	4.7	5.8	7.0	7.8	8.0	8.7	9.7
of which: CG unfunded pension schemes	*3.7*	*4.6*	*5.7*	*6.4*	*6.5*	*7.2*	*8.1*
LG police and fire pension schemes	*1.1*	*1.2*	*1.3*	*1.4*	*1.5*	*1.5*	*1.6*
National lottery current grants [3]	0.8	0.9	0.9	0.8	0.9	0.9	0.9
BBC domestic services current expenditure	3.5	3.4	3.6	3.5	3.7	3.5	3.5
Fees associated with financial interventions	-2.5	-2.5	-1.7	-0.4	0.0	0.0	0.0
Other PSCE items in departmental AME [3]	1.0	0.4	0.7	1.1	1.0	0.9	0.9
Expenditure transfers to EU institutions [3]	4.9	6.6	7.3	6.8	7.5	8.1	7.3
Locally-financed current expenditure [3]	25.0	24.2	26.6	28.3	29.7	30.9	31.9
Central government gross debt interest	30.9	43.1	48.6	50.9	56.6	62.4	66.8
Depreciation	14.3	15.2	16.1	16.9	17.6	18.4	19.1
Current VAT refunds	9.4	11.0	12.9	13.0	12.9	12.9	13.2
Single use military expenditure	5.3	5.4	6.4	5.8	5.7	5.2	5.2
Environmental levies	0.5	0.6	1.1	1.5	2.1	2.7	3.5
Other National Accounts adjustments [3]	-3.8	-2.6	-1.8	-3.1	-2.9	-3.0	-2.9
Total public sector current expenditure	**600.9**	**632.8**	**656.7**	**669.6**	**682.4**	**694.6**	**713.4**
Public sector gross investment (PSGI)							
PSGI in CDEL[1]	**49.9**	**43.8**	**37.9**	**36.5**	**33.2**	**34.7**	**37.1**
PSGI in Annually Managed Expenditure	**18.9**	**17.7**	**15.8**	**14.2**	**14.6**	**14.4**	**13.3**
of which:							
National lottery capital grants [3]	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Central government grants to public sector banks	4.5	0.0	0.0	0.0	0.0	0.0	0.0
Other PSGI items in departmental AME [3]	0.5	0.5	-7.3	0.1	0.3	0.3	0.3
Locally-financed capital expenditure	6.4	6.7	13.2	5.3	4.9	4.5	3.8
Public corporations capital expenditure [3]	8.7	9.5	9.2	9.2	9.2	9.6	9.2
Other National Accounts adjustments [3]	-1.7	0.5	0.1	-0.9	-0.5	-0.5	-0.6
Total public sector gross investment	**68.9**	**61.6**	**53.7**	**50.7**	**47.7**	**49.1**	**50.4**
Less depreciation	-19.3	-20.5	-21.9	-22.9	-23.9	-24.9	-25.9
Public sector net investment	**49.5**	**41.1**	**31.8**	**27.8**	**23.8**	**24.2**	**24.5**
Total managed expenditure[4]	**669.7**	**694.4**	**710.4**	**720.2**	**730.1**	**743.6**	**763.8**

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

[2] *For 2009-10 to 2011-12, child allowances in income support and jobseeker's allowance have been included in tax credits and excluded from social security benefits.*

[3] *The definition of these AME rows has changed since the OBR's November Outlook. Full details of the changes are shown in the supplementary fiscal tables on the OBR website.*

[4] *TME is equal to the sum of PSCE, PSNI and public sector depreciation, on a basis which excludes temporary effects of financial interventions.*

Table C.5: Derivation of PSCE in RDEL and PSNI in CDEL from OBR March 2011 forecast

	£ billion						
	Outturn	Forecast					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
RDEL figures in March forecast							
RDEL	**334.4**	**345.4**	**342.3**	**344.7**	**349.1**	**348.2**	**352.5**
less:							
Depreciation in RDEL	-13.1	-16.4	-14.3	-15.3	-15.3	-15.9	-16.1
Cost of subsidised interest on student loans	-1.6	-3.0	-1.8	-2.2	-2.7	-3.3	-3.3
gives:							
RDEL excluding depreciation	**319.8**	**326.1**	**326.3**	**327.1**	**331.1**	**329.0**	**333.1**
less:							
Other items in RDEL that do not score in PSCE	0.0	1.2	1.3	1.8	0.9	2.0	2.3
gives							
PSCE in RDEL	**319.8**	**327.2**	**327.6**	**328.9**	**331.9**	**330.9**	**335.4**
CDEL figures in March forecast							
CDEL	**57.0**	**50.0**	**44.5**	**42.6**	**39.2**	**40.3**	**42.7**
less:							
Single use military expenditure	-5.3	-5.4	-6.4	-5.8	-5.7	-5.2	-5.2
Capital grants and net lending to PCs	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other financial transactions	-1.3	-0.7	-0.4	-0.4	-0.3	-0.4	-0.4
Other items in CDEL that do not score in PSGI	0.2	0.1	0.5	0.3	0.3	0.3	0.3
gives							
PSGI in CDEL	**49.9**	**43.8**	**37.9**	**36.5**	**33.2**	**34.7**	**37.1**
	Percentage growth in real terms						
RDEL		0.4	-3.7	-1.8	-1.4	-2.9	-1.4
RDEL excluding depreciation		-0.9	-2.8	-2.2	-1.5	-3.2	-1.4
PSCE in RDEL		-0.6	-2.7	-2.0	-1.7	-2.9	-1.3
CDEL		-14.7	-13.6	-6.5	-10.4	0.0	3.4
PSGI in CDEL		-14.7	-16.0	-6.1	-11.5	2.0	4.0

Table C.6: OBR forecast of the components of net borrowing

	£ billion						
	Outturn	Forecast					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Current budget							
Current receipts	513.3	548.5	589	620	660	697	735
Current expenditure	600.9	632.8	657	670	682	695	713
Depreciation	19.3	20.5	22	23	24	25	26
Surplus on current budget	**-106.9**	**-104.8**	**-90**	**-73**	**-46**	**-22**	**-5**
Capital budget							
Gross investment[1]	68.9	61.6	54	51	48	49	50
Less Depreciation	-19.3	-20.5	-22	-23	-24	-25	-26
Net investment	**49.5**	**41.1**	**32**	**28**	**24**	**24**	**25**
Net borrowing	**156.4**	**145.9**	**122**	**101**	**70**	**46**	**29**

[1] *Net of asset sales.*

Table C.7: OBR forecast of the fiscal aggregates

	Per cent of GDP						
	Outturn	Forecast					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Receipts and expenditure							
Public sector current receipts (*a*)	36.5	37.2	38.1	38.1	38.4	38.5	38.4
Total managed expenditure (*b*)	47.7	47.1	46.0	44.3	42.5	41.0	39.9
of which: PSCE (*c*)	42.8	42.9	42.5	41.2	39.7	38.3	37.3
PSNI (*d*)	3.5	2.8	2.1	1.7	1.4	1.3	1.3
Depreciation (*e*)	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Deficit							
Public sector net borrowing (*b-a*)	11.1	9.9	7.9	6.2	4.1	2.5	1.5
Surplus on current budget (*a-c-e*)	-7.6	-7.1	-5.8	-4.5	-2.7	-1.2	-0.2
Cyclically-adjusted net borrowing	8.9	7.4	5.3	3.7	2.0	1.0	0.5
Primary balance	-9.2	-7.1	-5.0	-3.5	-1.3	0.3	1.3
Fiscal mandate and supplementary target							
Cyclically-adjusted surplus on	-5.3	-4.6	-3.2	-2.0	-0.6	0.4	0.8
Public sector net debt[1]	52.7	60.3	66.1	69.7	70.9	70.5	69.1
Financing							
Central government net cash	14.2	9.6	7.8	6.5	4.7	2.6	1.7
Public sector net cash requirement	14.5	9.9	8.4	6.7	4.8	2.9	1.7
Stability and Growth Pact							
Treaty deficit[2]	11.4	9.8	7.9	6.2	4.1	2.6	1.6
Cyclically-adjusted Treaty deficit[2]	9.1	7.3	5.3	3.7	2.0	1.0	0.6
Treaty debt ratio[3]	71.2	78.7	84.1	87.0	87.2	85.7	83.5
	£ billion						
Surplus on current budget	-106.9	-104.8	-90	-73	-46	-22	-5
Net investment	49.5	41.1	32	28	24	24	25
Public sector net borrowing	156.4	145.9	122	101	70	46	29
Central government net cash	198.8	141.2	120	105	80	46	33
Public sector net debt	759.5	909.2	1046	1164	1251	1314	1359
Memo: Output gap (per cent of GDP)	*-4.2*	*-3.4*	*-3.9*	*-3.5*	*-2.8*	*-2.0*	*-1.3*

[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 C.8: Changes to the OBR fiscal forecast

	Outturn	Forecast					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Surplus on current budget							
June forecast	-105.6	-110.2	-88	-65	-40	-17	0
November forecast	-106.6	-106.2	-87	-64	-37	-11	6
Change	*-0.3*	*1.4*	*-3*	*-9*	*-9*	*-11*	*-11*
March forecast	-106.9	-104.8	-90	-73	-46	-22	-5
Net investment							
June forecast	49.0	38.9	27	24	20	21	21
November forecast	49.4	42.3	31	27	23	24	24
Change	*0.1*	*-1.2*	*1*	*1*	*0*	*0*	*0*
March forecast	49.5	41.1	32	28	24	24	25
Net borrowing							
June forecast	154.7	149.1	116	89	60	37	20
November forecast	156.0	148.5	117	91	60	35	18
Change	*0.4*	*-2.6*	*4*	*10*	*10*	*11*	*11*
March forecast	156.4	145.9	122	101	70	46	29
				Per cent of GDP			
Net borrowing							
June forecast	11.0	10.1	7.5	5.5	3.5	2.1	1.1
November forecast	11.1	10.0	7.6	5.6	3.5	1.9	1.0
Change	*0.0*	*-0.1*	*0.3*	*0.6*	*0.6*	*0.6*	*0.6*
March forecast	11.1	9.9	7.9	6.2	4.1	2.5	1.5
Cyclically-adjusted surplus on current budget							
June forecast	-5.3	-4.8	-3.2	-1.9	-0.7	0.3	0.8
November forecast	-5.3	-4.7	-3.3	-1.8	-0.5	0.5	0.9
Change	*0.0*	*0.2*	*0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.2*
March forecast	-5.3	-4.6	-3.2	-2.0	-0.6	0.4	0.8
Cyclically-adjusted net borrowing							
June forecast	8.7	7.4	5.0	3.4	1.8	0.8	0.3
November forecast	8.8	7.6	5.3	3.5	1.9	0.8	0.3
Change	*0.0*	*-0.2*	*0.0*	*0.2*	*0.1*	*0.2*	*0.2*
March forecast	8.9	7.4	5.3	3.7	2.0	1.0	0.5
Net debt[1]							
June forecast	53.5	61.9	67.2	69.8	70.3	69.4	67.4
November forecast	53.5	60.8	66.3	69.1	69.7	68.8	67.2
Change	*-0.8*	*-0.5*	*-0.2*	*0.6*	*1.2*	*1.7*	*1.8*
March forecast	52.7	60.3	66.1	69.7	70.9	70.5	69.1

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

Table C.9: Reconciliation of OBR forecast of PSNB and CGNCR

	£ billion						
	Outturn	Forecast					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Public sector net borrowing	156.4	145.9	122	101	70	46	29
Financial transactions	33.0	4.3	7	9	10	11	9
Accruals adjustments	14.7	-4.9	1	-1	3	-5	-7
Public sector net cash	204.1	145.2	129	109	83	52	32
minus Local authorities net cash requirement	5.0	3.5	11	3	2	1	0
minus Public corporations net cash requirement	1.4	3.0	1	3	3	6	0
Central government net cash requirement own account	197.7	138.7	116	103	79	45	31
Net lending within the public sector	1.1	2.5	4	2	2	2	2
Central government net cash requirement	198.8	141.2	120	105	80	46	33

List of Abbreviations

AME	Annually Managed Expenditure
APD	Air Passenger Duty
CBI	Confederation of British Industry
CCAs	Climate change agreements
CCL	Climate change levy
CDEL	Capital Departmental Expenditure Limit
CFC	Controlled Foreign Company
CGT	Capital Gains Tax
CGNCR	Central government net cash requirement
CHP	Combined Heat and Power
CPI	Consumer Prices Index
DECC	Department of Energy and Climate Change
DEL	Departmental Expenditure Limit
DfT	Department for Transport
DMO	Debt Management Office
DOTAS	Disclosure of Tax Avoidance Schemes
DWP	Department for Work and Pensions
ECGD	Export Credit Guarantee Department
EIS	Enterprise Investment Scheme
EU	European Union
EU ETS	EU Emissions Trading Scheme
FPC	Financial Policy Committee
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
GDP	Gross Domestic Product
HMRC	Her Majesty's Revenue and Customs
HSBC	HongKong and Shanghai Banking Corporation
IHT	Inheritance Tax
ILO	International Labour Organisation
IMF	International Monetary Fund
LBG	Lloyds Banking Group
LIBOR	London inter-bank offered rate
LVCR	Low Value Consignment Relief
MPC	Monetary Policy Committee

NEET	Not in education, employment or training
NICs	National Insurance Contributions
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Cooperation and Development
OFCOM	Office of Communications
ONS	Office for National Statistics
OTS	Office of Tax Simplification
PAYE	Pay As You Earn
PRA	Prudential Regulation Authority
PSCE	Public Sector Current Expenditure
PSGI	Public Sector gross Investment
PSNB	Public sector net borrowing
PSNI	Public sector net investment
RBS	Royal Bank of Scotland
R&D	Research and Development
RPI	Retail Prices Index
SDLT	Stamp Duty Land Tax
SME	Small and medium-sized enterprise
TME	Total Managed Expenditure
UKTI	UK Trade and Investment
VAT	Value Added Tax
VCT	Venture Capital Trust

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