HM TREASURY

AUTUMN STATEMENT 2012

Cm 8480

December 2012

Autumn Statement 2012

Presented to Parliament by
the Chancellor of the Exchequer
by Command of Her Majesty

December 2012

Cm 8480 £45.00

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This publication is also available on http://www.official-documents.gov.uk/

ISBN 9780101848022
PU1370

Printed in the UK by The Stationery Office Limited on behalf of the Controller of Her Majesty’s Stationery Office

Printed on paper containing 75% recycled fibre content minimum

ID P002466828 19585 24096 12/12

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Executive summary

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

Despite these headwinds, progress has been made. The deficit has been reduced by a quarter over the two years since 2009-10; 1.2 million private sector jobs have been created since the first quarter of 2010; and market interest rates have fallen to near record lows, with cumulative debt interest payments from 2010-11 to 2015-16 forecast to be £33 billion lower than expected at the June Budget 2010.

The Government's economic strategy set out in the June Budget 2010 is designed to reduce the deficit, restore stability, equip the UK to succeed in the global race and rebalance the economy. Where it is affordable, the Government is committed to helping families with the cost of living and to supporting those who want to work hard and get on. The Government is committed to ensuring that the impact of the consolidation is shared fairly. Autumn Statement 2012 maintains this strategy and sets out the further action the Government will take in three areas:

- protecting the economy;
- growth; and
- fairness.

Protecting the economy

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

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

As a result of these factors, GDP growth has been weaker and inflation higher than was originally forecast by the OBR when the Government's economic strategy was put in place.

Economic forecast

The OBR's forecast for GDP growth in 2012 is -0.1 per cent, broadly in line with external forecasts. GDP growth is projected to pick up in every year of the forecast as the factors weighing on recovery ease.

Since Budget 2012, employment has grown more strongly than forecast – in the third quarter of 2012 it was 0.5 million higher than forecast at the Budget – and is projected to rise in every year of the OBR's December 2012 *Economic and fiscal outlook* forecast period.

Fiscal forecast

The Government announced on 9 November 2012 that the excess cash held in the Bank of England Asset Purchase Facility (APF) will be transferred to the Exchequer. In order to ensure transparency, this Autumn Statement presents the main fiscal aggregates both including and excluding the effects of these cash transfers.

Including the effects of the transfers:

- **borrowing is now forecast to fall by 1.0 per cent of GDP in 2012-13, by 0.8 per cent of GDP in 2013-14, and by 0.9 per cent of GDP in 2014-15;**
- **borrowing is expected to fall in every year of the forecast period as a percentage of GDP and in cash terms, both including and excluding the effects of the APF cash transfers;** and
- **public sector net debt as a percentage of GDP is expected to be 79.9 per cent of GDP in 2015-16 before falling to 79.2 per cent of GDP in 2016-17 and 77.3 per cent of GDP in 2017-18.**[1]

The revision in the OBR's fiscal forecast since Budget 2012 largely reflects a persistent cyclical, rather than a permanent structural, deterioration.

The Government's response

The Government is committed to delivering on the consolidation plans it set out in the June Budget 2010 and Spending Review 2010:

- **Autumn Statement 2012 sets out a further £6.6 billion package of savings in this spending review period made up from welfare, Official Development Assistance (ODA) and departmental current spending. This package will fund £5.5 billion of additional infrastructure investment over the current spending review period as well as further support for businesses.** Public investment as a share of GDP will now be higher on average in this Parliament than under the previous government.
- in the medium term, **savings in this spending review period will contribute to savings required in 2015-16 and beyond. The Government is announcing an envelope for spending in 2015-16,** consistent with the announcement at Autumn Statement 2011 that total spending in 2015-16 and 2016-17 will continue to fall at the same rate as the Spending Review 2010 period. Detailed spending plans for 2015-16 will be set out in the first half of next year. The Government will operate on the principle that departmental resource budgets will continue on the same trajectory in 2015-16 as over the period of the 2010 Spending Review. In line with the policy set at Spending Review 2010, spending on health, schools and ODA will be protected from further reductions;
- **the Government is setting a fiscal assumption that Total Managed Expenditure (TME) in 2017-18 will continue to fall at the same rate as over the Spending Review 2010 period.** This assumes that TME in 2017-18 will be £4.6 billion lower than if total expenditure were held flat in real terms from 2016-17;

[1] Borrowing forecasts exclude the transfer of Royal Mail assets and liabilities. See Chapter 1.

- **Autumn Statement 2012 announces a further package of tax measures that support growth, reward work, help with the cost of living and ensure that those with the most contribute the most to the fiscal consolidation.** Tax continues to make broadly the same contribution to consolidation as set out in the June Budget 2010, with 79 per cent of the consolidation accounted for by reductions in spending; and
- **spectrum receipts will be reflected in this Autumn Statement at £3.5 billion** following formal assessment and independent analysis by the OBR, most of which will be used to provide temporary support to business through the tax system over the next two years.

The OBR's December 2012 *Economic and fiscal outlook* concludes that the Government remains on course to meet the fiscal mandate, both including and excluding the effects of the APF cash transfers. The OBR's assessment is that public sector net debt as a percentage of GDP will be falling in 2016-17, a year later than set out in the supplementary debt target, again both including and excluding the effects of the APF cash transfers.

The Government's judgement is that it is neither necessary nor justified to undertake additional consolidation in the short term in response to the cyclical deterioration in the public finances. **Autumn Statement 2012 is therefore fiscally neutral over the Parliament to 2015-16 and sets out further details of spending plans in 2015-16.**

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

Growth

The UK economy is facing rapid global change. The growth of emerging economies, such as China, India and Brazil, is creating new challenges for the UK, but also new opportunities. To enable the UK to compete in this global race and to rebalance the economy, the Government is delivering an ambitious programme of structural reforms that will strengthen the economy and support those who want to work hard and get on.

The Government will:

- develop the UK's infrastructure to meet the needs of businesses with a **£5.5 billion capital package and support for long-term private investment, including in new roads, science infrastructure and free schools and free academies.** This builds on a programme of infrastructure investment and reform that has helped to increase total public and private UK infrastructure investment from £29 billion a year between 2005 and 2010 to £33 billion between 2010 and 2012;
- create one of the most competitive tax systems in the world, including a **further 1 per cent cut in the main rate of corporation tax from April 2014, to 21 per cent** and, to support new investment by small and medium sized businesses in particular, **a significant temporary increase in the Annual Investment Allowance, from £25,000 to £250,000 for two years;**
- **devolve a greater proportion of growth-related spending to local areas from April 2015, in response to Lord Heseltine's review of economic growth;**[2]
- ensure businesses, particularly small businesses, can access finance and support. The Government will **create a Business Bank to deploy £1 billion of additional capital and enable UK Export Finance to provide up to £1.5 billion in loans to finance small firms' exports;** and

[2] *No Stone Unturned,* The Rt Hon the Lord Heseltine of Thenford CH, October 2012.

- **introduce a package of reforms to promote exports and inward investment, including additional funding to UK Trade and Investment to deliver more services to small and medium size exporters and increasing funding for the GREAT campaign to showcase Britain's capabilities.**

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

Fairness

Fairness is a fundamental aspect of the Government's plans to reduce the deficit and protect the economy by ensuring that everyone pays their fair share. This Autumn Statement builds on the Government's commitment to ensure that it pays to work; to support pensioners and those most in need; and to deliver a progressive tax and welfare system that is affordable, fair and encourages growth.

The Government will support those on low and middle incomes **by increasing the personal allowance by a further £235 in April 2013, taking it to £9,440.** This means 2.2 million people will have been taken out of tax by the Government's increases in the personal allowance.

The Government will provide further support to businesses and motorists by **cancelling the 3.02 pence per litre fuel duty increase that was planned for 1 January 2013. The 2013-14 increase will be deferred to 1 September 2013.** This will mean that fuel duty will have been frozen for nearly two and a half years. For the remainder of the Parliament, **subsequent increases will take effect on 1 September each year, instead of 1 April.**

The welfare system must be affordable, help those who need it most and provide the right incentives for people to work. To ensure the overall affordability of the welfare system, the Government will **uprate most working age benefits and tax credits, excluding disability and carers benefits, by 1 per cent for three years from April 2013.** Pensioner benefits will not be affected.

In light of this decision and plans to make public sector pay awards that average at 1 per cent, the Government believes it is fair and consistent to limit increases in personal tax thresholds. **The Government will increase the higher rate threshold for income tax by 1 per cent rather than inflation in 2014-15 and 2015-16. The capital gains annual exempt amount will increase by 1 per cent each year over the same period. The inheritance tax nil-rate band has been frozen since 2009 at £325,000, but will increase by 1 per cent in 2015-16.**

In addition, the Government will:

- **increase the basic State Pension by 2.5 per cent in line with the commitment to the triple lock;**
- tackle evasion **by maintaining the momentum from the Government's recent agreements with Switzerland (which raises over £5 billion over 6 years) and the US by creating an HM Revenue and Customs (HMRC) unit dedicated to tackling offshore evasion and publishing a comprehensive offshore evasion strategy in the spring;**
- tackle tax avoidance, including through **the introduction of the UK's first General Anti-Abuse Rule, the development of significant new information disclosure and penalty powers targeting the promoters of aggressive tax avoidance schemes, and the closure of loopholes protecting hundreds of millions of pounds;** and

- ensure that everyone pays their fair share in a progressive tax system. **From 2014-15, the Government will reduce the lifetime allowance for pension contributions from £1.5 million to £1.25 million and reduce the annual allowance from £50,000 to £40,000.**

Autumn Statement 2012 increases the contribution of the richest by £8.5 billion over the forecast period.

The third section of Chapter 1 sets out further information on these and other announcements. Further information on the estimated distributional impact of this Autumn Statement is available in *Impact on households: distributional analysis to accompany the Autumn Statement 2012.*[3]

Chapter 2 sets out all measures announced in this Autumn Statement.

Annex A presents financing information.

Annex B presents selected tables from the OBR's December 2012 *Economic and fiscal outlook.*

Autumn Statement decisions

A summary of the fiscal impact of Autumn Statement policy decisions is set out in Table 1. Chapter 2 provides further information on the fiscal impact of the Autumn Statement.

Table 1: Summary of Autumn Statement policy decisions[1]

	£ million					
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Total tax policy decisions	-870	+180	-2,385	-905	+295	+305
Total spending policy decisions	+4,840	-1,090	+1,465	0	0	+4,635
TOTAL POLICY DECISIONS	**+3,970**	**-910**	**-920**	**-905**	**+295**	**+4,940**

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

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

1 Autumn Statement

Protecting the economy

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

1.2 The Government's economic strategy set out in the June Budget 2010 is designed to protect the economy through this period of global uncertainty and provide the foundations for recovery. This strategy has ensured the public finances are restored to a sustainable path, and the UK is seen as a relative safe haven. The deficit has been reduced by a quarter over the two years since 2009-10; and market interest rates have fallen to near record lows, with cumulative debt interest payments from 2010-11 to 2015-16 forecast to be £33 billion lower than expected at the June Budget 2010, helping to keep interest payments lower for families, businesses and the taxpayer. In addition, the labour market has performed more strongly than forecast, with a net 1.2 million jobs created in the private sector since the first quarter of 2010.[1] Unemployment currently stands at 7.8 per cent in the UK, lower than in the US or the euro area, and lower than in the aftermath of previous UK recessions.

1.3 While post-crisis recovery from such a deep recession was always expected to be subdued by historical standards, further shocks have hit the economy in recent years and further evidence has accumulated on the lasting cost of the financial crisis. Three key factors, first set out in the Office for Budget Responsibility's (OBR) November 2011 *Economic and fiscal outlook*, have resulted in a more subdued and uneven recovery than expected:

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

1.4 As a result of these factors, GDP growth has been weaker and inflation higher than was originally forecast by the OBR when the Government's economic strategy was put in place.[2] Compared with Budget 2012, the OBR's December 2012 *Economic and fiscal outlook* has revised down its forecast for UK GDP growth across the forecast horizon, reflecting the scale and persistence of the challenges facing the economy. The revision in the OBR's fiscal forecast since Budget 2012 largely reflects a persistent cyclical, rather than a permanent structural,

[1] These figures exclude the impact of the reclassification from June 2012 of 196,000 employees in some educational bodies from the public to the private sector.
[2] According to the OBR's October 2012 *Forecast evaluation report*, UK GDP was 4.7 per cent lower in the second quarter of 2012 than had been forecast by the interim OBR in June 2010 and the UK household final consumption expenditure deflator, a measure of inflation, over the same period was 3.3 per cent higher than had been forecast.

deterioration. GDP growth is projected to pick up in every year of the forecast, as the factors weighing on recovery ease.

1.5 The UK economy is facing rapid global change. The growth of emerging economies, such as China, India and Brazil, is creating new challenges for the UK, but also new opportunities. To enable the UK to compete in the global race and the economy to rebalance, the Government is delivering an ambitious programme of structural reforms. These reforms are a key part of the Government's economic strategy, alongside deficit reduction, monetary activism and financial sector reform and are set out later in this chapter.

The UK economy since 2010

1.6 GDP grew by 1 per cent in the third quarter of 2012, as the economy benefited from spending related to the Olympics and the rebound in output from the extra bank holiday in June. The OBR estimates that underlying growth was positive in the third quarter of 2012.

1.7 The OBR's analysis of the economy's performance since early 2010 was set out in the October 2012 *Forecast evaluation report*. In terms of GDP growth, as detailed in Table 1.1, three sources of private spending accounted in roughly equal measure for the shortfall in GDP relative to the OBR's June Budget 2010 forecast, with lower:

- private consumption, as unexpected inflation reduced the real value of nominal spending;
- private investment, which the OBR concluded was most likely due to the confidence shocks and uncertainty arising from the euro area crisis; and
- net trade, as external demand faltered, particularly during 2012, with the euro area falling back into recession.

1.8 By contrast, the contribution of government spending to real GDP growth held up better than expected, in part because the volume of public services delivered for a given value of spending was greater than forecast.[3]

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

Table 1.1: Contributions to real GDP growth from 2010Q1 to 2012Q2

	Percentage points					
	Private consumption	Private investment	Total government	Net trade	Stocks	GDP
June Budget 2010 forecast	2.0	2.5	-1.5	1.9	0.8	5.7
Latest data	0.0	0.7	-0.7	0.2	0.5	0.9
Difference[1]	-1.9	-1.8	0.8	-1.7	-0.3	-4.7

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

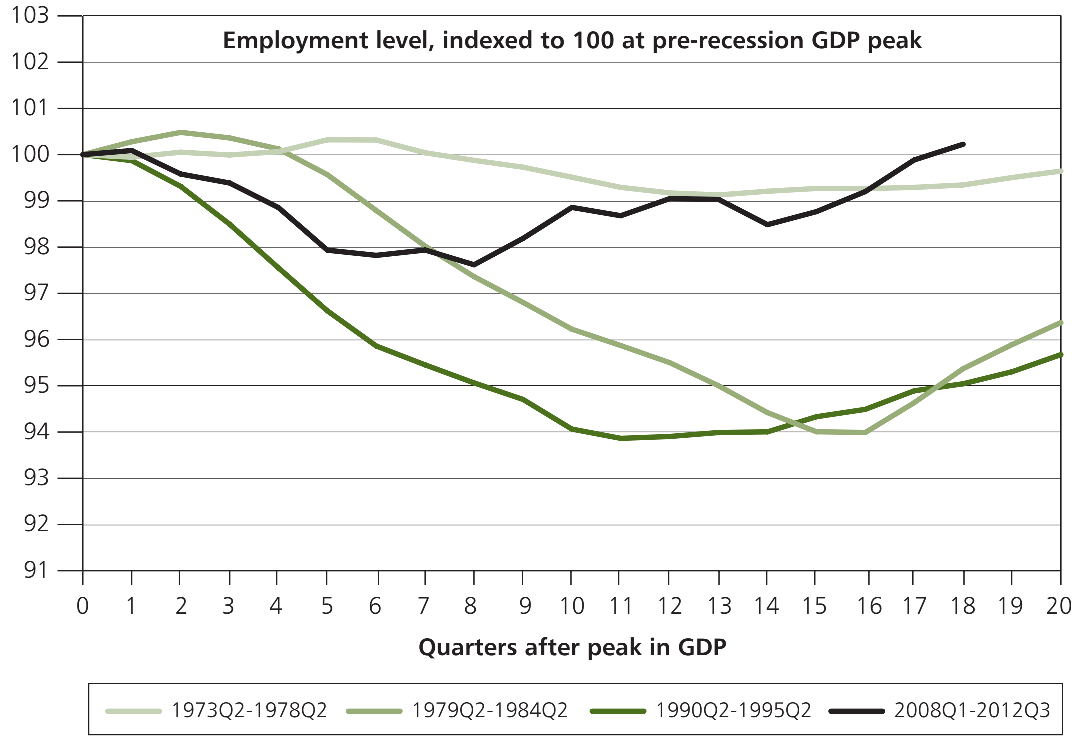
Source: Forecast evaluation report, Office for Budget Responsibility, October 2012.

1.10 While the recovery in GDP has been more subdued than expected, the labour market has shown considerable flexibility and resilience. As Chart 1.1 shows, employment is currently above the level it had reached at a similar stage of recoveries from previous UK recessions. Between the first quarter of 2010 and the second quarter of 2012 private sector employment increased by 1.2 million, more than offsetting a 463,000 decline in public sector employment.

[3] The OBR's October 2012 *Forecast evaluation report* notes the issues associated with estimating categories of government consumption based on direct output measures.

1.11 Despite the challenging economic context, labour force participation has been increasing in the UK, whereas it has fallen in the US. The UK has a higher rate of labour force participation than either the US or the euro area. The UK's historical experience, particularly in downturns, has shown the potential lasting costs of detachment from the labour market, so this performance is encouraging.

Chart 1.1: Employment levels through recessions and recoveries



Source: Office for National Statistics and HM Treasury.

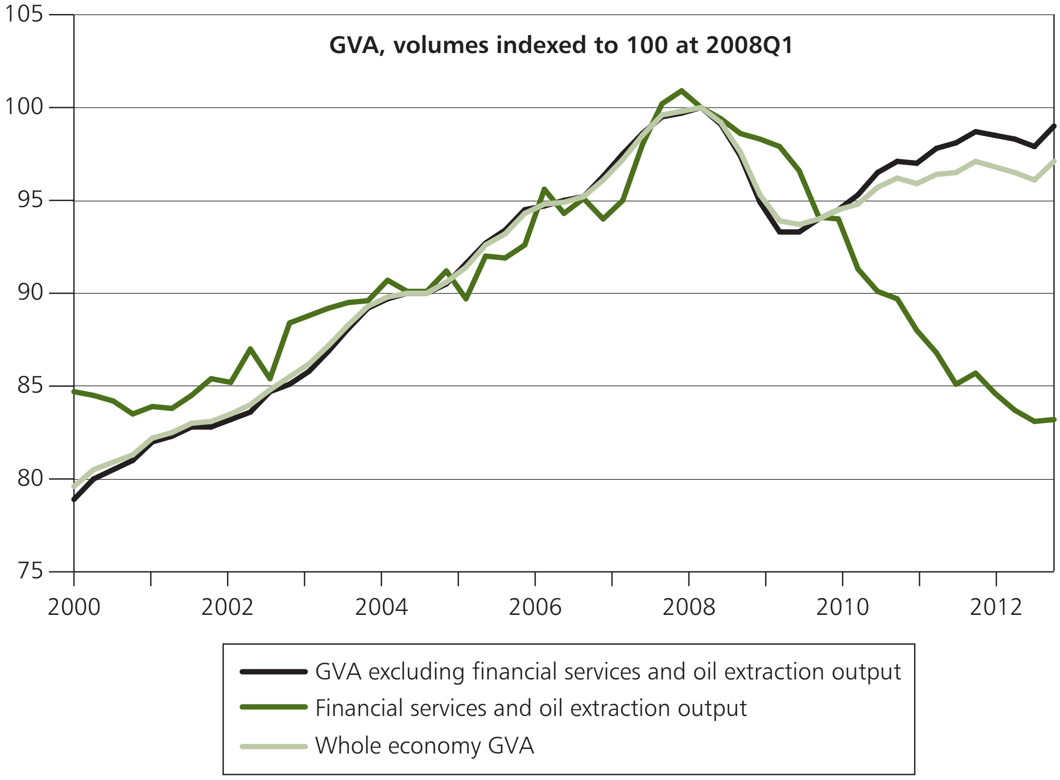
Sectoral performance

1.12 The global shocks that have hit the UK economy in recent years have been unusually large and the resulting challenges of restoring productivity and rebalancing the economy are significant. This can be seen by looking at the contribution of different sectors to overall economic growth. In particular, the financial services sector has been hit directly by the financial crisis and by the post-crisis deleveraging, while output of the North Sea oil and gas sector has continued a long-term decline related to maturing fields. As a result:

- the financial sector has contracted by 12½ per cent in real terms since the economy's pre-crisis peak and by 2 per cent over the past year; and
- the North Sea oil and gas sector has contracted by 38½ per cent since the economy's pre-crisis peak and by 8½ per cent over the past year.

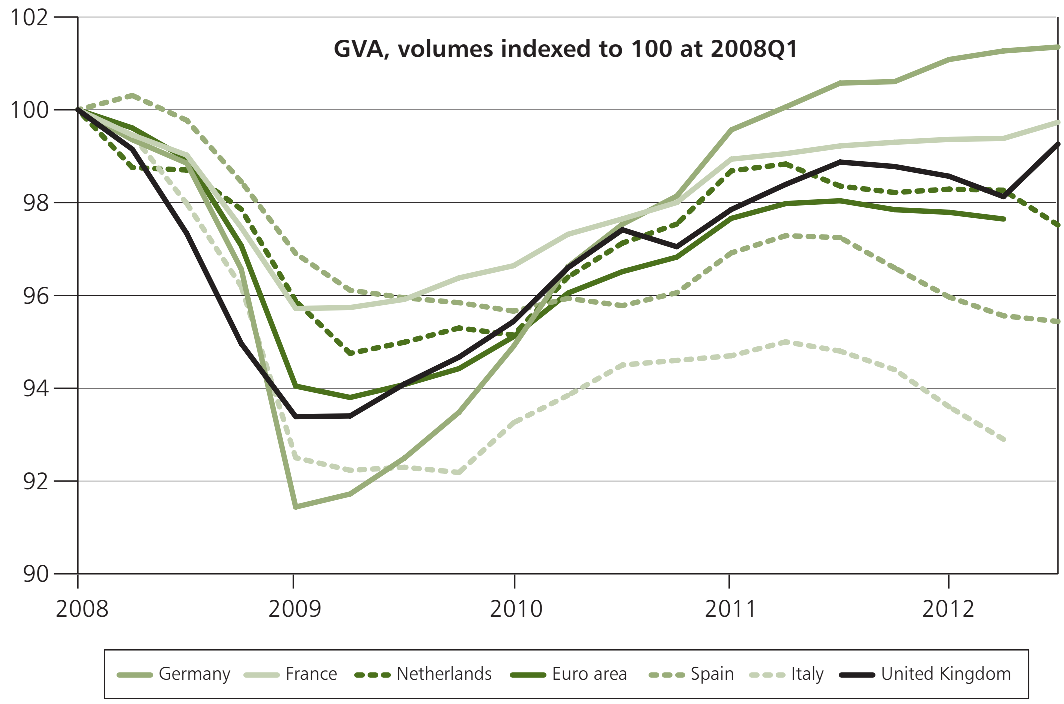
1.13 The rest of the economy, accounting for nearly 90 per cent of gross value added (GVA), has performed more strongly. It has grown by over 4½ per cent in real terms since the end of 2009, ½ per cent over the past year and is now around 1 percentage point below its pre-crisis peak. Within that, manufacturing has grown by around 4½ per cent since the end of 2009 and non-financial business services, a traditional UK sector of comparative advantage, by around 11½ per cent.

Chart 1.2: Sectoral output



Source: Office for National Statistics and HM Treasury.

Chart 1.3: GVA excluding energy and financial services in the largest European Union economies



Source: OECD and HM Treasury.

1.14 Excluding the drag from financial services and the energy sector, growth in the UK compares favourably to the largest European Union (EU) economies.[4] Chart 1.3 shows that, on this basis, since the first quarter of 2008 the UK's performance has been similar to that of France and better than that of the euro area.

Ongoing challenges to sustained recovery

Impact of the financial crisis on underlying economic performance

1.15 Since 2010, the OBR has forecast a historically subdued pace of recovery, consistent with recoveries from past financial crises.[5] Despite this, it has become clear the financial crisis that hit during 2008 has had a more lasting impact than originally expected. Alongside Autumn Statement 2011, the OBR revised down potential output and underlying productivity over the forecast horizon.

1.16 The Bank of England's November 2012 *Inflation Report* and the OBR's December 2012 *Economic and fiscal outlook* set out the channels along which productivity might have been held back due to the persistent effects of the financial crisis. For example: the higher cost and reduced availability of credit, the pace with which credit is reallocated to more efficient uses and a lower risk appetite among lenders. Based on the evidence presented in the *Inflation Report*, the Bank of England's Monetary Policy Committee (MPC) *"judges that much of the shortfall in productivity reflects a period of weak growth in underlying productivity, albeit with a wide variety of experiences across companies within that. But that need not imply that underlying productivity growth will remain weak".*[6]

1.17 The OBR's revision to GDP growth since Budget 2012 and Autumn Statement 2011 largely reflects an updated assessment of the persistent cyclical, rather than permanent structural, drag on the UK economy from the euro area crisis and wider global risks and the outlook for credit conditions.

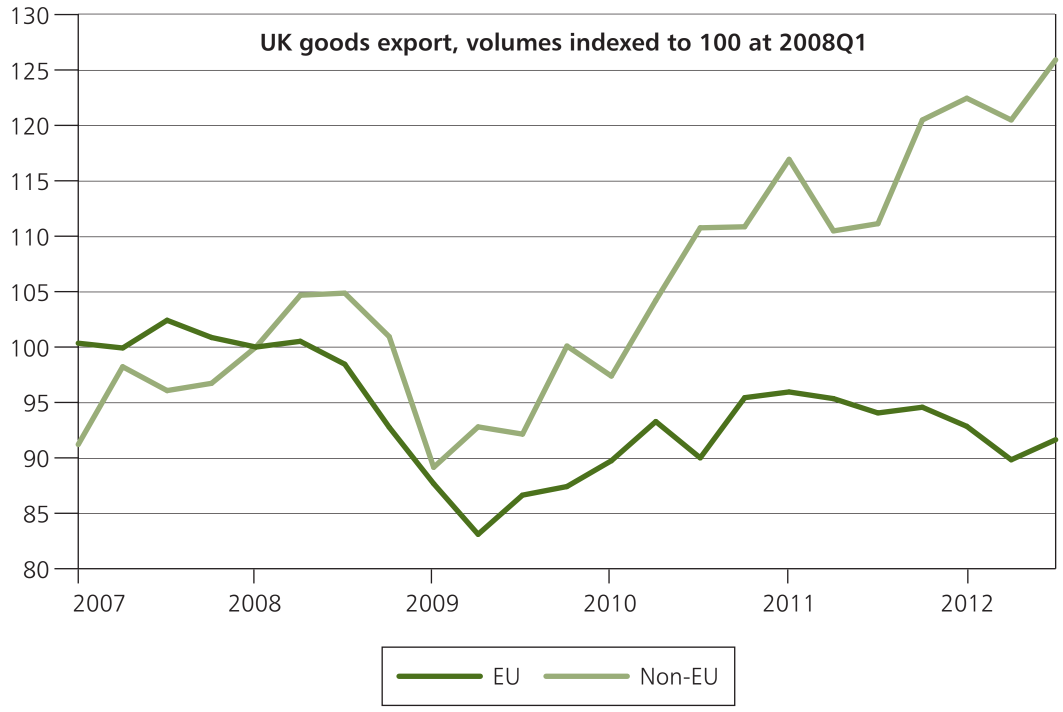
Euro area crisis and global uncertainty

1.18 While some of the slowing in the global economy is due to the continued process of addressing excessive household, bank and sovereign debt, the greatest source of global uncertainty over the past two years has been the euro area sovereign debt crisis. In the euro area, economic momentum remains weak and tensions from the sovereign debt crisis are still evident, despite actions taken by European policymakers to reduce risks. The OBR expects euro area GDP to contract by 0.4 per cent in 2012 and to be flat in 2013. The euro area accounted for 42 per cent of the UK's exports of goods and services in 2011.

1.19 Chart 1.4 shows that weakness in recent UK export performance has been concentrated in trade with the rest of the EU. Crisis-related uncertainty in European financial markets has affected UK wholesale bank funding costs, particularly as the crisis intensified towards the end of 2011. Domestic confidence has been subdued, which has fed through to household spending and to companies' investment decisions.

[4] Chart 1.3 uses OECD data and energy sector refers to the energy extraction and usage category. This is comprised of 'mining and quarrying (including oil and gas extraction)', 'electricity, gas, steam and air' and 'water supply and sewerage'.
[5] See *The Aftermath of Financial Crises,* C. Reinhart, M. Carmen and K. Rogoff, American Economic Review, Vol. 99 No. 2, May 2009, 466-472; and *This Time is Different: Eight Centuries of Financial Folly,* C. Reinhart, M. Carmen and K. Rogoff, Princeton University Press, September 2009.
[6] *Inflation Report,* Bank of England, November 2012.

Chart 1.4: UK goods export volumes



Source: Office for National Statistics and HM Treasury.

1.20 Outside the euro area, there are significant sources of further uncertainty but also some signs of improving prospects:

- in the US, if legislators cannot agree an alternative, the 'fiscal cliff' will come into effect from 1 January 2013. This would amount to a fiscal consolidation of over 4 per cent of US GDP – around 1 per cent of global GDP – over the 2013 financial year.[7] However, US housing starts have risen 40 per cent this year and house prices have started to rise, easing one headwind to US and world growth in recent years. The US was the destination for around 16 per cent of the UK's exports in 2011; and
- in emerging economies, growth has slowed. However, the latest indicators, notably from China, suggest that it may be set to pick up once more. The International Monetary Fund (IMF) forecasts that the world economy will grow by $21 trillion over the next five years, $13 trillion of which is accounted for by emerging economies.[8] UK exports to China, Brazil and India grew by 64 per cent, 45 per cent and 78 per cent respectively between 2009 and 2011, from a low base, providing a source of growth and rebalancing for the UK economy.

Global commodity prices

1.21 Having risen sharply in late 2010 and early 2011, oil prices have remained high in 2012 but have not risen further. Partly as a result, inflation in the UK has eased from a peak of 5.2 per cent in September 2011 to a latest rate of 2.7 per cent, easing pressure on households' real incomes. Real household disposable income is forecast to rise by 2.1 per cent in 2012. Energy and fuel prices remain a source of potential risk over the coming years.

[7] The US 2013 financial year runs from October 2012 to September 2013.
[8] *World Economic Outlook*, IMF, October 2012.

Economic forecast

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

	Percentage change on a year earlier, unless otherwise stated						
		Forecast					
	2011	2012	2013	2014	2015	2016	2017
GDP growth	**0.9**	**-0.1**	**1.2**	**2.0**	**2.3**	**2.7**	**2.8**
Main components of GDP							
Household consumption[2]	-0.9	0.5	0.9	1.6	1.8	2.4	2.9
Government consumption	0.2	2.4	-0.7	-1.4	-1.2	-2.1	-3.0
Fixed investment	-2.4	1.0	2.1	8.1	8.5	8.7	8.7
Business	2.9	3.8	4.9	8.1	10.2	10.1	9.5
Government	-20.4	-9.2	-2.5	4.8	-3.0	-2.6	0.7
Private dwellings	0.3	2.4	-1.1	9.5	10.0	10.0	9.7
Change in inventories[3]	0.3	-0.6	0.2	0.0	0.0	0.0	0.0
Net trade[3]	1.2	-0.6	0.3	0.2	0.2	0.2	0.1
CPI inflation	**4.5**	**2.8**	**2.5**	**2.2**	**2.0**	**2.0**	**2.0**

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

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

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

Source: Office for Budget Responsibility.

1.22 Reflecting the challenges set out above, the OBR has revised its forecast for GDP growth in 2012 from 0.8 per cent to -0.1 per cent, which is more than accounted for by the revision to net trade. The *Economic and fiscal outlook* states that *"GDP growth is now expected to be lower in every year of the forecast period, as credit conditions take longer to normalise and global growth remains weaker than previously expected"*. By 2016, the level of GDP is 3.2 percentage points lower than forecast at Budget 2012. The OBR expects underlying GDP growth to be positive in the fourth quarter of 2012 and to pick up through 2013. This reflects a more supportive global backdrop and the effects of the Funding for Lending Scheme (FLS) on domestic economic conditions, combined with the continued easing of inflation. Together, these factors should have a positive effect on consumer and business confidence and demand. GDP growth is projected to pick up in every year of the forecast as the factors weighing on recovery ease.

1.23 The OBR judges that the factors underlying the revisions to growth are largely persistent rather than permanent, so the negative output gap is wider than at Budget 2012 in each year of the forecast. The OBR forecast is broadly consistent with that set out in the October 2012 IMF *World Economic Outlook*.[9] If global economic conditions improve and confidence in the economy is restored more quickly, it is likely that investment and GDP growth would be stronger and the output gap would close more quickly.

1.24 Employment has grown more strongly than the OBR projected in its Budget 2012 forecast, with the level 0.5 million higher than expected by the third quarter of 2012. Employment is projected to continue rising in every year of the forecast, to 30.4 million by 2017. Between 2012 and 2017, employment is forecast to rise by almost 1 million while private sector employment is projected to rise by 1.6 million, continuing the trend of the past 2½ years. Inflation is forecast to be a little higher in 2013 and 2014 as a result of near-term upward pressure due to a higher than expected effect from tuition fees, the announced rises in domestic energy prices and rises in food commodity prices. From 2015 onwards, the OBR forecasts Consumer Prices Index (CPI) inflation to be close to the Bank of England's target of 2 per cent.

[9] *World Economic Outlook*, IMF, October 2012.

1.25 Relative to the Budget 2012 forecast, the OBR expects the economy to rebalance more slowly towards private investment and net trade, consistent with global uncertainty and euro area recession holding back demand for UK exports and weighing on business and household investment decisions. Slower growth in private consumption will reduce demand for imports, but by less than the impact of the euro area recession and other factors on UK exports.

The Government's strategy

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

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

Monetary activism

Monetary policy

1.27 Monetary policy continues to have a critical role in supporting the economy as the Government delivers its commitment to necessary fiscal consolidation. In order to meet the inflation target in the medium term, the MPC has continued to maintain a record low level of Bank Rate and in July 2012 increased its programme of asset purchases financed by the issuance of central bank reserves through the Asset Purchase Facility (APF) from £325 billion to £375 billion. The MPC has made clear that *"demand and output would have been significantly weaker"* in the absence of its asset purchases and that *"there remained considerable further scope for asset purchases to lower long-term yields on government and corporate debt and support other asset prices"*.[10]

Credit easing

1.28 The cost for UK banks to borrow from the financial markets rose significantly towards the end of 2011 as the euro area crisis intensified, with market tensions re-emerging in mid-2012. This caused upward pressure on market interest rates, as banks passed on their elevated funding costs to borrowers, and an associated decline in the availability of loans. To counteract these pressures, the Bank of England and the Government together launched the FLS on 13 July, which complements the asset purchase programme by delivering support to the economy through the banking system.

1.29 The FLS reduces the cost of bank loans for the real economy as a whole and creates a strong incentive for banks to lend to UK households and non-financial businesses. It provides cheap access to funding for banks and building societies for up to four years, with both the price and quantity of funds linked to lending performance. So far, 35 banks have signed up to the Scheme, many of whom are small banks and building societies. Together these banks account for about 82 per cent of the eligible stock of loans to UK households and non-financial

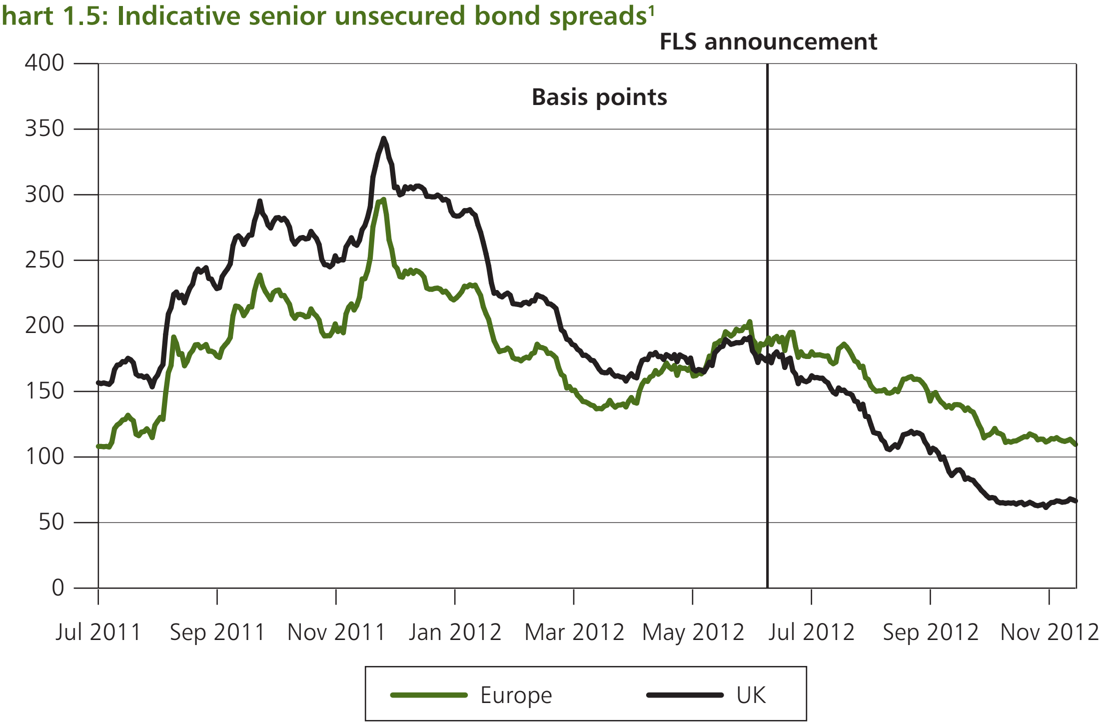
[10] *Minutes of the Monetary Policy Committee, 7 and 8 November 2012*, Bank of England, November 2012.

companies. Participating banks can initially borrow up to around £68 billion from the Scheme, depending on how many participate, plus an amount equivalent to any increase in net lending until December 2013.[11]

1.30 Increased availability of cheaper loans is expected to boost spending in the economy by supporting consumer spending, allowing families to buy homes and enabling companies to finance new hiring and investments. The participation of smaller banks in the Scheme also helps make the banking sector more competitive. It allows better allocation of credit to productive parts of the economy, enabling stronger economic growth. The pressure of competition will help to ensure that credit flows to where there is demand.

1.31 It is expected to take several months for the Scheme to impact lending volumes because of the time taken for banks to change their lending strategies and the time it takes between loan application, approval and drawdown. Early indications suggest that the FLS is already having a positive effect, especially on mortgage availability, including for first-time buyers. For example, the availability of the number of mortgage products at or above 85 per cent loan-to-value has increased by 13 per cent since July. In October, total enquiries to estate agents from new buyers rose to their highest level since December 2009. Total mortgage approvals have also been steadily increasing since June 2012. The Bank of England has published the first results for quarterly lending data under the Scheme, which showed a small increase in net lending by participants between the end of June and the end of September. In addition, as shown in Chart 1.5, bank funding costs have declined significantly since the FLS was announced, helping to ease the upward pressure on interest rates. Quoted interest rates on fixed-rate mortgages have declined by up to 0.3 percentage points since June.

Chart 1.5: Indicative senior unsecured bond spreads[1]



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

[11] Detailed information about the Funding for Lending Scheme is available at: www.bankofengland.co.uk.

Sustainable public finances

1.32 In line with the Government's fiscal strategy, Autumn Statement 2012 maintains the Government's commitment to restoring sustainable public finances, through:

- **clear progress in implementing fiscal consolidation and reducing borrowing since the June Budget 2010.** This has maintained market confidence against a challenging backdrop of global uncertainty and fiscal vulnerabilities;
- **permanent reductions to current spending, which will allow room for additional investment in infrastructure and support for businesses in the short term.** This includes savings in the Spending Review 2010 period of £4 billion from department resource budgets, and £2.6 billion savings from current welfare spending in 2013-14 and 2014-15. These savings will have a lasting effect over the forecast period. Welfare savings will increase in size, while bringing forward savings from departmental budgets will smooth the path to further reductions from 2015-16 onwards;
- **providing further detail on the Government's consolidation plans for 2015-16.** The Autumn Statement sets an envelope for Total Managed Expenditure (TME) in 2015-16 and announces that detailed plans for spending in 2015-16, including the breakdown by department, will be set out in the first half of next year. The Government will operate on the principle that departmental resource budgets will continue on the same trajectory in 2015-16 as over the period of the Spending Review 2010. In line with the policy set at Spending Review 2010, spending on health, schools and Official Development Assistance (ODA) will be protected from further reductions. As part of the process of setting budgets, the Government will accelerate programmes of work to progress reform, drive efficiency and reduce wasteful bureaucracy; and
- **ensuring that the public finances remain on a sustainable path.** The Government has set a fiscal assumption that TME in 2017-18 will continue to fall at the same rate as over the Spending Review 2010 period. This assumes that spending in 2017-18 will be £4.6 billion lower than if total expenditure were held flat in real terms from 2016-17. The fiscal consolidation is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead.

1.33 The Government's judgement is that it is neither necessary nor justified to undertake additional consolidation in the short term in response to the cyclical deterioration in the public finances set out in the OBR's December 2012 *Economic and fiscal outlook*. Autumn Statement 2012 is therefore fiscally neutral over this Parliament to 2015-16.

1.34 As a result, the OBR's assessment is that the Government remains on course to meet the fiscal mandate and that public sector net debt as a percentage of GDP will be falling in 2016-17, a year later than set out in the supplementary debt target.

Fiscal consolidation

1.35 The Government has a strong track record in delivering its fiscal consolidation plans, providing stability during this period of global uncertainty. Implementation is well underway:

- by the end of 2011-12, almost 40 per cent of the annual fiscal consolidation planned for the Spending Review 2010 period had been achieved, with almost 30 per cent of the spending and around 70 per cent of the tax consolidation in place (as shown in Table 1.4);
- the vast majority of tax consolidation measures will have been legislated by 6 April 2013; and
- by the end of April 2012, the Government had implemented measures to deliver almost three-quarters of the total savings expected from reforms to the welfare system announced prior to Autumn Statement 2012.[12]

[12] Based on net savings in 2014-15. This estimate is consistent with Table 1.4.

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

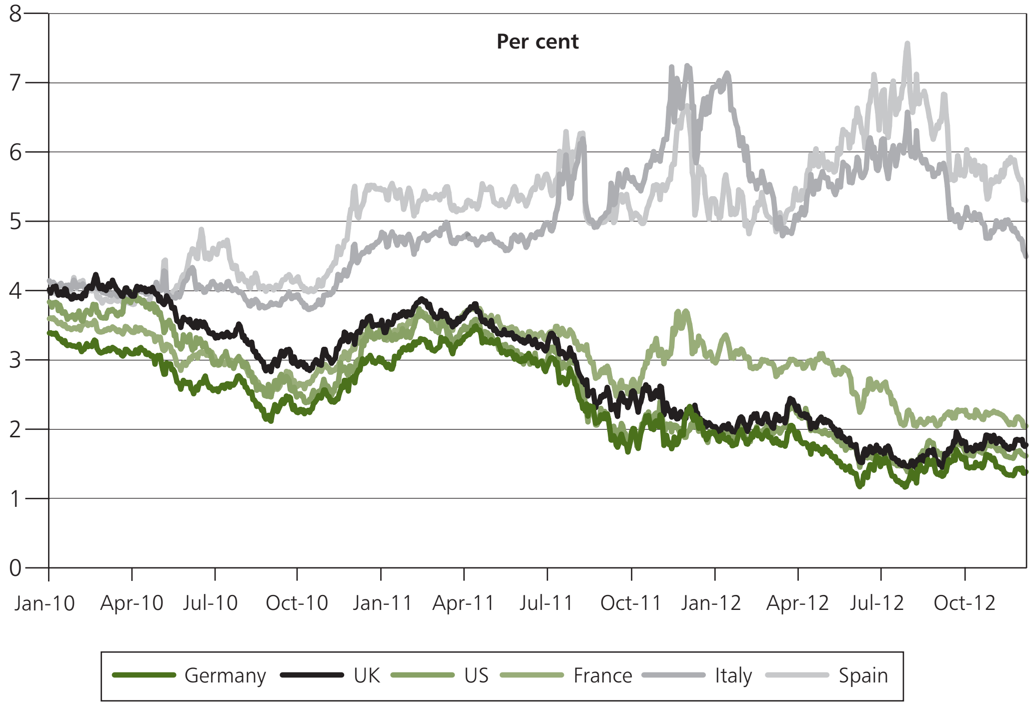
- public sector net borrowing as a percentage of GDP has been reduced by more than a quarter over the last two years, falling from 11.2 per cent of GDP in 2009-10 to 7.9 per cent of GDP in 2011-12;
- public sector net borrowing in 2011-12 was £121 billion, £5 billion lower than forecast in Budget 2012;
- cyclically-adjusted general government net borrowing – a measure of the structural deficit – has been reduced by 3.0 percentage points of GDP between 2009 and 2011, which is a larger reduction than any other country in the G7;[13] and
- cumulative debt interest payments from 2010-11 to 2015-16 are forecast to be £33 billion lower than expected at the June Budget 2010.

Reducing risks

1.37 The Government inherited the largest deficit since the Second World War, as a result of the financial crisis of 2008 and 2009 and unsustainable pre-crisis increases in public spending. Despite significant progress since 2010, the UK still has the second largest deficit in the EU after Ireland. Only the US and Japan have larger deficits amongst the G7.[14]

1.38 The Government's fiscal consolidation strategy has been effective in providing protection against uncertainty from the global economy. As shown by Chart 1.6 and noted by the Organisation for Economic Cooperation and Development (OECD), *"the Government's fiscal policy stance and strong institutions have secured the confidence of financial markets, as evidenced by the near-record low government bond yields"*.[15]

Chart 1.6: 10-year government bond yields



Source: Bloomberg.

[13] *Fiscal Monitor,* IMF, October 2012.
[14] *Fiscal Monitor,* IMF, October 2012.
[15] *OECD Economic Outlook,* OECD, November 2012.

1.39 As the euro area debt crisis has intensified, global developments have shown that the consequences of losing market confidence can be sudden and severe. In May 2010, UK long-term interest rates were around the same level as those of Italy and Spain. Spain currently faces long-term interest rates above 5 per cent and Italy above 4 per cent, compared with below 2 per cent for the UK.

1.40 A sharp rise in interest rates would be particularly damaging to an economy with the UK's high levels of public and private sector debt. Table 1.3 shows that a 1 percentage point increase in government bond yields would add around £7.8 billion to annual debt interest payments by 2017-18. A 1 percentage point rise in effective mortgage rates would add £12 billion a year to households' mortgage interest payments.

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

	£ billion					
	Annual increase in debt interest payments					
	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Increase in interest rates[1]						
1 percentage point	0.9	2.6	4.4	6.1	7.8	**21.7**
2 percentage points	1.7	5.2	8.8	12.3	15.8	**43.8**
3 percentage points	2.6	7.9	13.3	18.6	24.0	**66.4**
4 percentage points	3.5	10.5	17.8	25.1	32.5	**89.4**
5 percentage points	4.3	13.2	22.4	31.7	41.3	**112.8**

[1] *Above market gilt rates, consistent with the OBR's December 2012 Economic and fiscal outlook. Increases are applied to each gilt maturity from 2013Q2 and are assumed to continue throughout the forecast period.*
Source: HM Treasury.

1.41 Fiscal consolidation also reduces the risk of adverse feedback between weak public finances and a strained financial sector. This feedback can be very damaging, as evidenced by recent events in the euro area. Globally, the UK has one of the largest financial systems relative to the size of its economy, meaning that any loss of investor confidence in the UK's fiscal position would not only affect the UK, but also the global economy. As the IMF has stated, *"the UK financial system thus serves as a global public good"*.[16] It is the IMF's view that the UK's economic and financial sector policies have a systemic impact on the global economy.[17]

Fiscal policy

1.42 The Government remains committed to reducing the deficit and promoting confidence in the sustainability of the public finances. The UK's public finances have suffered a permanent, structural deterioration due to the lasting impact of the financial crisis. The Government is taking decisive action to deliver sustainably and fairly the necessary structural adjustment to the public finances.

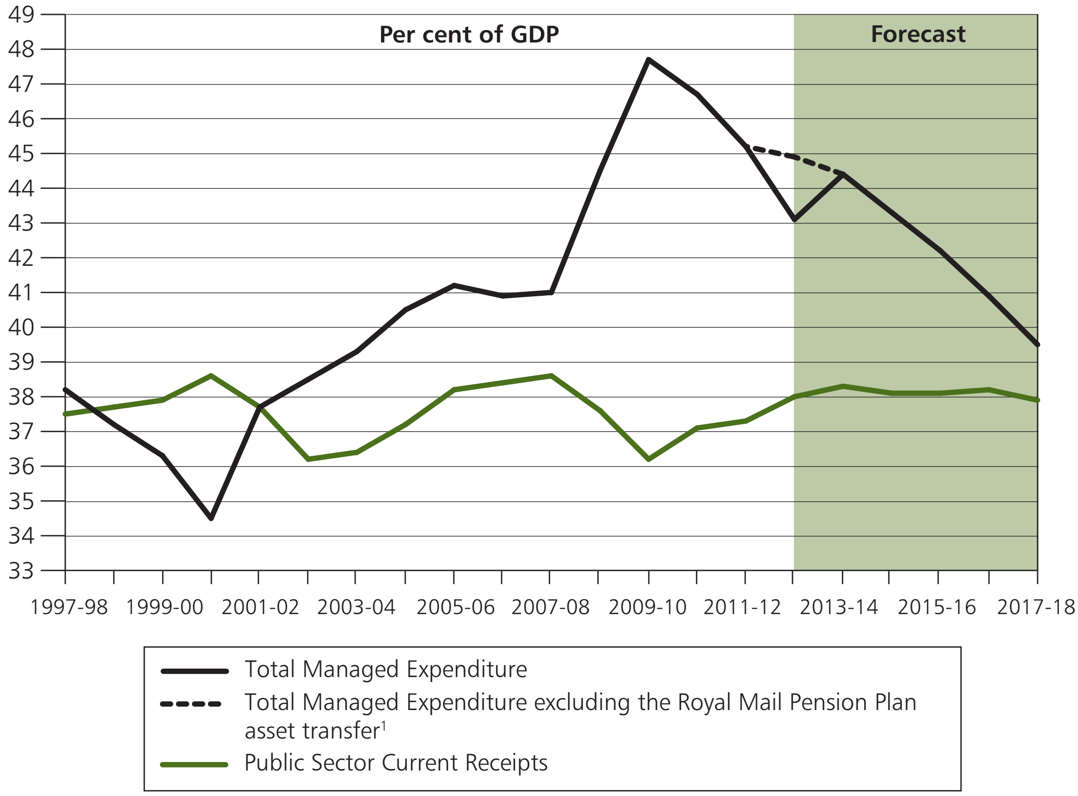
1.43 The balance of risks in the UK argues strongly in favour of maintaining a credible path of deficit reduction. The UK's medium-term consolidation plans have restored fiscal credibility, allowing more activist monetary policy and enabling the automatic stabilisers to support the economy. As the OECD has concluded, *"fiscal consolidation is necessary to restore the sustainability of public finances and will strengthen medium-term growth prospects"*.[18]

[16] *2012 Spillover Report*, IMF, July 2012
[17] *United Kingdom: Staff Report for the 2012 Article IV Consultation,* IMF, July 2012.
[18] *OECD Economic Outlook*, OECD, November 2012.

Maintaining deficit reduction

1.44 Chart 1.7 shows that as a result of the plans set out in the Autumn Statement, public spending is projected by the OBR to fall from 47.7 per cent of GDP in 2009-10 to 39.5 per cent of GDP by 2017-18, around the same level as 2003-04. Public sector current receipts are projected to rise from around 36.2 per cent of GDP in 2009-10 to around 37.9 per cent of GDP by 2017-18.

Chart 1.7: Receipts and expenditure



[1]Total Managed Expenditure excluding the effect on public sector net investment in 2012-13 of transferring assets from the Royal Mail Pension Plan to the public sector.
Source: Office for Budget Responsibility and Office for National Statistics.

1.45 As set out in Table 1.4, 79 per cent of the total consolidation in 2015-16 will be delivered by lower spending. This is consistent with OECD and IMF research, which suggest that fiscal consolidation efforts that are focused on spending are more likely to be successful.[19]

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

Table 1.4: Total consolidation plans over this Parliament

	£ billion				
	2011-12	2012-13	2013-14	2014-15	2015-16
Policy inherited by the Government	**25**	**39**	**55**	**67**	
Spending[1]	14	24	37	48	
Tax	11	15	17	19	
Spending share of consolidation (per cent)	*57*	*63*	*68*	*72*	
Total discretionary consolidation	**41**	**69**	**84**	**106**	**131**
Spending[1,2,3,4]	23	48	59	81	104
Tax[2,3]	18	21	26	26	27
Spending share of consolidation (per cent)	*56*	*70*	*70*	*76*	*79*

[1] Spending consolidation is attributable to three factors: (a) reductions in Departmental Expenditure Limits (DEL) are calculated by assessing nominal DEL totals against a counterfactual of growing DEL from 2010-11 in line with general inflation in the economy, as set out in Table 4.8 of the OBR's pre-Budget forecast (June 2010); (b) reductions in Annually Managed Expenditure (AME) due to the net effect of policy changes announced since the June Budget 2010; and (c) estimated debt interest savings, updated for market interest rates consistent with the OBR's December 2012 Economic and fiscal outlook.

[2] Tax and AME measures as costed previously; where costings do not go out to 2015-16, they have been grown in line with general inflation in the economy.

[3] Tax and spending consolidation numbers have been amended in accordance with the Office for National Statistics (ONS) decision to classify the removal of Child Benefit from higher earners as a tax charge.

[4] The Government has not set DEL budgets for 2015-16. Figures shown for 2015-16 are based on forecasts beyond the Spending Review 2010 period as set out in Table 2.4.

Source: Office for Budget Responsibility and HM Treasury.

Building on the consolidation plans

1.46 Building on the Government's strong track record in setting out and delivering detailed consolidation plans, Autumn Statement 2012 announces:

- **permanent savings from departmental current spending of £4 billion over 2013-14 and 2014-15 from Resource Departmental Expenditure Limits (DEL), and savings from current welfare spending of £2.6 billion to fund a temporary increase in capital spending to promote growth.** This funds £5.5 billion of additional investment in infrastructure and support for businesses, including investment in roads, housing and local infrastructure, regional growth and business, exports, science, and schools and colleges. Spending on frontline services will continue to be prioritised. In making savings, departments will be expected to match best practice across Government in identifying more cost-effective ways of delivering public services;

- **further detail on plans for the next spending review period.** The Government will set the overall spending envelope for TME in 2015-16 at £744.7 billion, consistent with the announcement at Autumn Statement 2011 that total spending in 2015-16 and 2016-17 would continue to fall at the same rate as over the Spending Review 2010 period. Within this envelope, the welfare savings announced at this Autumn Statement are expected to deliver savings of around £3.6 billion of permanent savings in 2015-16, reducing savings required from departments.[20] The Government will also hold the planned level of public sector gross investment constant in real terms from 2014-15 onwards. Detailed plans, including the breakdown between departments, will be set out in the first half of next year. However, the Government will operate on the principle that departmental resource budgets will continue on the same trajectory as over the period of the Spending Review 2010. In line with the policy set at Spending Review 2010, spending on health, schools and ODA will be protected from further reductions;

[20] Total welfare savings announced at this Autumn Statement will save £3.7 billion, including tax consequentials.

- **plans for setting the public finances on a sustainable path.** The Government has set a fiscal assumption that TME in 2017-18 will continue to fall at the same rate as over the Spending Review 2010 period. This fiscal assumption reduces TME by £4.6 billion compared to holding total expenditure flat in real terms from 2016-17 onwards. The fiscal consolidation for 2017-18 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead;
- **significant further tax reductions to support growth, rewards to work and the cost of living.** In total the Government is allocating a further £4 billion in 2015-16 to the personal allowance, fuel duty and corporation tax changes, building on the £17 billion reductions in these areas announced since the June Budget 2010. Tax continues to make broadly the same contribution to consolidation as set out in the June Budget 2010; and
- **spectrum receipts will be reflected in this Autumn Statement at £3.5 billion** following formal assessment and independent analysis by the OBR, most of which will be used to provide temporary support to business through the tax system over the next two years.

Transparency

1.47 The establishment of the OBR has placed the UK at the forefront of institutional reform internationally.[21] It has significantly enhanced the credibility of the UK's fiscal framework by ensuring that the Government's fiscal policy decisions are based on independent forecasts for the economy and public finances.

1.48 The Government will develop a new framework for managing liabilities that do not appear in the fiscal aggregates, in order to increase transparency and control over these liabilities. As part of this, the Government will also introduce a control total for the commitments arising from off-balance sheet Private Finance Two (PF2) contracts signed, and will report against this total in future. These reforms represent international best practice. The Government will report on progress in Budget 2013.

Fiscal forecast

1.49 As set out in the April 2011 *Charter for Budget Responsibility*, the OBR publishes forecasts of the economy and public finances for a period of at least five financial years following the date of publication.[22] In line with this approach, the forecast period for Autumn Statement 2011 and Budget 2012 extended five financial years to 2016-17. At this Autumn Statement, which takes place in a new financial year, the end of the forecast horizon extends to 2017-18.

1.50 Table 1.5 provides a summary of the OBR's central forecast for the public finances. This includes the effects of the APF cash transfers and the reclassification of Northern Rock (Asset Management) (NRAM) and Bradford and Bingley plc (B&B), which are explained in the sections below.

1.51 Public sector net borrowing will continue to fall from its post-war peak of 11.2 per cent of GDP in 2009-10. As set out in Budget 2012, the transfer of assets from the Royal Mail Pension Plan to the public sector reduced public sector net borrowing by £28 billion in 2012-13, a one-off impact that distorts the flow measures of the fiscal position. Excluding this effect:

- borrowing is now forecast to fall by 1.0 per cent of GDP in 2012-13, by 0.8 per cent of GDP in 2013-14, and by 0.9 per cent of GDP in 2014-15; and
- borrowing is expected to fall in every year of the forecast period as a percentage of GDP and in cash terms, both including and excluding the effects of the APF cash transfers.

[21] *United Kingdom: Staff Report for the 2011 Article IV Consultation,* IMF, July 2011.
[22] Available on the Treasury website at www.hm-treasury.gov.uk.

1.52 Public sector net debt as a share of GDP is forecast to be 3.9 percentage points higher in 2015-16 than forecast at Budget 2012, peaking at 79.9 per cent of GDP in 2015-16 before falling to 79.2 per cent of GDP in 2016-2017 and 77.3 per cent of GDP in 2017-18. The sections below set out the effects on public sector net debt of the reclassification of NRAM and B&B and the APF cash transfers.

Table 1.5: Overview of the OBR central fiscal forecast[1]

	Per cent of GDP							
	Outturn		Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Deficit								
Public sector net borrowing	9.6	7.9	5.1	6.1	5.2	4.2	2.6	1.6
Surplus on current budget	-7.0	-6.2	-5.7	-4.6	-3.7	-2.9	-1.4	-0.4
Primary balance	-6.7	-5.0	-3.2	-4.2	-3.1	-1.8	-0.2	1.2
Cyclically-adjusted net borrowing	7.4	6.0	3.0	3.8	2.9	2.0	0.9	0.3
Cyclically-adjusted surplus on current budget	-4.8	-4.3	-3.6	-2.2	-1.4	-0.8	0.4	0.9
Cyclically-adjusted primary balance	-4.5	-3.1	-1.1	-1.8	-0.8	0.3	1.6	2.6
Treaty deficit[2]	9.6	7.7	5.2	6.2	5.3	4.3	2.8	1.8
Cyclically-adjusted Treaty deficit	7.4	5.8	3.1	3.9	3.0	2.2	1.0	0.4
Debt								
Public sector net debt[3]	60.4	66.4	74.7	76.8	79.0	79.9	79.2	77.3
Treaty debt ratio[4]	79.9	85.8	90.3	93.5	96.3	97.4	96.6	94.4
Output gap	-2.8	-2.7	-3.2	-3.5	-3.3	-2.9	-2.4	-1.7
Memo: fiscal aggregates excluding the effect on public sector net investment in 2012-13 of transferring assets from the Royal Mail Pension Plan to the public sector:								
Public sector net borrowing	*9.6*	*7.9*	*6.9*	*6.1*	*5.2*	*4.2*	*2.6*	*1.6*
Surplus on current budget	*-7.0*	*-6.2*	*-5.7*	*-4.6*	*-3.7*	*-2.9*	*-1.4*	*-0.4*
Cyclically-adjusted net borrowing	*7.4*	*6.0*	*4.8*	*3.8*	*2.9*	*2.0*	*0.9*	*0.3*
Cyclically-adjusted surplus on current budget	*-4.8*	*-4.3*	*-3.6*	*-2.2*	*-1.4*	*-0.8*	*0.4*	*0.9*
Cyclically-adjusted primary balance	*-4.5*	*-3.1*	*-2.8*	*-1.8*	*-0.8*	*0.3*	*1.6*	*2.6*
Memo: Total policy decisions[5]			*0.3*	*-0.1*	*-0.1*	*-0.1*	*0.0*	*0.3*

[1] The effects of the reclassification of NRAM and B&B are included in the forecast from 2012-13, but are only included in the outturn for 2010-11 and 2011-12 for Treaty measures.

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

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

Reclassification of Northern Rock (Asset Management) and Bradford and Bingley plc

1.53 To date, NRAM and B&B have not been included in the fiscal aggregates that exclude the temporary effects of financial interventions. In light of revised international guidance, the Office for National Statistics (ONS) has reclassified both financial institutions into the central government sector. As a result, public sector net debt is expected to be nearly £70 billion higher in 2012-13. By 2017-18 the impact is forecast to fall to £34 billion. The initial increase to public sector net debt is expected to be offset once the financial institutions have been fully wound down, beyond the forecast horizon. The OBR has also forecast a small but positive impact on public sector net borrowing over the forecast period, reflecting the impact on receipts of the financial institutions' annual profits.

1.54 The reclassification is expected to be implemented in early 2013, taking effect from January 2010 and July 2010 for NRAM and B&B respectively.[23] Further details of this reclassification and its impact on the public finances are set out in Box 4.1 of the OBR's December 2012 *Economic and fiscal outlook*.

Asset Purchase Facility cash management

1.55 As announced on 9 November, **the excess cash held in the Bank of England APF will be transferred to the Exchequer.** This will align the APF with normal cash management arrangements across the public sector, and with the approach followed by other major central banks like the US Federal Reserve and the Bank of Japan. Holding large amounts of cash in the APF is economically inefficient, as it requires central government to borrow money to fund these coupon payments in advance of when the cash is actually needed. For this reason, **the Government is taking responsible action to safeguard the public finances by using the cash transfers to pay down debt now.** In his exchange of letters with the Chancellor on this issue, the Governor of the Bank of England noted *"As the scale and likely duration of the APF has increased significantly since its inception, I agree that it now makes sense to normalise the cash management arrangements for the APF".*

1.56 The OBR stated that *"capturing the impact quarter by quarter, rather than at some indeterminate date in the future, is more transparent than the current approach"*.[24] The OBR's December 2012 *Economic and fiscal outlook* sets out a transparent accounting of the lifetime cash-flows related to the APF. The APF transfers will reduce the central government net cash requirement (CGNCR). The accumulated excess cash is expected to increase to around £35 billion by the end of March 2013, based on the amount of gilts purchased remaining at £375 billion. The accumulation of net coupon income earned by the APF during 2012-13, expected to be £11 billion based on the current structure of market rates, will be transferred to the Exchequer. The accumulated excess cash up to the end of 2011-12 (£23.8 billion) will be largely drawn down over the course of 2013-14. From 2013-14, any cash surplus will be transferred on a quarterly basis. Table 1.6 shows the main fiscal aggregates excluding the effects of the transfers of the excess cash held in the APF to the Exchequer.

1.57 At some point in the future, as monetary conditions normalise, it is likely that the cash flows will need to be reversed. Even if the APF remains in overall profit, it is likely to begin to run a cash deficit rather than a cash surplus, as Bank Rate rises and the MPC begins to unwind quantitative easing, crystallising any capital losses on its gilt holdings. Under the terms of the indemnity agreed when the APF was first set up, the Government stands behind the APF and is due any surplus or deficit on the APF's operations. Therefore, consistent with the terms of the indemnity, the Exchequer will make payments to the APF as any cash shortfalls arise, on a regular quarterly basis. These cash management arrangements will not affect the ability of the MPC to decide how much monetary stimulus is needed in order for it to achieve its inflation target.

1.58 The timing, magnitude and overall impact of these cash flows are highly uncertain and will depend on several factors, such as MPC decisions on monetary policy and prevailing bond market conditions. On a set of central assumptions, the OBR projects that the direct net impact of the cash flows related to the APF will reduce net debt by £55 billion or around 2 percentage points of GDP by 2022-23. With the transfers, the direct reduction in net debt is greater in the short term, with net debt projected to be £71 billion or around 4 percentage points of GDP lower in 2016-17. The OBR's analysis shows that these projections are little changed by different assumptions about the timing and pace of future asset sales. If gilt yields were assumed to rise by 200 basis points as gilt sales take place, the direct reduction in net debt would be smaller, by 1.5 percentage points of GDP by 2022-23.

[23] The effects of the reclassification of NRAM and B&B are included in the forecast from 2012-13, but not in the out-turn.
[24] *Press notice: Asset Purchase Facility*, OBR, 9 November 2012.

Table 1.6: OBR central fiscal forecast excluding the effects of the APF cash transfers[1,2]

	Per cent of GDP							
	Outturn		Forecast					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Deficit								
Public sector net borrowing	9.6	7.9	5.9	6.9	5.9	4.7	3.1	1.7
Cyclically-adjusted surplus on current budget	-4.8	-4.3	-4.3	-3.0	-2.1	-1.3	-0.1	0.8
Debt								
Public sector net debt[3]	60.4	66.4	75.4	79.5	82.2	83.6	83.2	81.4
Memo: fiscal aggregates excluding the effect on public sector net investment in 2012-13 of transferring assets from the Royal Mail Pension Plan to the public sector:								
Public sector net borrowing	*9.6*	*7.9*	*7.7*	*6.9*	*5.9*	*4.7*	*3.1*	*1.7*
Cyclically-adjusted surplus on current budget	*-4.8*	*-4.3*	*-4.3*	*-3.0*	*-2.1*	*-1.3*	*-0.1*	*0.8*

[1] The effects of the reclassification of NRAM and B&B are included in the forecast from 2012-13, but are only included in the outturn for 2010-11 and 2011-12 for Treaty measures.

[2] Excluding both the direct cash flow and debt interest effects of the APF transfers.

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

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

The fiscal mandate

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

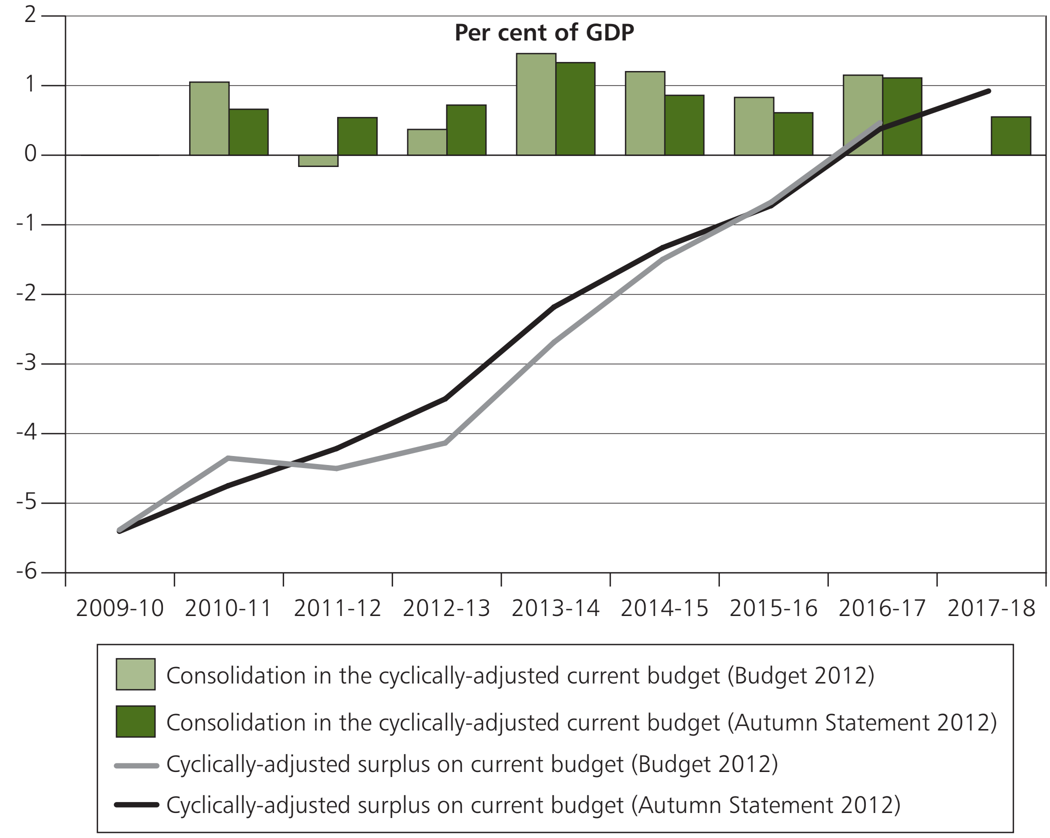
- a cyclically-adjusted aggregate, to allow some fiscal flexibility at times of economic uncertainty and allow the automatic stabilisers to operate;
- a rolling five-year forecast period, to ensure that fiscal consolidation is delivered over a realistic and credible timeframe; and
- the current balance,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

1.60 As set out in the June Budget 2010, once the public finances are closer to balance, the period over which cyclically-adjusted current balance must be achieved could safely be shortened in order to create a tighter constraint.

1.61 The OBR's December 2012 *Economic and fiscal outlook* concludes that the Government remains on course to meet the fiscal mandate, both with and without the effects of the APF cash transfers. The OBR's judgement is that the Government's policies are consistent with a roughly 70 per cent chance of achieving the fiscal mandate in 2017-18. Including the effects of the APF cash transfers, the OBR's forecast is for the fiscal mandate to be achieved a year early, in 2016-17.

1.62 Chart 1.8 shows performance against the Government's fiscal mandate. By 2015-16 the cyclically-adjusted current budget is broadly unchanged from Budget 2012.

Chart 1.8: Consolidation in the cyclically-adjusted current budget

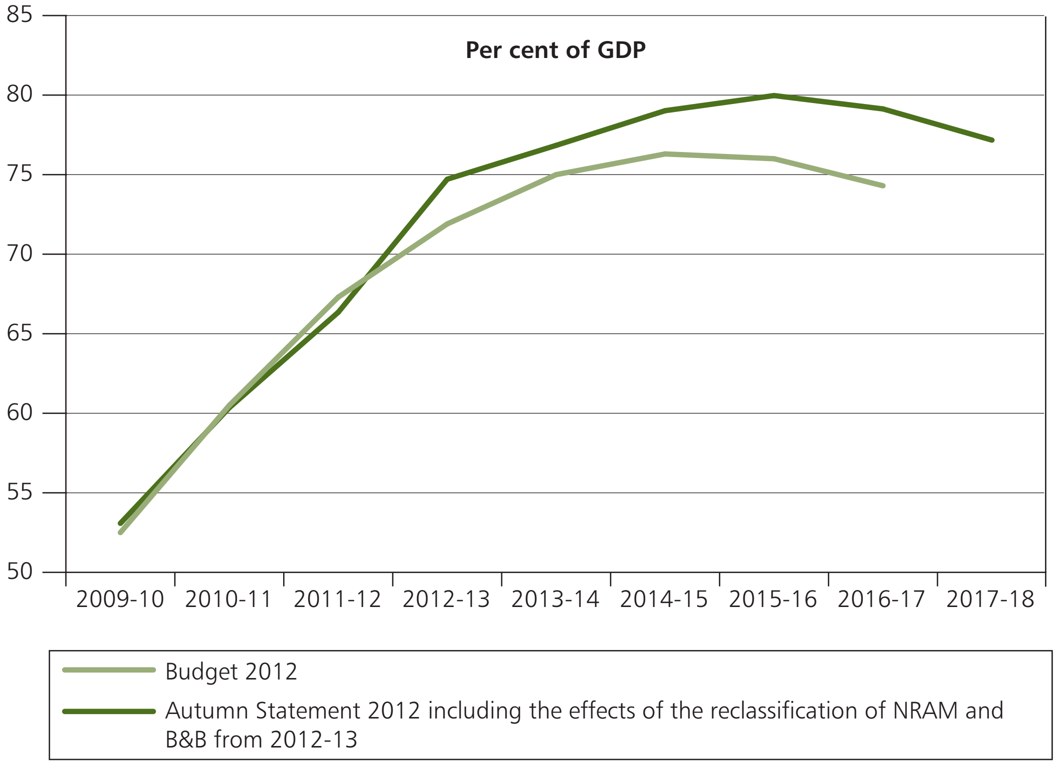


Source: Office for Budget Responsibility, Office for National Statistics and HM Treasury.

The supplementary debt target

1.63 The Government's fiscal mandate is supplemented by a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16. Chart 1.9 shows performance against the Government's supplementary debt target. The large rise in public sector net debt between 2011-12 and 2012-13 reflects the fact that the OBR's forecasts from 2012-13 include the reclassification of NRAM and B&B. The profile of debt is expected to be smoother once the ONS publish Public Sector Finance statistics that include the reclassification of the banks for 2009-10, 2010-11 and 2011-12.

Chart 1.9: Public sector net debt



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

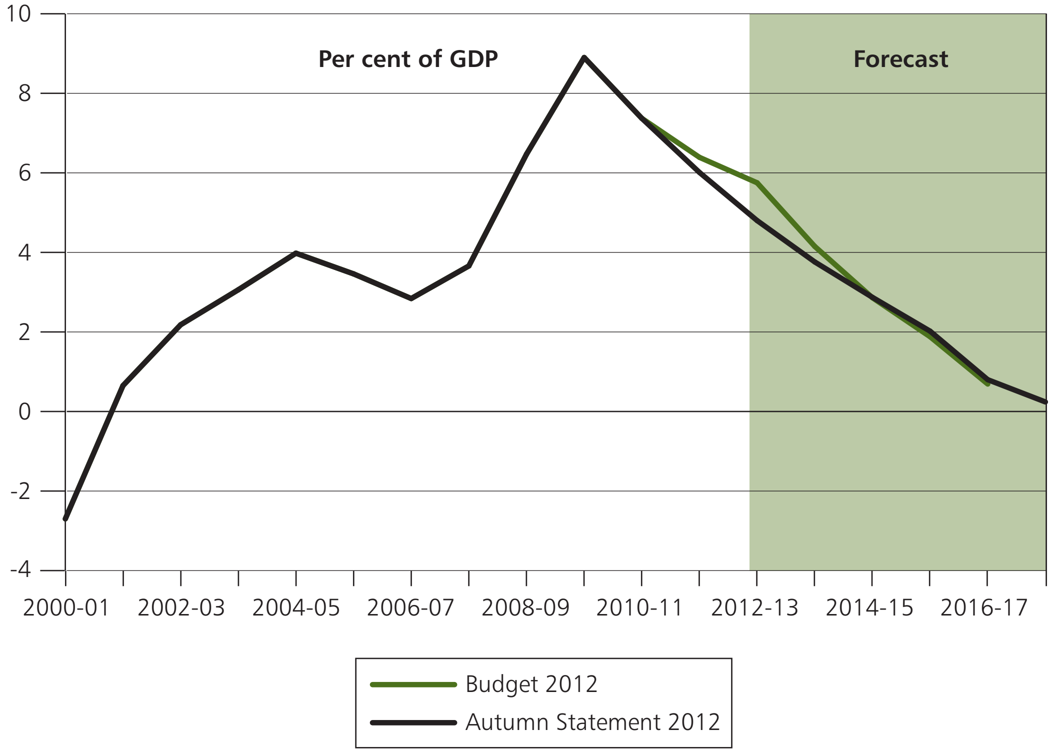
1.64 The structural position of the public finances remains on a sustainable path. As Chart 1.10 shows, cyclically-adjusted net borrowing – the structural deficit – is broadly the same as forecast in the OBR's March 2012 *Economic and fiscal outlook*. This is because the OBR's forecast revisions since Budget 2012 largely reflect an updated assessment of the persistent cyclical, rather than permanent structural, drag on the UK economy from the euro area crisis and wider global risks.

1.65 The Government's judgement is that it is neither necessary nor justified to undertake additional consolidation in the short term in response to the cyclical deterioration in the public finances. It would also constrain the operation of the automatic stabilisers, limiting their ability to support the economy. As a result, the OBR's assessment is that public sector net debt as a percentage of GDP will be falling in 2016-17, a year later than set out in the supplementary debt target.

1.66 The Government's response has been recommended by international organisations. The IMF has stated that *"the net debt target is expected to be met one year late. If future OBR revisions to projected growth produce a similar result, such a delay should be accommodated rather than prevent the operation of automatic stabilisers"*.[25] The OECD has argued that *"In the event of lower than expected growth, the flexibility of the fiscal mandate should be utilised to allow the automatic stabilisers to continue to operate, even though this may imply pushing out the debt target"*.[26]

[25] *United Kingdom: Staff Report for the 2012 Article IV Consultation*, IMF, July 2012.
[26] *OECD Economic Outlook*, OECD, November 2012.

Chart 1.10: Cyclically-adjusted net borrowing excluding the Royal Mail Pension Plan asset transfer[1]



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

1.67 As the OBR has highlighted, all forecasts are subject to a high degree of uncertainty in this period of global instability and there are both upside and downside risks to their central forecasts. In this context, the gap to meeting the debt target of around one per cent of GDP is small. It is also smaller than the revisions to borrowing forecasts in 2015-16 seen at both Autumn Statement 2011 and Autumn Statement 2012. To test the impact of key assumptions in their economic forecast, the OBR's December 2012 *Economic and fiscal outlook* sets out two illustrative alternative scenarios and considers their impact on the public finances: a 'weaker supply' scenario with a bigger structural deterioration; and a 'stronger demand' scenario with a faster cyclical recovery, driven by investment. In the 'weaker supply' scenario, both the fiscal mandate and supplementary debt target are missed. In the 'stronger demand' scenario, the supplementary debt target is met in 2015-16.

1.68 At this time of rising debt, the Government will restore debt to a sustainable, downward path and will retain the existing supplementary debt target. As set out in the June Budget 2010, the Government will set a new target once the exceptional rise in debt has been addressed.

Performance against EU targets

1.69 The Government remains committed to bringing the UK's Treaty deficit in line with the 3 per cent of GDP target set out in the Stability and Growth Pact (SGP). The UK is forecast to meet the EU SGP target for the Treaty deficit in 2016-17. Given the level of global uncertainty, it is important to focus on the structural position. As set out in Table 1.5, the cyclically-adjusted Treaty deficit is forecast to be 3.0 per cent of GDP in 2014-15.

Debt management

1.70 The Debt Management Office's (DMO) financing remit for 2012-13 has been revised to incorporate the changes to the OBR's forecast for the CGNCR in 2012-13 and the anticipated contribution from National Savings and Investments. Details of the revisions are set out in Annex A.

Financial sector reform

1.71 The Government is implementing its plans to overhaul the tripartite system of financial regulation. It will provide the Bank of England with control of macro-prudential regulation, through the Financial Policy Committee, and oversight of micro-prudential regulation of deposit takers, insurers and the large investment firms, with the establishment of the Prudential Regulation Authority as an operationally independent subsidiary of the Bank of England. The new Financial Conduct Authority will be responsible for ensuring the markets it regulates function well and in a way that supports strong consumer protection, market integrity and competition statutory objectives. A Bill to implement these reforms is currently being considered by Parliament.

1.72 These reforms are designed to improve the regulatory framework to reduce risks to the taxpayer and build the resilience of the system. In the Bank of England's November 2012 *Financial Stability Report*, the interim Financial Policy Committee recommended *"that the Financial Services Authority (FSA) takes action to ensure that the capital of UK banks and building societies reflects a proper valuation of their assets, a realistic assessment of future conduct costs and prudent calculation of risk weights. Where such action reveals that capital buffers need to be strengthened to absorb losses and sustain credit availability in the event of stress, the FSA should ensure that firms either raise capital or take steps to restructure their business and balance sheets in ways that do not hinder lending to the real economy".*

1.73 The Government is also undertaking ambitious reform to create a more resilient, stable and competitive banking sector. In June 2012 the Government published the Banking Reform White Paper on the recommendations of the Independent Commission on Banking, chaired by Sir John Vickers. A Bill to implement these reforms was published in draft on 12 October 2012. It is undergoing pre-legislative scrutiny by the Parliamentary Commission on Banking Standards, which will report no later than 18 December 2012. The Government intends to introduce legislation in the new year. The Government remains on track to have all legislation enacted by the end of this Parliament and all reforms to be in place by 2019.

Growth

1.74 The UK economy is facing rapid global change. The growth of emerging economies, such as China, India and Brazil, and competition from established economies such as Germany, are creating new challenges for the UK – and new opportunities. To enable the UK to compete in this global race and the economy to rebalance, the Government is delivering an ambitious programme of structural reforms that will strengthen the economy and support those who want to work hard and get on. These reforms are a key part of the Government's economic strategy, alongside fiscal consolidation, monetary activism and financial sector reform.

1.75 The *Plan for Growth* set out the Government's programme of structural reform, with further reforms announced at Autumn Statement 2011, Budget 2012 and a further package in September.[27] A full update on progress has been published alongside this Autumn Statement.[28] The Government has already delivered:

- radical reform of the school system to raise standards and improve choice for parents – with 2,543 academies now open and 192 free schools either open or approved;
- reforms to put the UK's world-class higher education system on a sustainable footing and radically improve the information available to students, creating a more responsive system in which institutions will have to appeal to prospective students and be respected by employers;
- root and branch reform of the planning system, reducing more than 1,000 pages of guidance to just over 50 and introducing a strong presumption in favour of sustainable development;
- a programme of infrastructure investment and reform that has helped to increase total public and private UK infrastructure investment from £29 billion a year between 2005 and 2010 to £33 billion between 2010 and 2012;
- the Welfare Reform Act 2012, the biggest reform of welfare in 60 years. From October 2013, Universal Credit will simplify the benefits system and ensure that work always pays; and
- 457,200 apprenticeship starts in 2010-11 and a further 502,500 in 2011-12, taking the number of apprenticeship starts so far this Parliament to almost 1 million.

1.76 Since Budget 2012, the Government has announced further reforms including a major housing and planning package. The Government has committed to provide £934 million through capital funding and financial transactions and up to £10 billion of guarantees across the UK to support the building of first-time buyer, affordable and rented homes. The Government's Growth and Infrastructure Bill, currently before Parliament, will remove unnecessary bureaucracy to make the planning system faster and more efficient.

1.77 Building on this progress, the Government will equip the UK to succeed in the global race by:

- developing the UK's infrastructure to meet the needs of the economy with a **£5.5 billion capital package and support for long-term private investment including in new roads, science infrastructure and free schools;**
- creating one of the most competitive tax systems in the world, including a **further 1 per cent cut in the main rate of corporation tax from April 2014 to 21 per cent** and, to support small and medium sized businesses in particular, **a significant temporary increase in the Annual Investment Allowance, from £25,000 to £250,000 for two years from 1 January 2013;**

[27] *Plan for Growth,* HM Treasury and the Department for Business, Innovation and Skills, March 2011.
[28] Available on the HM Treasury website at www.hm-treasury.gov.uk.

- **devolving a greater proportion of growth-related public spending to local areas from April 2015, in response to Lord Heseltine's review of economic growth;**[29]
- ensuring businesses, particularly small businesses, can access finance and support. **The Government will create a Business Bank and enable UK Export Finance (UKEF) to provide up to £1.5 billion in loans to finance small firms' exports;** and
- **introducing a package of reforms to promote exports and inward investment, including additional funding to UK Trade and Investment (UKTI) to deliver more services to small and medium size exporters and increasing funding for the GREAT campaign to showcase Britain's capabilities.**

1.78 The Autumn Statement commits £5.5 billion of additional infrastructure investment and support for business over the current spending review period. This funds additional investment in roads, housing and local infrastructure, regional growth and business, exports, science, and schools and colleges. In addition this Autumn Statement provides £1 billion of funding for a new Business Bank, up to £1.5 billion for additional lending by UKEF and a guarantee to support £1 billion of borrowing to extend the Northern Line to Battersea, to enable the commercial redevelopment of Battersea Power Station and the surrounding site. Public investment as a share of GDP is now higher on average in this Parliament than under the previous government.

1.79 As a consequence of the spending decisions taken at this Autumn Statement the devolved administrations will benefit from significant additional capital funding over the course of the current spending review. The Scottish Government will receive an additional £394 million of capital funding, the Welsh Government an additional £227 million, and the Northern Ireland Executive an additional £132 million.

1.80 The OBR has increased its forecast so that the level of GDP is 0.1 per cent higher at the end of the forecast period largely because of increased capital spending, the reduction in the main rate of corporation tax and the increase in the Annual Investment Allowance. Consistent with most forecasters, the OBR has not adjusted its GDP forecast for the effects of the Government's supply-side reforms, given uncertainties over the timing and magnitude of the impacts on growth. These reforms will support the UK's long-term economic potential and help to create new jobs, but experience suggests that basing economic forecasts on assumptions about future improvements in economic performance is extremely risky.

Developing the UK's infrastructure

1.81 High quality infrastructure must be in place for the UK to remain competitive. The private sector, local government and central government all have a role in reversing historic underinvestment in the UK's infrastructure so that UK businesses can compete and grow. This Autumn Statement builds on the work of the National Infrastructure Plans published in 2010 and 2011. A comprehensive National Infrastructure Plan delivery update has been published alongside the Autumn Statement showing that annual investment in infrastructure has risen from £29 billion over the period 2005 to 2010 to £33 billion over the period 2010 to 2012.[30]

Long-term certainty for energy

1.82 The Energy Bill, published in November 2012, will provide certainty to investors to bring forward up to £110 billion of investment in new infrastructure to meet the UK's future energy needs. **The Government's Gas Generation Strategy will set out its view of the expected role for gas in the coming years.** The Government expects up to 26 gigawatts (GW) of new gas capacity could be required by 2030 on current carbon budgets. If the fourth carbon budget is revised upwards and emissions reductions are more gradual, then up to 37 GW of new plant could be required. Support available for low carbon electricity investment through the Levy

[29] *No Stone Unturned,* The Rt Hon the Lord Heseltine of Thenford CH, October 2012.
[30] *National Infrastructure Plan: update 2012*, available at www.hm-treasury.gov.uk.

Control Framework up to 2020 will be capped at up to £7.6 billion per year (in 2012 prices) in 2020-21 – more than triple the £2.35 billion available in 2012-13. This will allow generators from both renewables and gas to invest with confidence and provide protection for consumers.

1.83 To maximise economic production from UK natural gas resources, **the Government will also establish an Office for Unconventional Gas. This will join up responsibilities across government, provide a single point of contact for investors and ensure a simplified and streamlined regulatory process. The Government will also consult on the tax regime for shale gas.**

Public investment to support growth

1.84 The Government is committed to ensuring that the road network is fit for the UK's future transport needs. The Government is investing an additional £1.5 billion, of which £1 billion will be invested within this spending review period, to enhance and improve the road network and reduce congestion. The Government will:

- **invest £378 million to upgrade key sections of the A1 (Lobley Hill and Leeming to Barton) in the north east, bringing this route from the M25 to Newcastle up to motorway standard;**
- **expand capacity through building a new link between the A5 and M1 in the east of England and dualling the A30 Temple to Carblake in the south west, an investment of £157 million;**
- **tackle congestion with £150 million of investment for improvement works to Junction 30 of the M25 in London starting in 2015 and £10 million, funded from within the Department for Transport's existing budget, on improvement works at Junction 12 of the M40 in the west midlands, starting in 2013;**
- **provide £270 million for priority national and local projects to remove bottlenecks and support development;**
- **invest an additional £333 million in the essential maintenance of our national and local road network to renew, repair and extend the life of our roads;**
- **invest £42 million to develop the pipeline of potential Highways Agency road schemes for investment in the next spending review period;** and
- **£42 million investment in the Sustainable Transport Fund for cycling infrastructure, including cycling safety.**

1.85 It is the Government's ambition to reduce the time it takes to plan and deliver new roads by up to a half. **The Government will pilot a new delivery model for upgrades to the M1, M3, M6 and the A160/180 at Immingham.** It is the Government's intention that these pilots will help to speed up the delivery of major road schemes in the future.

1.86 The Government is assessing the feasibility of new ownership and financing models for the strategic road network, and will report on progress in the new year.

1.87 The Government will do more to protect homes and businesses from flooding and unlock sites for development. **The Government will allocate an additional £120 million over the current spending review period to building new flood defences.** Half of this funding will be awarded to the strongest bids from growth-enabling schemes such as those being developed in Sheffield, Ipswich, Leeds, Exeter and Derby. The remainder will be used to accelerate planned schemes within the wider Environment Agency programme.

1.88 At Budget 2012, the Government committed to providing an additional £50 million to support a second wave of cities in the Government's Urban Broadband Fund and enable the

UK to have the fastest and best connected communications networks in Europe. **The winning cities in the second wave are: Brighton and Hove, Cambridge, Coventry, Derby, Oxford, Portsmouth, Salford, and York in England; Aberdeen and Perth in Scotland; Newport in Wales; and Derry/Londonderry in Northern Ireland.**

Housing and local development

1.89 UK housing supply has not kept pace with demand.[31] The Government announced in September that it would:

- provide an additional £280 million for the FirstBuy equity loan scheme to help a further 16,500 first-time buyers purchase a new build home;
- invest an additional £300 million in the Affordable Homes Programme. Together with a new power to provide guarantees for private and affordable rent housing, this will deliver 15,000 affordable homes and bring 5,000 empty homes back into use in this Parliament; and
- introduce a £200 million fund to support the building of private rented sector homes.

1.90 To support both housing and commercial development and support growth and jobs, **the Government is providing a further £683 million through capital grants and financial transactions. In England, the Government will invest £474 million in local infrastructure on a recoverable basis.** Around £60 million of this will be made available to support infrastructure in a limited number of Enterprise Zones. Around £225 million will be used to accelerate delivery of large housing sites, supporting around 50,000 homes. Around £190 million of the funding will be used to de-risk public sector land and enable the quicker disposal of surplus sites for new homes. Alongside this, the Government will provide £100 million to bring forward public sector sites for development.

Supporting science and innovation

1.91 The Government is investing to ensure the UK has the facilities to maintain and develop its world-class research base. In October 2012, the Government announced a further £200 million for the UK Research Partnership Infrastructure Fund that was launched at Budget 2012 with £100 million of public funding. Alongside private investment, the enlarged fund will secure over £1 billion of capital to further enhance the facilities for world-class university research and build strategic partnerships between universities and the private sector across the UK, supporting long-term economic growth. In November 2012, the Government provided a £120 million boost to the UK Space Agency as part of a plan to increase the UK's contribution to European Space Agency programmes to an average of £240 million a year over the next five years. This has been committed to high value scientific and industrial programmes which will benefit the UK. The UK space industry expects to generate income to the value of £1 billion a year on the back of this investment.

1.92 To build on these commitments and to support high quality research and the development of commercial applications of new research and technology, **the Government will invest £600 million in Research Council infrastructure, and facilities for applied research and development (R&D).** This investment will support the development of innovative technologies and strengthen the UK's competitive advantage in areas such as big data and energy efficient computing, synthetic biology and advanced materials. This extra £600 million of investment builds on previous decisions to increase capital investment in science and innovation made at fiscal events since Spending Review 2010 totalling £925 million.

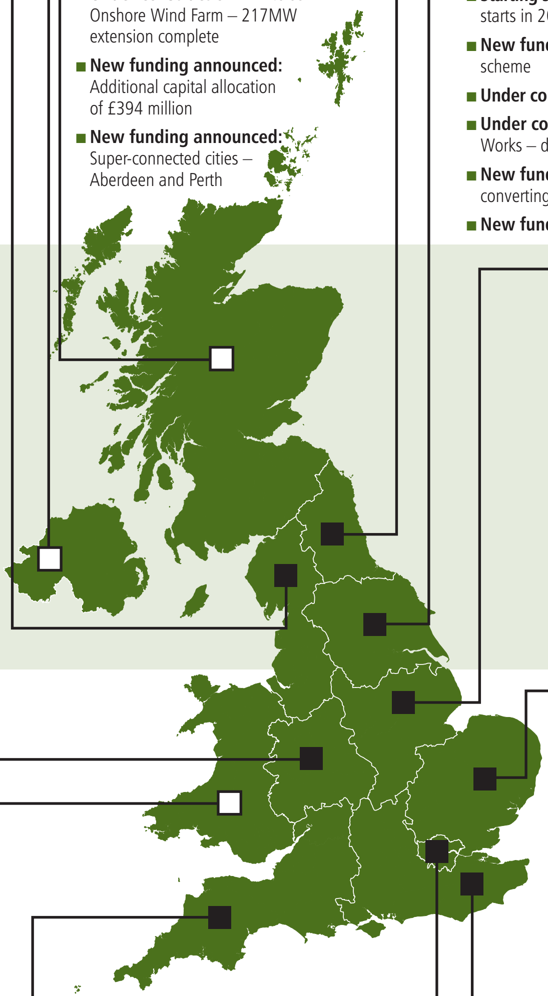
1.93 In addition, the Prime Minister will launch the Life Sciences Strategy One Year On document later this month that will set out progress so far and the next steps to support the vibrant UK life sciences sector, which already includes bioclusters in areas such as Aberdeen and Dundee in Scotland, and London, Cambridge and Oxford in England.

[31] See *Laying the foundations: a housing strategy for England*, HM Government, November 2011.

Figure 1: Infastructure delivery progress around the UK and Autumn Statement 2012 capital announcements

NATIONAL PROGRAMMES

- Five year Rail Investment Plan from 2014-19, supporting £9.4 billion of investment
- An additional £120 million for building new flood defences
- The Government has secured state aid clearance for the rollout of rural broadband and BT is continuing with its roll out of superfast broadband
- 4G spectrum auction beginning December 2012, some services have already been rolled out on existing spectrum
- Providing certainty for low carbon power generators by setting funding for the Levy Control Framework to 2020
- The UK Guarantees Scheme will provide up to £40 billion of guarantees nationally



NORTHERN IRELAND

- Rail, roads, local transport, water, flood and waste – devolved to the Northern Ireland Executive
- **New funding announced:** Additional capital allocation of £132 million
- **New funding announced:** Super-connected cities – Derry/Londonderry

NORTH EAST

- **Completed:** Tees Multimodal Bio-Frieght Terminal
- **Starting soon:** Sunderland Strategic Transport Corridor – 2013
- **New funding announced:** A1Upgrade Works Lobley Hill (£64 million)

NORTH WEST

- **Starting soon:** Blackburn Pennine Reach Rapid Bus Transport Scheme – 2013
- **Under construction:** Carrington power station – Gas (CCGT) Investment: financial close achieved, completed by 2016
- **New funding announced:** Super-connected cities – Salford

SCOTLAND

- Rail, roads, local transport, water, flood and waste – devolved to the Scottish Government
- **Under construction:** Whitelee Onshore Wind Farm – 217MW extension complete
- **New funding announced:** Additional capital allocation of £394 million
- **New funding announced:** Super-connected cities – Aberdeen and Perth

YORKSHIRE AND THE HUMBER

- **Completed:** East Coast Mainline York Holgate Junction Scheme – work **completed**, and planning approvals obtained for North Doncaster Chord
- **Starting soon:** Beverley Integrated Transport Scheme – work starts in 2013
- **New funding announced:** A160/180 Immingham dualling scheme
- **Under construction:** M62 J25-30 – due to **complete** in 2013
- **Under construction:** A6182 White Rose Way Improvement Works – due to **complete** 2013
- **New funding announced:** A1 Leeming to Barton – converting dual carriageway into 3 lanes (£314 million)
- **New funding announced:** Super-connected cities – York

WEST MIDLANDS

- **Starting soon:** Darlaston Access Improvement Scheme to enhance road access to the area – 2013
- **Starting soon:** Worcester Integrated Transport Project – 2013
- **Under construction:** M6 J5-8 expected to **complete** in 2014
- **Under construction:** Midland Metro Birmingham Extension – expected to **complete** in 2015
- **New funding announced:** M6 J10A to 13 accelerated delivery pilot (part of £95 million scheme)
- **New funding announced:** M40 J12 works (£10 million)
- **New funding announced:** Super-connected cities – Coventry

EAST MIDLANDS

- **Starting soon:** Loughborough Road Improvements – work starts early 2013
- **Starting soon:** London Road bridge, Derby – work starts 2013
- **Under construction:** Nottingham Tram Extension – **opens** to public in 2014
- **Under construction:** A43 Corby Link – due to **complete** in 2014
- **New funding announced:** M1 J28 to 31 accelerated delivery pilot (part of £95 million scheme)
- **New funding announced:** Super-connected cities – Derby

WALES

- Roads, local transport, water, flood and waste – devolved to the Welsh Government
- Enhanced capital allowances have been made available at two additional sites within Welsh Enterprise Zones at Ebbw Vale and Haven Waterway
- **Starting soon:** Pen y Cymoedd onshore wind farm – development consent granted May 2012
- **New funding announced:** Additional capital allocation of £227 million
- **New funding announced:** Super-connected cities – Newport

EAST OF ENGLAND

- **Under construction:** East Coast Mainline Enhancements – Hitchin flyover
- **Starting soon:** A11 Fiveways to Thetford – 2013
- **Under construction:** M1 J10-13 Improvements
- **New funding announced:** A5-M1 new link road (£127 million)
- **New funding announced:** J30 M25 improvement works (£150 million)
- **New funding announced:** Super-connected cities – Cambridge

SOUTH WEST

- **Starting soon:** Camborne Pool Redruth Infrastructure project – 2013
- **Under construction:** M4/M5 managed motorway scheme – due to **complete** in spring 2014
- **Under construction:** Kingskerswell Bypass – due to **complete** in 2015
- **New funding announced:** A30 Temple to Carblake dualling works (£30 million)

LONDON

- **Completed:** Thameslink – Blackfriars station upgrade now **reopened**
- **Completed:** Underground Investment – Jubilee, Victoria and Metropolitan line upgrades
- **Under construction:** Crossrail – 1,300m tunnelling from Royal Oak
- **New funding announced:** Northern Line Extension to Battersea – providing a UK Guarantee to support the £1 billion investment to extend the Northern Line

SOUTH EAST

- **Starting soon:** Bexhill-Hastings Link Road – 2013
- **Under construction:** A23 Handcross to Warninglid – due to **complete** in 2014
- **Under construction:** Reading Station Upgrade Programme – new high level western concourse and road bridges in position
- **New funding announced:** M3 J2 to 4A accelerated delivery pilot (part of £95 million scheme)
- **New funding announced:** Super-connected cities – Brighton & Hove, Oxford and Portsmouth

1.94 The Government will provide £120 million for two additional rounds of the Advanced Manufacturing Supply Chain Initiative. This will support R&D, skills training and capital investment to help UK supply chains achieve world-class standards and encourage major new suppliers to locate in the UK.

1.95 The Government is also providing support for innovative business through the tax system by introducing an 'above the line' credit for R&D in 2013, as announced at Autumn Statement 2011. Further details on the design of the credit will be announced shortly.

Accelerating delivery and investment

Infrastructure UK

1.96 The Government will strengthen the mandate of Infrastructure UK (IUK) and increase its commercial expertise to boost the delivery of growth-enhancing infrastructure projects across government. As part of this new role, IUK together with an enhanced Major Projects Authority, will undertake a detailed assessment of Whitehall's ability to deliver infrastructure, building on their existing work. This assessment will be completed by Budget 2013. To ensure the assessment is as thorough as possible, it will be led by Paul Deighton as his first duty as Commercial Secretary to the Treasury, working closely with the Minister for the Cabinet Office and the Chief Secretary to the Treasury.

PF2

1.97 The Government has published full details of a new approach to public private partnerships, PF2, following its review of PFI. This continues to draw on private finance and expertise to deliver government investment in public infrastructure and services, while addressing past concerns about the PFI and responding to the recent changes in the economic context.

1.98 PF2 is a new, faster and more transparent approach to securing investment in public infrastructure. The Government will become a shareholder in future projects, to ensure a more collaborative approach to improving project performance and managing risk, and will share in the financial rewards alongside private sector shareholders.

Support for private investment

1.99 The *National Infrastructure Plan 2011* set out plans to attract major new private sector investment and in July 2012 the Government announced further support through UK Guarantees.[32] Up to £40 billion in guarantees will be provided to ensure that priority projects in the infrastructure pipeline can raise the finance they need despite challenging credit market conditions. The scheme has received 75 enquiries from project sponsors to date, of which projects with a capital value of around £10 billion have been prequalified as eligible for consideration of a guarantee. The scheme is open until 31 December 2014.

1.100 As one of the first projects to benefit from this scheme, the Government will provide a UK Guarantee to allow the Mayor of London to borrow £1 billion at a new preferential rate to support the Northern Line Extension to Battersea scheme, subject to due diligence and the agreement of a binding Funding and Development Agreement with developers, the Mayor of London and partner authorities during 2013. The Northern Line extension to Battersea is key to the redevelopment of Battersea Power Station and the regeneration of a historic part of London. Government intervention has the potential to enable an £8 billion investment at the Battersea Power Station site, supporting the wider redevelopment planned for Vauxhall, Nine Elms and Battersea, which could create up to 16,000 new homes and up to 25,000 new jobs.

[32] *National Infrastructure Plan 2011*, HM Treasury and Infrastructure UK, November 2011.

1.101 The Government, the National Association of Pension Funds (NAPF) and the Pension Protection Fund (PPF) signed a memorandum of understanding to create the Pension Investment Platform (PIP) last year. NAPF and PPF announced in October that seven major UK pension funds have signed up to the PIP as Founding Investors and they expect to be in operation in the first half of next year. The Government has worked closely with NAPF and PPF to support the foundation of the PIP, but it is fully independent of Government.

Ensuring businesses can access finance and support

Promoting trade and investment

1.102 To ensure the UK thrives in the global race the Government is redoubling its efforts to promote exports and encourage foreign direct investment (FDI). The Government will:

- **establish a scheme to provide up to £1.5 billion of loans for the purchase of UK exports.** The scheme will be operated by UKEF and run for three years, focussing mainly on transactions below £50 million. The scheme will act as a backstop to finance UK export transactions when there is no other suitable finance available. This will give UK firms greater confidence to bid for export contracts knowing that finance will be available;
- **increase the annual budget of UKTI by £70 million to deliver services to more small and medium size exporters and help to refocus UKTI activities on the highest value opportunities and emerging markets.** It will enable UKTI to target inward investment at UK growth sectors, reinforce the UK as the location of choice for Europe-bound investors, improve UKTI's capacity to support ministerial visits and establish a new unit tasked with attracting the brightest and best overseas talent to the UK including through a dedicated visa route;
- **make UKTI's financial arrangements more flexible so that it can make greater use of private sector providers and build capacity in the overseas chambers of commerce and other British business groups;**
- alongside its ambition to increase exports to £1 trillion, **introduce an ambition to maintain the UK's position as the primary location for new inward FDI in Europe and become the number one destination in Europe for FDI from emerging markets;** and
- **increase the funding for the GREAT campaign to £30 million for 2013-14,** building on its success so far, to showcase Britain's capabilities and support significant and long-term increases in trade, tourism, education and inward investment.

Improving access to finance for small and medium sized businesses

1.103 The impact of the financial crisis on the cost and availability of credit is affecting productivity across the economy. The Government has already taken action to ease the flow of credit to small and medium-sized enterprises (SMEs) that do not have ready access to capital markets.

1.104 The Business Finance Partnership, which aims to stimulate new non-bank sources of finance, has invested £600 million and raised another £650 million from the private sector to create four new funds that will lend to mid-sized companies.

1.105 However further action is needed. As announced by the Chancellor and Secretary of State for Business, Innovation and Skills in September 2012, the Government is creating a Business Bank to transform the way that Government delivers support to SMEs. It will deploy £1 billion of additional capital to address structural gaps in the supply of finance to SMEs and stimulate the provision of long-term capital, including by leveraging in substantial private sector finance. In addition it will bring together, review and rationalise existing government schemes aimed at supporting access to finance for businesses under a single organisation, in order to increase access to and awareness of these interventions.

1.106 The Secretary of State for Business, Innovation and Skills will set out further details later in December 2012.

Lord Heseltine's Review

1.107 Following a commission from the Prime Minister, Lord Heseltine presented his report *No Stone Unturned* to the Chancellor and Secretary of State for Business, Innovation and Skills on 31 October 2012. Lord Heseltine makes a series of recommendations in all aspects of government policy that affect economic growth. The Government welcomes this report and will seek to implement as many of the recommendations as possible.

1.108 The review makes a powerful case for increased devolution of economic powers from central government, in particular for a transfer of funding and responsibilities to Local Enterprise Partnerships (LEPs), and for a stronger voice and role for the private sector in promoting growth through local and overseas chambers of commerce and national industry representatives.

1.109 This Autumn Statement sets out the first stage of the Government's response, particularly focused on local economic growth but also announcing implementation of other parts of the report. A full response will follow in the spring.

Unleashing local growth – empowering Local Enterprise Partnerships

1.110 The Government agrees with Lord Heseltine that local leaders and businesses are best placed to set the strategic direction for an area. The success of the first round of city deals, where LEPs and local authorities work together to reinvigorate local economies, demonstrates the benefits of this approach. For example, Manchester's 'earn back' agreement with the Government will unlock over £2 billion of investment in transport infrastructure. **LEPs, which bring together local leaders and businesses, will be asked by the Government to lead the development of new strategic plans for local growth consistent with national priorities.** In developing the plans, LEPs will be expected to consult with all relevant local partners, including the local chambers of commerce and other business bodies. These multi-year plans will build on any existing plans and include coordination with ongoing public programmes. It is expected that local authorities or other bodies, and not LEPs, will deliver programmes and projects, ensuring that there are proper accountability structures in place.

1.111 Through this strategic plan the LEPs will have an increasingly important role, and the Government is keen to ensure that all LEPs are able to fulfil this strategic function. The Government believes that LEPs should remain small, responsive, business-led organisations and avoid creating a local bureaucracy. Not all LEPs are providing the local leadership that is needed. **The Government will provide £10 million per year for capacity building within LEPs. Each LEP will be able to apply for up to £250,000 additional funding per year to support the development and delivery of their strategic plan.**

1.112 The Government agrees with Lord Heseltine that local business leaders need to have the tools and levers to drive investment and growth in their area and that means truly devolving funding and powers from central government. **The Government will devolve a greater proportion of growth-related spending on the basis of these strategic plans developed by LEPs by creating a single funding pot for local areas from April 2015.** Funding will reflect the quality of strategic proposals put forward by LEPs, as well as local need. When developing the plans, LEPs will be expected to seek to leverage funding, including from local authorities and the wider public and private sector.

1.113 The Government will seek to increase the proportion of spending that is awarded through the single funding pot based on Lord Heseltine's recommendations. This is likely to include some of the funding for local transport, housing, schemes to get people back into work, skills and any additional local growth funding. Further details will be set out in the Spending Review.

1.114 In line with Lord Heseltine's recommendation, **the Government will take the opportunity to streamline its management of the EU Common Strategic Framework funds in England,** aligning priorities on the basis of the plans led by LEPs.

1.115 This will build on the Government's existing commitment to empower local areas. LEPs already have strategic oversight of over £1 billion of local economic funding in this Parliament. In implementing Lord Heseltine's proposals the Government will apply lessons learned from the existing city deals, which have already seen devolution of significant responsibilities. In addition to Lord Heseltine's recommendations, **the Government will make available a new concessionary public works loan rate to an infrastructure project nominated by each LEP (excluding London), with the total borrowing capped at £1.5 billion.**

1.116 The Government will also provide a further £350 million towards the Regional Growth Fund, to provide support for jobs and growth across England until the end of this Parliament. In order to maximise the number of private sector jobs created, the Government will look to reflect on the successes of the previous rounds and will confirm how applicants can apply for funding in due course.

1.117 In recognition of the importance of partnership across a functional economic area **the Government will support local authorities that wish to create a combined authority or implement other forms of collaboration** (for example, shared management), including ensuring that the existing legislation is fit for purpose.

Developing a skilled, flexible workforce

1.118 In order to raise school standards and support the supply of high quality places, **the Government will invest an additional £980 million in schools in England by the end of this Parliament.** This includes enough funding for 100 new academies and free schools, as well as investment to expand good schools, in the areas experiencing the greatest pressure on places.

1.119 The Government will also provide an additional £270 million for capital investment to improve further education (FE) colleges in England. This investment will be targeted where it will have the biggest impact on growth, and on colleges with the greatest needs.

1.120 In order to make the education and skills system more effective and responsive to the needs of employers, the Government will:

- **give LEPs a new strategic role in skills policy in line with the recommendations of the Heseltine Review.** LEPs will be given a role setting skills strategies consistent with national objectives, and chartered status for FE colleges will be linked to having taken account of the skills priorities of local LEPs. In addition, the Government will encourage LEPs to have a seat on FE colleges' governing bodies, with colleges represented on LEP boards. LEPs will also be able to determine how the EU Common Strategic Framework funds, including the European Social Fund, are used locally and will be able to bring bidders together to access Employer Ownership Pilot funding;

- **increase funding for the Employer Ownership Pilot by £90 million,** from £250 million to £340 million, to enable more employers to shape training provision directly; and
- **provide improved information on returns to FE study to help drive up the quality and labour market relevance of FE courses.** Further details are in Chapter 2.

1.121 The Government has today published the reports of the independent Pay Review Bodies on local pay and intends to accept their recommendations, including that there should be no new centrally determined local pay rates or zones but that there should be greater use of existing flexibilities. The School Teachers' Review Body recommends much greater freedom for individual schools to set pay in line with performance and, subject to consultation, the Government will implement these reforms. There will be no centrally-imposed changes to the geographical structure of pay in the civil service.

Employment law

1.122 The Government is legislating to introduce a new employee shareholder status that will give staff a stake in their firms' future success and give firms greater choice about the contracts they can offer to individuals. Employee shareholders will have different employee rights and shares worth a minimum of £2,000 in the firm they work for. As announced, the Government will exempt gains on up to £50,000 of shares acquired by employee shareholders from capital gains tax from 6 April 2013. The Government is also considering options to reduce income tax and National Insurance contributions (NICs) liabilities that arise when employee shareholders receive their shares, including an option to deem that employee shareholders have paid £2,000 for shares they receive. This option would mean that the first £2,000 of shares received under the new status would be free from income tax and NICs.

1.123 To make the labour market more flexible, **the Government is consulting on reducing unnecessary burdens from the Transfer of Undertakings (Protections on Employment) (TUPE) regulations.**

Removing the burdens of unnecessary and inefficient regulation

1.124 Since April 2011 the Government has reduced the net burden of regulation on business by £850 million, by operating a One-In One-Out rule for new regulation. The Government has also committed to abolishing or substantially reducing the burdens on businesses of at least 3,000 regulations through the Red Tape Challenge.

1.125 To further reduce burdens on business, the Government will:

- **operate a One-In Two-Out rule from January 2013,** as announced on 19 November 2012. This will require the cost to business of new regulation to be offset by deregulation that delivers at least double the savings to business; and
- **launch a second phase of the Red Tape Challenge in spring 2013.**

1.126 To minimise the burden of economic regulation, the Government will:

- **review the appeals processes to make appeals quicker and easier;**
- **ask economic regulators to increase the transparency of their fees and ensure the services provided are efficient and cost effective;** and
- **increase the incentives of economic regulators to make better use of their concurrent competition powers** to ensure that pro-competition solutions are sought to market failures wherever possible.

1.127 The Government will simplify the Carbon Reduction Commitment (CRC) energy efficiency scheme from 2013, providing very significant administrative savings for businesses in the scheme. **The CRC's Performance League Table will be abolished, to simplify the scheme further. A full review of the effectiveness of the CRC will be held in 2016 and the tax will be a high priority for removal when the public finances allow.**

Employee ownership

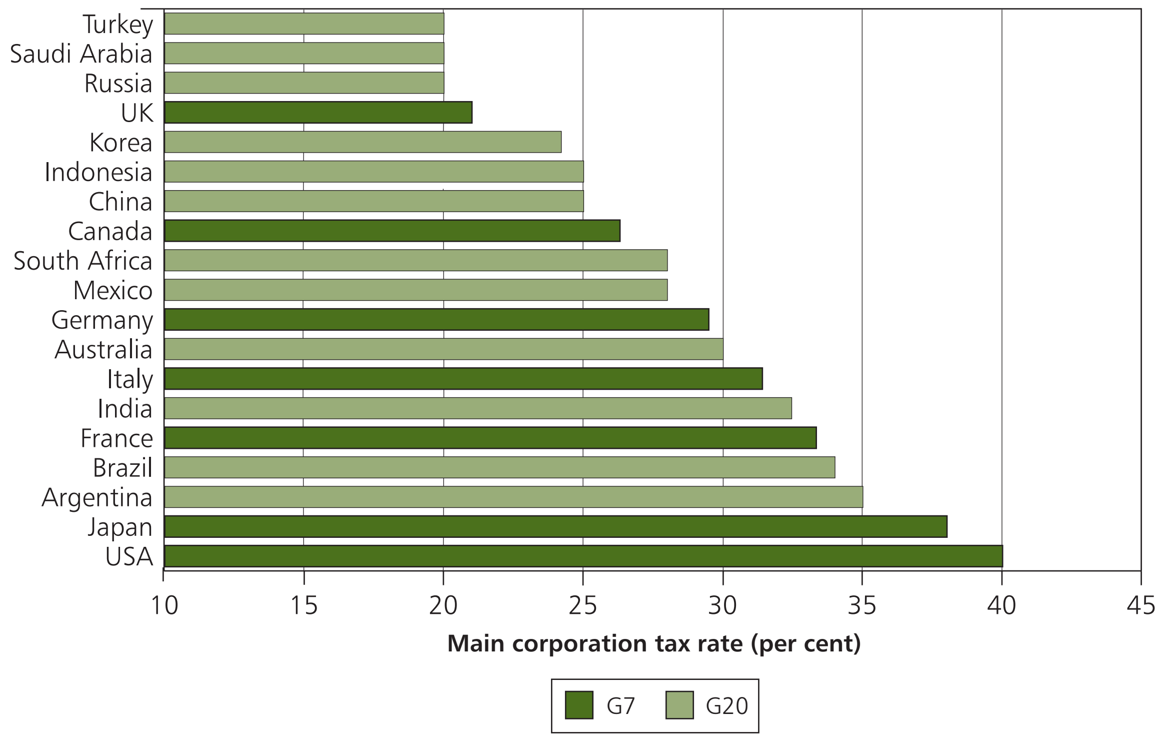
1.128 Budget 2012 announced an internal Treasury review of the link between employee ownership and growth. The Government supports employee ownership as a business model, which offers benefits to employers and the wider economy, and recognises that a range of employee ownership models may be legitimately applied including employee share schemes and Employee Benefit Trusts that are not aimed at avoiding tax. The Government will continue to build a better understanding of the complexities faced by the sector, including within the tax environment. The Nuttall Review set out recommendations to support an expansion in the number of employee-owned businesses. The Treasury and HM Revenue and Customs (HMRC) will support the Department for Business, Innovation and Skills and Cabinet Office in implementing the Government's response to the Nuttall Review of employee ownership. The Government is considering further incentives to support this objective and will report at Budget 2013.

Providing an internationally competitive tax system

1.129 To encourage businesses to locate and invest in the UK the Government is creating a simpler, more efficient and stable tax system, with an ambition to make it the most competitive in the G20. The Government has already reduced the main corporation tax rate from 28 per cent in 2010 to 24 per cent in 2012 and announced further reductions, to 22 per cent in 2014.

1.130 The Government will reduce the main rate of corporation tax by an additional 1 per cent in April 2014. This means the rate will be reduced from 24 per cent to 23 per cent in April 2013 and then to 21 per cent in April 2014, when the UK will have the lowest corporation tax rate in the G7 and the fourth lowest in the G20.

Chart 1.11: Main corporation tax rates in the G7 and G20 (2014 based on announced plans)



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

1.131 As set out at Budget 2012, the Government intends that the Bank Levy should raise at least £2.5 billion each year. To take account of the benefit to the banking sector of the additional reduction in corporation tax and offset the forecast shortfall in receipts for future years, **the rate of the Bank Levy will increase to 0.130 per cent from 1 January 2013.** The Levy ensures that banks make a fair contribution and reflects the risks they pose to the financial system and the wider economy.

1.132 The Government wants the UK to continue to build on its competitive edge in the insurance sector as a key exporter and important source of long-term investment. The changes the Government has made to the tax framework have already stimulated interest among overseas insurers in doing more business in the UK and the recent relocation to London of one of the world's largest brokers is now helping to strengthen the cluster around the London market. The Government particularly welcomes interest from insurers that meet the conditions for authorisation and that want to do more business in the UK and the Government has asked the FSA to ensure that new applications from overseas insurers are processed smoothly.

1.133 Budget 2012 announced that the Government will introduce corporation tax reliefs from April 2013 for the video games, animation and high-end television industries, subject to state aids approval. Following consultation on their design, **the Government will ensure that the reliefs are among the most generous in the world by offering a payable tax credit for all three reliefs worth 25 per cent of qualifying expenditure.**

Promoting investment through the tax and pensions systems

1.134 The Government will increase the Annual Investment Allowance from £25,000 to £250,000 for qualifying investment in plant and machinery for two years from 1 January 2013. This is designed to encourage and incentivise business investment in plant and machinery, particularly among SMEs.

1.135 To promote further private investment, **the Government will exempt all newly built commercial property completed between 1 October 2013 and 30 September 2016 from empty property rates for the first 18 months,** up to the state aids limit subject to consultation.

1.136 The Government recognises the challenges currently faced by small businesses. **The Government will extend the temporary doubling of the Small Business Rate Relief scheme for a further 12 months from 1 April 2013.** Over half a million small businesses will benefit from this extension, with 350,000 not paying any business rates until April 2014.

1.137 The Government is determined to ensure that defined benefit pensions regulation does not act as a brake on investment and growth. **The Department for Work and Pensions (DWP) will consult on providing the Pensions Regulator with a new statutory objective to consider the long-term affordability of deficit recovery plans to sponsoring employers.** The Government also recognises that volatility in measures of pension scheme deficits can make it hard for companies to manage their investment plans and attract external funding. **DWP will also consult on whether to allow companies undergoing valuation in 2013 or later to smooth asset and liability values.**

Creating a simpler, more efficient and fairer tax system

1.138 To reduce burdens on business and individuals and make the tax system clearer and more efficient, the Government will:

- **significantly expand the online services HM Revenue and Customs (HMRC) offers to taxpayers over the next three years.** SMEs will be able to access all the tax services they need from a personalised homepage with secure digital messaging. Individual taxpayers will also benefit from a much improved online service. Further details are set out in Chapter 2;
- **introduce a target to reduce the annual cost to business of tax administration by £250 million by the end of the spending review period;** and
- **apply the new voluntary cash basis for calculating tax for small self-employed businesses, announced at Budget 2012, to self-employed businesses with receipts of up to £77,000.** The cash basis will be implemented from April 2013.

1.139 Alongside reforms to increase the competitiveness of the tax system, the Government is taking significant steps to ensure that businesses, including multinational companies, pay their fair share of tax. The Government will:

- **provide additional resources to the OECD, alongside France and Germany, to speed up the international efforts on dealing with profit shifting and erosion of the corporate tax base at the global level;** and
- **invest further funding in HMRC to enhance its risk assessment capability for large multinational companies and increase HMRC's transfer pricing specialist resources** to accelerate the identification, challenge and resolution of transfer pricing issues.

Fairness

1.140 Fairness underpins the Government's plans to reduce the deficit and protect the economy, by ensuring that everyone makes a fair contribution towards consolidation. Since the June Budget 2010, the Government has:

- announced the largest ever increases in the level of the personal allowance to reward work at a cost of over £8 billion in 2015-16;
- taken action on the fuel duty rate to support households at a cost of £3 billion in 2015-16;
- introduced major reforms to improve the affordability and sustainability of the welfare system in the context of public spending constraint;
- protected pensioners through the triple lock guaranteeing ongoing increases in the basic State Pension;
- continued to tackle tax avoidance and evasion to ensure that everyone pays their fair share; and
- announced measures to increase the Exchequer contribution of the richest.

1.141 Autumn Statement 2012 goes further and announces:

- a further increase in the personal allowance at a cost of £1.1 billion in 2015-16;
- further help for motorists on fuel duty at a cost of £1.7 billion in 2015-16;
- further reform of the tax and welfare system while still supporting those most in need. To ensure affordability and in line with the Government's plans to make public sector pay awards that average at 1 per cent, most working age benefits will be uprated by 1 per cent and the income tax higher rate threshold will also be uprated by 1 per cent to ensure that the burden of consolidation is spread fairly;
- protections for spending on key public services as well as disability and pensioner benefits. Pensioners will see a cash increase of £2.70 a week to the basic State Pension in 2013-14 as a result of the triple lock; and
- measures ensuring that those who earn the most contribute their fair share, including reducing the pensions tax relief available to the top 2 per cent of individuals.

1.142 This section describes the Government's commitment to ensure that it pays to work; to support pensioners and those most in need; and to deliver a progressive tax and welfare system that is affordable, fair and encourages growth across this Parliament and beyond. Tax continues to make broadly the same contribution to consolidation as set out in the June Budget 2010.

Supporting households and rewarding work

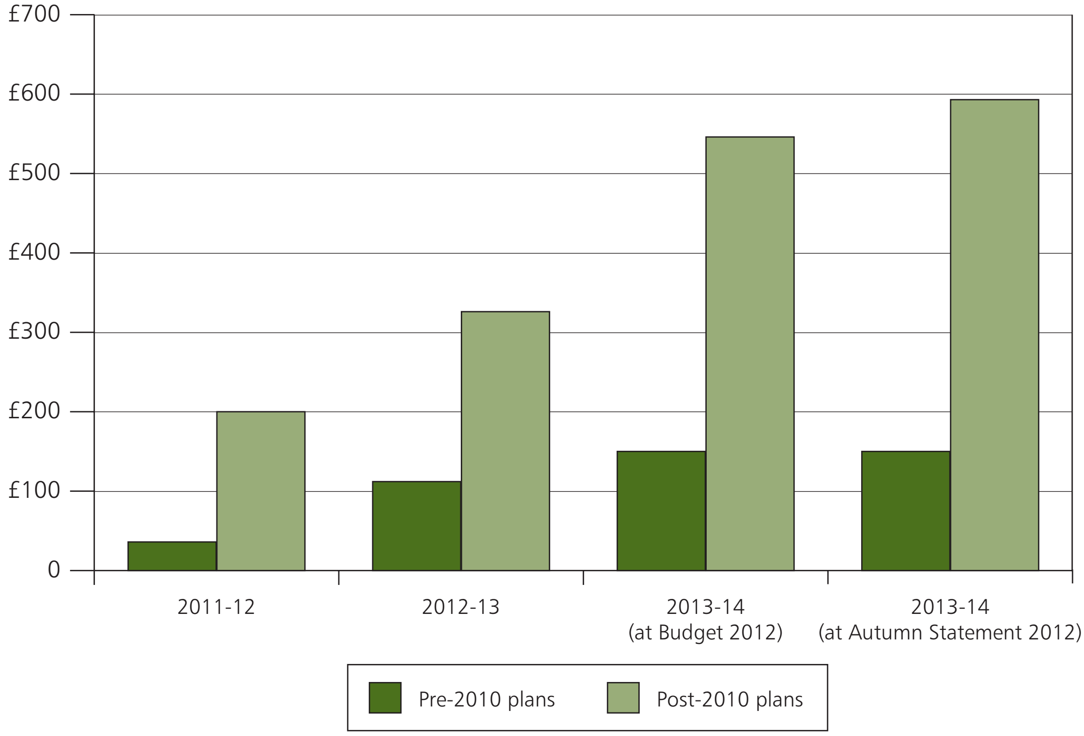
Personal allowance

1.143 The Government remains committed to increasing work incentives and supporting those on low and middle incomes by making the first £10,000 of income free from income tax. At Budget 2012, the Government announced an increase of £1,100 to the personal allowance, taking it to £9,205.

1.144 The Government will increase the personal allowance by a further £235 in April 2013, taking it to £9,440. As a result of the measures announced this year, the rise of £1,335 is the largest ever cash increase. This will benefit an estimated 24.4

million individuals and lift an additional quarter of a million people out of income tax altogether. Most basic and higher rate taxpayers will gain equally by £47 from this increase. Since 2011, the Government has announced total increases to the personal allowance of £2,965. By April 2013 this will have taken 2.2 million of the lowest paid out of the income tax system altogether. The typical basic rate taxpayer will pay £593 less tax in cash terms – leaving them £443 better off than under pre-2010 plans, as Chart 1.12 shows.

Chart 1.12: Cumulative cash benefit for a basic rate taxpayer from personal allowance changes since 2010-11



Source: HM Revenue and Customs analysis.

1.145 As a result of personal allowance changes made at Autumn Statement 2012, most individuals will see a reduction in the amount of income tax they pay next year up until the point that the personal allowance tapers away, as shown in Table 1.7.

Table 1.7: Illustration of income tax and National Insurance contributions (NICs) paid per year, by income level[1]

Gross income (£)	2010-11 (£)	2011-12 (£)	2012-13 (£)	2013-14 before Autumn Statement (£)	2013-14 after Autumn Statement (£)
7,500	400	40	0	0	0
10,000	1,180	840	670	430	380
15,000	2,730	2,440	2,270	2,030	1,980
20,000	4,280	4,040	3,870	3,630	3,580
30,000	7,380	7,240	7,070	6,830	6,780
40,000	10,480	10,440	10,270	10,030	9,980
50,000	14,190	14,390	14,220	14,080	14,040
75,000	24,440	24,890	24,720	24,580	24,540
100,000	34,690	35,390	35,220	35,080	35,040
150,000	57,780	59,380	59,460	59,770	59,810

[1] Calculations are based on the tax system in 2013-14 and so do not reflect future changes, such as the 1 per cent uprating to the higher rate threshold from 2014-15. The table is also based on an individual aged under 65 paying employee NICs (not contracted out). Gross income refers to pay only (i.e. all gross income is subject to income tax and Class 1 NICs). Income tax calculations assume no other allowances or deductions. NICs calculations are on a weekly basis and then annualised. All figures are rounded to the nearest £10.

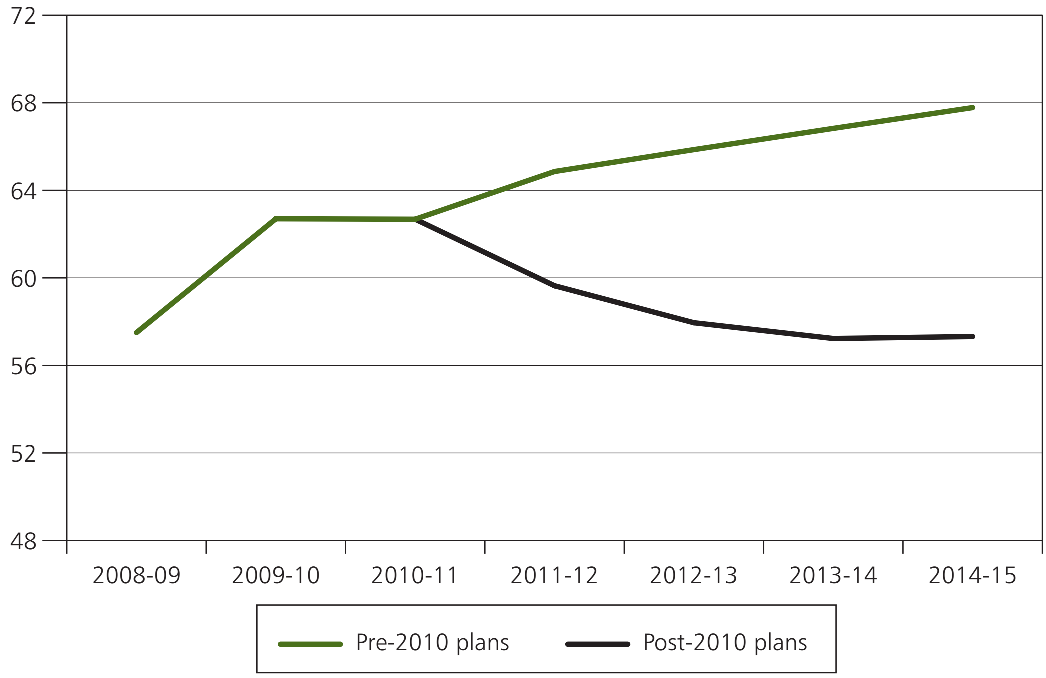
Source: HM Revenue and Customs calculations.

Fuel duty

1.146 Since 2011, the Government has abolished the fuel duty escalator, cut fuel duty and frozen duty at the new lower rate. As a result of Government intervention, pump prices are currently 10 pence per litre (ppl) lower than under the previous government's plans. To further support motorists and businesses with the high cost of fuel, **the Government will cancel the 3.02 ppl fuel duty increase that was planned for 1 January 2013.** In addition, **the Government will defer the 2013-14 increase from 1 April 2013 to 1 September 2013.** This will mean that fuel duty will have been frozen for nearly two and a half years. For the remainder of the Parliament, **subsequent increases will take effect on 1 September each year, instead of 1 April.** As a result, pump prices will be at least 10 ppl lower for the rest of the Parliament than under the previous government's plans.

1.147 These actions amount to a £19 billion package of support over this Parliament to 2015-16, meaning that it will cost the typical motorist £5 less to fill up their tank every time they visit the pump from January 2013, and £8 less by the end of the Parliament.[33] As a direct result of Government action, fuel duty in real terms is forecast to fall over this Parliament by 8 per cent. Had the Government implemented the fuel duty escalator, rates would have increased by 7 per cent, as Chart 1.13 shows.

Chart 1.13: Real terms fuel duty rates (pence per litre)



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

Source: HM Revenue and Customs analysis.

Council tax

1.148 To assist households with living costs, **the Government announced in October 2012 that for the third year in a row it would provide a grant to local authorities in England that decide to freeze or reduce their council tax in 2013-14.** A freeze is worth around £70 for the average Band D property compared to a 5 per cent rise.

[33] Savings calculated on the basis of the total saving for a typical family car by May 2015 and assuming fuel duty increases by the Retail Prices Index only in 2013 and 2014. The final fuel duty rate will be confirmed in subsequent Budgets according to the fair fuel stabiliser.

1.149 The Government also proposes to lower the local authority tax referendum threshold to 2 per cent. This will ensure that local people have the right to approve or veto council tax increases above the 2 per cent level through a binding referendum.

Rail fares

1.150 The Government recognises the pressures faced by businesses and passengers as a result of rising public transport fares. **The Government will limit the average increase in regulated rail fares and Transport for London fares to the Retail Prices Index plus 1 per cent for two years from January 2013,** which will benefit over a quarter of a million annual rail season ticket holders.

Spending, tax and welfare

Public services spending

1.151 While all households benefit substantially from spending on public services, those on the lowest incomes use on average around twice as much of this support as those on the highest incomes.[34] Autumn Statement 2012 confirms that **the Government will continue to protect spending on core public services, including the NHS and schools, for the spending review period.** Reductions to departmental resource budgets in 2013-14 and 2014-15 will not apply to these protected areas of spending. This protection will benefit households on lower incomes the most, as they benefit from health and school spending by around £2,700 a year more than those on the highest incomes.[35]

An affordable tax and benefit system

1.152 The welfare system must be affordable, help those who need it most, and provide the right incentives for people to work. Even before the financial crisis, welfare spending had increased by around 20 per cent in real terms in the decade to 2007-08, despite the economy growing and employment rising.[36] Since the financial crisis, welfare spending has become unaffordable with reduced resources available for other key public services. The Government has already announced measures that will save £18 billion in 2014-15 from welfare spending. Despite this progress, the welfare system still costs over £200 billion a year – more than the combined budgets for health, education and defence.

1.153 Autumn Statement 2012 announces a welfare reform package that will save a further £3.7 billion in 2015-16. As set out in the public spending section of Chapter 2, these welfare savings will help to reduce pressure on other areas of public spending. Furthermore, as a result of the personal allowance and benefits uprating measures announced at Autumn Statement 2012, work incentives for most low income households will improve, so that these individuals gain more from being in employment compared to being out of work.

Benefit uprating

1.154 Since the beginning of the financial crisis, welfare spending has risen from around 11 per cent of GDP before the crisis to over 13 per cent in 2011-12. Pay restraint in the public and private sectors has helped protect jobs and reduce the deficit. However, as Chart 1.14 shows, out-of-work benefits have risen by around 20 per cent, while average earnings have increased by around 10 per cent in the period to 2012-13.

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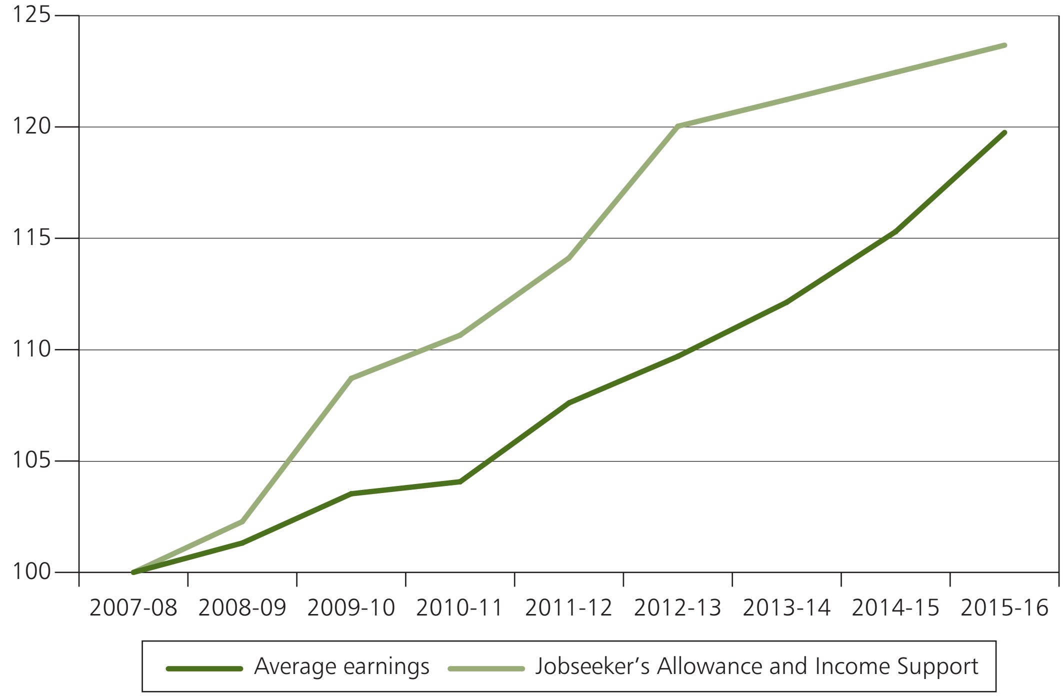
[34] *Spending Review 2010*, HM Treasury, October 2010.
[35] Based on comparison of quintiles one and two against quintile five, HM Treasury analysis.
[36] Public sector net social benefits, Office for National Statistics.

Chart 1.14: Changes in out-of-work benefit rates and average earnings since 2007-08



Notes: Indexed to 2007-08. Jobseeker's Allowance (JSA) is contributory JSA for an individual; Income Support is for a single person aged over 25; earnings growth uses OBR forecasts for 2012-13.

Source: Office for Budget Responsibility, Department for Work and Pensions.

1.155 In line with the general economic conditions and to ensure the overall affordability of the welfare system, Autumn Statement 2012 announces that:

- **most working age benefits (including the main elements of Jobseeker's Allowance, Employment and Support Allowance and Income Support) will be uprated by 1 per cent for three years from April 2013;**
- **this will also extend to Child Tax Credit and Working Tax Credit, except for those elements that are already frozen in 2013-14 and the family element;** and
- **Child Benefit will be uprated by 1 per cent in 2014-15 and 2015-16.** More detail is provided in Chapter 2.

1.156 On current forecasts, out-of-work benefits will remain higher in 2015-16 than they would be had they increased in line with average earnings since 2007-08.

1.157 Other benefits, including the Additional State Pension and those specifically for disability and carers, will continue to be uprated in line with prices, as will the disability elements of tax credits. The Government confirms that the basic State Pension will increase by 2.5 per cent in April 2013, higher than both average earnings and inflation, in line with the commitment to the triple lock. As a result, pensioners will see a cash increase of £2.70 a week to the basic State Pension in 2013-14.

1.158 Despite recent reforms made by the Government, Housing Benefit is still the third largest area of welfare expenditure and has risen by 50 per cent in real terms since 2001-02. To ensure this support remains affordable, the Government will:

- **uprate Local Housing Allowance rates in line with the previously announced policy in April 2013, but will cap increases to 1 per cent in most areas in 2014-15 and 2015-16;** and

- **use 30 per cent of the potential savings to exempt rates in those areas where rent increases are highest,** in recognition of the fact that rental markets differ across the country.

Tax uprating

1.159 The Government believes that changes to tax and public spending should impact fairly across society. In light of its decision to limit increases in benefits to 1 per cent, and the Government's plans to make public sector pay awards that average at 1 per cent, the Government believes it is fair and consistent to limit increases in personal tax thresholds, while continuing to support low and middle income households through the increase in the personal allowance.

1.160 Autumn Statement 2012 announces that **in 2014-15 and 2015-16 the higher rate threshold for income tax will increase by 1 per cent rather than inflation, which will increase revenues. In 2014-15 the threshold will be £41,865 and in 2015-16 it will be £42,285.** 2014-15 will see the first cash increase in the higher rate threshold this Parliament.

1.161 Higher rate taxpayers are also affected by the Government's changes to the personal allowance and in 2012-13 a typical higher rate taxpayer is better off as a result of changes to income tax announced in this Parliament. As a result of this Autumn Statement alone, a typical higher rate taxpayer currently receiving a personal allowance will be £47 better off in real terms in 2013-14, and in total no worse off by 2014-15. Compared to uprating the higher rate threshold by inflation, these changes are expected to create around 400,000 more higher rate taxpayers by 2015-16. However, taking into account the income tax changes announced since 2010, these new higher rate taxpayers will typically be over £270 better off in real terms over the Parliament.

1.162 In addition, Autumn Statement 2012 announces that:

- **the capital gains annual exempt amount will increase by 1 per cent each year over the same period to £11,000 in 2014-15 and £11,100 in 2015-16;** and
- **the inheritance tax nil-rate band has been frozen since 2009 at £325,000, but will increase by 1 per cent in 2015-16 to £329,000.**

Universal Credit

1.163 From October 2013, Universal Credit will be introduced to simplify the benefit system, improve work incentives and ensure that it always pays to be in work. By 2017-18 Universal Credit will form around two-thirds of working age welfare expenditure. **The Government has therefore set the key Universal Credit parameters** to deliver its policy objectives and to support the overall affordability of the benefit system ahead of the start of the Universal Credit pathfinder in April 2013.

1.164 The earnings disregards for each household type are set out in the policy costing document.[37] Autumn Statement announces that **these disregards will be increased by 1 per cent for two years from April 2014, rather than by CPI,** in line with wider decisions on benefit uprating. These measures will result in savings of £640 million a year by 2015-16.

1.165 Universal Credit will be more generous than the existing system. Once fully implemented 3.1 million households will be better off under Universal Credit, by an average of £39 per week.

[37] *Autumn Statement 2012 policy costings,* HM Treasury, DWP and HMRC, December 2012.

Housing

1.166 Since 2010, the Support for Mortgage Interest (SMI) scheme has helped over 200,000 people a year avoid home repossession.[38] To support homeowners facing difficulties, **the Government announces that support will now be continued at the current level through the SMI scheme to March 2015.**

1.167 The Government has consulted on proposals to introduce an income threshold for social housing above which tenants would be expected to pay full market rents. The Government will respond to this consultation by Budget 2013 to ensure the best use of social housing assets and that those who can afford to make a greater contribution do so, while ensuring that tenants on low incomes are not affected.

Disability benefits

1.168 As outlined in the Government's disability strategy published in September 2012, *Fulfilling Potential – Next Steps*, the Government is committed to ensuring that disabled people receive the support they require. As outlined earlier in this section, the Government will continue to uprate disability benefits in line with prices. Furthermore, the Government will introduce Personal Independence Payments in place of working age Disability Living Allowance from April 2013, and DWP will bring forward further details shortly.

Tackling tax credits error, fraud and debt

1.169 The Government remains committed to ensuring that everyone receives the benefits to which they are entitled. Tax credits error and fraud cost over £2.2 billion in 2010-11.[39] Autumn Statement 2012 announces **a package of measures to reduce tax credits error, fraud and debt while ensuring that people receive their entitlement**. This includes:

- **requiring evidence from households reporting high childcare costs;**
- **requiring evidence provided by households each year for children aged between 16 and 19 to ensure their Child Tax Credit payments continue;** and
- **changing the information technology to allow debt from an individual's old tax credit award to be recovered through their current tax credit award.**

A fair contribution from high earners

1.170 The Government is committed to a fair tax system in which those with the most contribute the most. As set out in Chart 1.15, a quarter of all income tax – a significant source of Government revenue – is paid by just 1 per cent of taxpayers, with the top 5 per cent paying around half of all income tax.

1.171 Every Budget since June 2010 has raised the amount of tax paid by high earners, including Budget 2012 which raised five times more each year from the richest than the £100 million cost of reducing the 50 per cent additional rate of income tax.[40] Autumn Statement 2012 announces measures that will increase the contribution of the richest by a further £8.5 billion over the forecast period. This comprises the revenue from the Government's recent agreement with Switzerland to tackle tax evasion and changes to pensions tax relief.

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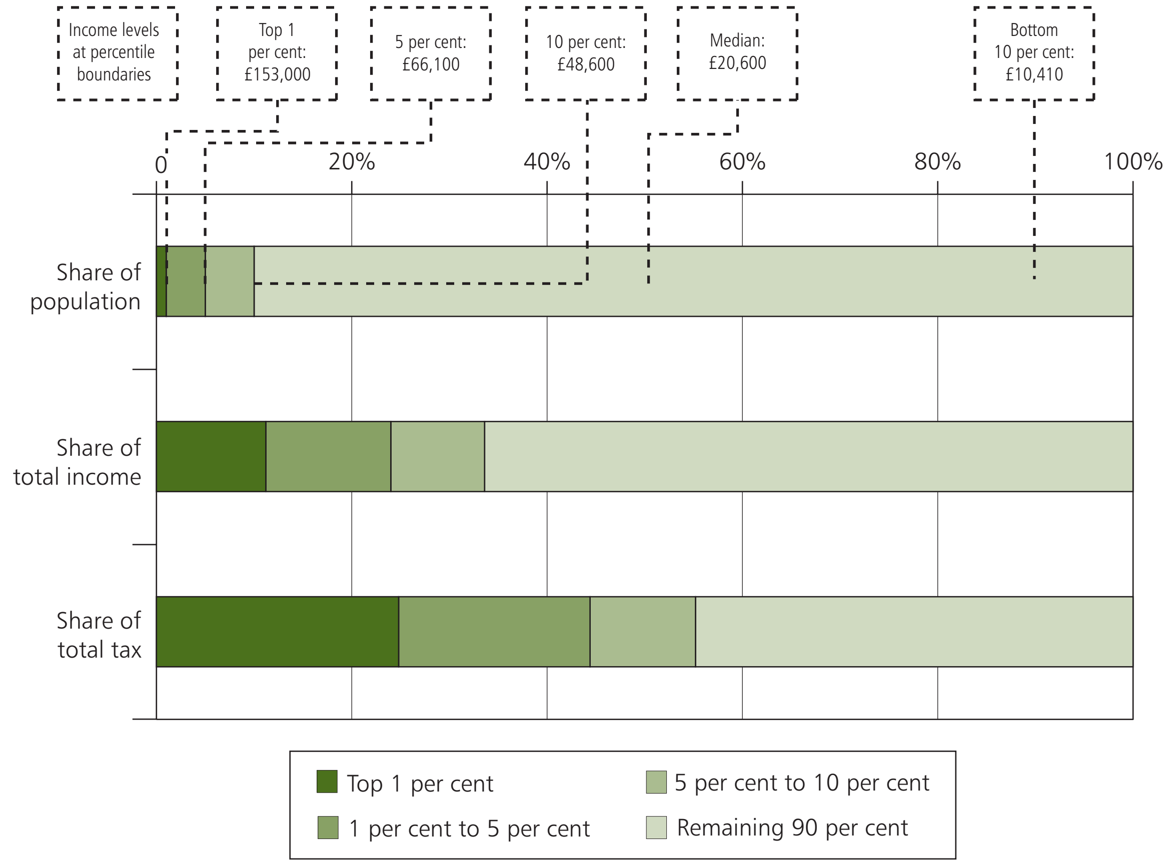
[38] DWP expenditure tables, Budget 2012.
[39] Central estimate from *HMRC Annual Report and Accounts 2011-2012*.
[40] HM Treasury analysis.

Chart 1.15: Share of taxpayers, income and income tax in 2011-12



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

Source: HM Revenue and Customs personal tax statistics.

Tax avoidance, evasion and compliance

1.172 The vast majority of people and businesses pay their fair share of tax. However, the Government is fully committed to clamping down on those who avoid or evade paying their tax.

Offshore tax evasion

1.173 Autumn Statement 2012 reflects the **benefits expected from the Government's ground-breaking agreement with Switzerland to recover previously unpaid UK tax on money hidden in Switzerland. This agreement, passed by the UK and Swiss parliaments, is due to come into force on 1 January 2013 and is forecast to bring in over £5 billion over the next six years.** In addition to a one-off levy in respect of past tax evasion, the agreement provides for a withholding tax on future investment income and gains arising in Switzerland. This is the largest tax evasion settlement in UK history, marking a significant step forward in the battle against those who seek to evade UK tax.

1.174 The Government has signed an agreement with the United States, the first of its kind anywhere, that will significantly increase the amount of information on potentially taxable income automatically exchanged between the two countries. This sets a new standard in tax transparency aimed at tackling evasion. The Government will look to conclude similar agreements with other jurisdictions.

1.175 HMRC will also be setting up a new centre of excellence, staffed by experts on tax fraud and evasion. This will make a marked difference to HMRC's ability to clamp down on offshore evasion and **a comprehensive evasion strategy will be published in spring 2013.**

Tax avoidance and evasion

1.176 The Government is already investing over £900 million in HMRC to secure an additional £7 billion of revenue a year, taking HMRC's total compliance revenues to £20 billion in 2014-15. As announced on 3 December 2012, **the Government is investing a further £77 million in HMRC to increase revenues raised from tackling tax avoidance and evasion. Taken together, this investment will secure additional revenues of £22 billion a year by the end of this Parliament – a 70 per cent increase since 2010-11.** This investment will allow HMRC to go further in tackling avoidance and evasion, including by:

- **accelerating resolution of avoidance schemes;**
- **expanding HMRC's Affluent Unit to deal more effectively with taxpayers with a net worth of more than £1 million;**
- **increasing specialist resources to tackle offshore evasion and avoidance of inheritance tax;** and
- **improving HMRC's risking technology, including increased use of third party data.**

1.177 As outlined in the Growth section, this investment will also strengthen HMRC's risking capability for large business, including accelerating work on identifying and challenging transfer pricing arrangements and further strengthening risk assessment capability across the large business sector.

1.178 Autumn Statement 2012 confirms significant new developments to help prevent, detect and tackle tax avoidance and evasion in the future through:

- **the introduction of the UK's first ever General Anti-Abuse Rule (GAAR) to provide a significant new deterrent to abusive avoidance schemes** and strengthen HMRC's means of tackling them. Guidance and draft legislation on the GAAR will be published later in December 2012;
- **consulting on the introduction of significant new information disclosure and penalty powers to target the promoters of aggressive tax avoidance schemes;**
- **closing down with immediate effect four loopholes associated with tax avoidance schemes** to protect hundreds of millions of pounds over the next five years; and
- building on existing work, HMRC is conducting **a review of offshore employment intermediaries being used to avoid tax and NICs** and will provide an update on this work at Budget 2013.

Pensions tax relief

1.179 In 2010-11, tax relief for pension savings cost the Government around £33 billion, with over half of this relief going to higher rate taxpayers.[41] Even with changes made to reduce the cost of pensions tax relief, the Government is still likely to forgo around £31 billion in tax revenues this year, rising to £35 billion in 2015-16. To protect the public finances from this growing cost, **from 2014-15, the Government will further reduce the lifetime allowance for pension contributions from £1.5 million to £1.25 million and further reduce the annual allowance from £50,000 to £40,000.**

1.180 These measures affect the wealthiest pension savers. 98 per cent of individuals currently approaching retirement have a pension pot worth less than £1.25 million – the level of lifetime allowance that will apply from 2014-15 – while the median pension pot for individuals approaching retirement is £55,000. 99 per cent of pension savers make annual contributions below £40,000 – the level of the annual allowance that will apply from 2014-15 – with the average person contributing around £6,000 a year.[42]

[41] HMRC statistics.
[42] HMRC internal estimates.

2 Autumn Statement policy decisions

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

Fiscal impacts of Autumn Statement policy decisions

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

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

2.4 Consistent with its commitment to transparency, the Government is also publishing the methodology underlying the calculation of the fiscal impact of each Autumn Statement policy decision. This is included in the supplementary document, *Autumn Statement 2012 policy costings*, published alongside this Autumn Statement.[2]

[1] The numbers or lower-case letters in brackets after each measure refer to the line in Table 2.1 or Table 2.7 where its cost or yield is shown.
[2] *Autumn Statement 2012 policy costings*, HM Treasury, Department for Work and Pensions (DWP), and HM Revenue & Customs (HMRC), December 2012.

Table 2.1: Autumn Statement 2012 policy decisions[1,2]

	Head	£ million					
		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Departmental Spending and Future Consolidation							
1 Reduction in departmental spending in 2013-14 and 2014-15	Spend	0	+980	+2,400	*+2,400*	*+2,400*	*+2,400*
2 Special Reserve	Spend	+650	0	0	*0*	*0*	*0*
3 Official Development Assistance: adjusting to meet 0.7% GNI target	Spend	+215	+250	+430	*+515*	*+615*	*+870*
4 Council tax: freeze	Spend	0	-270	-270	*0*	*0*	*0*
5 Fiscal consolidation in 2017-18	Spend	0	0	0	*0*	*0*	*+4,635*
6 Capital spending package	Spend	-70	-2,340	-3,045	–	–	–
Growth and Enterprise							
7 4G spectrum sale	Spend	+3,500	0	0	*0*	*0*	*0*
8 Corporation tax: decrease main rate to 21% from 2014-15	Tax	0	-10	-415	-785	-875	-875
9 Annual investment allowance: 2 year temporary increase to £250,000	Tax	-305	-670	-910	-400	+300	+235
10 Business rates: empty property relief	Tax	0	-10	-55	-50	-30	-5
11 Business rates: small business relief extension	Tax	0	-475	+50	0	0	0
12 Cash basis for small businesses	Tax	0	0	-165	+25	-5	*
13 North Sea oil and gas	Tax	-10	-60	-120	-175	-145	-75
14 Capital gains tax relief: employee shareholder status	Tax	0	0	0	*	-20	-80
15 High end television: tax relief	Spend	0	-5	-25	*-45*	*-60*	*-70*
Personal Allowance							
16 Personal allowance: increase by an additional £235 to £9,440 in 2013-14, with equal gains to higher rate taxpayers	Tax	0	-1,000	-1,110	-1,110	-660	-580
Motoring							
17 Fuel duty: cancel January 2013 increase deferred from 2012 and delay future increases to September	Tax	-890	-1,640	-1,625	-1,715	-1,420	-1,465
18 Funding from underspends in 2012-13 through reduced reserve	Spend	+555	0	0	*0*	*0*	*0*
1 per cent Uprating							
19 Working age discretionary benefits and tax credits: increase by 1% for three years from 2013-14	Spend	0	+505	+1,430	*+2,280*	*+2,445*	*+2,555*
20 Child Benefit: increase by 1% for two years from 2014-15	Spend	0	0	+175	*+285*	*+310*	*+330*
21 Housing Benefit: increase Local Housing Allowance by 1% for two years from 2014-15 with provision for high rent areas	Spend	0	0	+105	*+225*	*+245*	*+260*
22 Universal Credit: finalise disregards and increase by 1% for two years from 2014-15	Spend	0	0	+170	*+640*	*+1,000*	*+1,235*
23 Higher rate threshold: index by 1% for two years from 2014-15	Tax	0	0	+295	+875	+1,105	+1,085
24 Inheritance tax: increase nil rate threshold by 1% in 2015-16	Tax	0	0	0	+15	+30	+35
25 Capital gains tax: increase annual exempt amount by 1% for two years from 2014-15	Tax	0	0	0	+5	+5	+5

Other welfare							
26 Support for Mortgage Interest: extension	Spend	-10	-95	-90	*-20*	*0*	*0*
27 New Enterprise Allowance: day one access	Spend	+5	-10	0	*0*	*0*	*0*
28 Tax Credits: error and fraud	Spend	0	0	+315	*+185*	*+85*	***
29 Tax Credits: recovering debt	Spend	+5	+80	+205	*+125*	*+105*	*+90*
Avoidance							
30 Tax repatriation from Switzerland	Tax	+330	+3,120	+610	+920	+180	+150
31 HMRC: anti avoidance	Tax	+15	+200	+95	+330	+385	+355
32 HMRC investment	Spend	-10	-80	-25	*0*	*0*	*0*
Other tax							
33 Pensions: restrict tax relief	Tax	+50	+200	+300	+600	+1,000	+1,125
34 Bank Levy	Tax	0	+515	+545	+540	+545	+545
35 VAT: amendments	Tax	-35	-65	-70	-70	-80	-80
36 Carbon Reduction Commitment	Tax	-25	-25	-25	0	+30	+65
37 Gift Aid Small Donation Scheme: amendments	Spend	0	-10	-15	*-10*	*-20*	*-30*
38 Amendments to cap on income tax reliefs	Tax	0	0	-80	-60	-65	-65
TOTAL POLICY DECISIONS		**+3,970**	**-910**	**-920**	**-905**	**+295**	**+4,940**
Total spending policy decisions		+4,840	-1,090	+1,465	0	0	+4,635
of which current spending	Spend	+1,360	+1,170	+4,415	*+6,435*	*+7,100*	*+7,705*
of which welfare[3]	Spend	0	+430	+2,165	*+3,635*	*+4,175*	*+4,500*
of which changes to capital spending[4]	Spend	+3,480	-2,260	-2,950	–	–	–
Total tax policy decisions	Tax	-870	+180	-2,385	-905	+295	+305

[*] Negligible.

– Capital spending measures do not affect borrowing in 2015-16, 2016-17 and 2017-18 as they fall within the Total Managed Expenditure (TME) assumption.

[1] Costings reflect the Office of Budget Responsibility's (OBR) latest economic and fiscal determinants.

[2] Italicised spending numbers do not affect borrowing in 2015-16, 2016-17 and 2017-18 as they fall within the TME assumption.

[3] There is a tax element of the welfare package that is not included in these numbers, for example on Child Benefit and tax credits.

[4] 4G spectrum sale will be a capital receipt.

Public spending

Departmental Expenditure Limits in 2013-14 and 2014-15

2.5 Departmental resource budgets will be reduced by 1 per cent in 2013-14 and 2 per cent in 2014-15. This measure will save £980 million in 2013-14 and £2.4 billion in 2014-15 that can be reprioritised to fund additional investment in infrastructure and support for businesses.[3] (1)

2.6 Health and schools will continue to be protected in line with the policy set out at Spending Review 2010. Official Development Assistance (ODA) will rise next year to 0.7 per cent of Gross National Income (GNI), in line with announced policy. (3) Local government will be exempt from the reduction in 2013-14 as local authority budgets have already been reduced by a comparable amount through the decision to allow local authorities to hold council tax down in that year. This provides an opportunity for local authorities to invest in reform in order to deliver further savings by consolidating back-offices and transforming service delivery as demonstrated by the Whole-place Community Budget pilot.

2.7 Her Majesty's Revenue and Customs will also be exempt from the reduction. This will enable them to continue to focus on tackling tax avoidance and evasion and to contribute AME savings. In addition HMRC will receive £155 million, made up of additional funding and reinvestment, to fund the range of measures announced at this Autumn Statement to increase compliance and revenue to the Exchequer, expand the online delivery of services to customers and tackle

[3] The reduction is applied to current control totals in each of 2013-14 and 2014-15, and so is not cumulative.

tax credit error, fraud and debt. Taken together, these measures will enable HMRC's target for additional revenues to be increased to £22 billion in 2014-15, £2 billion higher than in 2010-11 and reduce losses from tax credits by more than £1 billion over the next four years. (32)

2.8 Devolved administration budgets will be adjusted in line with the Barnett formula and statement of funding policy.

2.9 Spending on frontline services will continue to be prioritised. In making savings, departments will be encouraged to match best practice across government, working with the Efficiency and Reform Group in the Cabinet Office to identify more cost-effective ways of delivering public services and continuing to clamp down on inefficient spending. For example, if all unprotected departments reduced their administration budgets in line with the best, they could save £800 million in 2014-15. If all departments moved to the government property benchmark of 10 square metres per person, they could save over £300 million per year. The recently published *Digital Efficiency Report* sets out how departments could save approximately £1.2 billion over the remainder of the current spending review period by continuing to move their transactional services online and become 'digital by default'.

2.10 Together with savings from current welfare spending of £2.6 billion, and a reduction to ODA as a result of the latest GNI forecast, these reductions are being used to pay for £5.5 billion of additional capital spending in the Spending Review 2010 period, as set out in Table 2.7.

Table 2.2: Reductions to departmental resource budgets[1]

	£ million	
	2013-14	**2014-15**
Education	-155	-305
NHS (Health)	0	0
Transport	-50	-90
CLG Communities	-20	-25
CLG Local Government	0	-445
Business, Innovation and Skills	-150	-280
Home Office	-80	-155
Justice	-75	-140
Law Officers' Departments	-5	-10
Defence	-245	-490
Foreign and Commonwealth Office	-10	-20
Energy and Climate Change	-5	-5
Environment, Food and Rural Affairs	-20	-35
Culture, Media and Sport	-10	-20
Work and Pensions	-75	-155
Scotland	-50	-105
Wales	-20	-65
Northern Ireland	-20	-40
Chancellor's Departments	0	-5
Cabinet Office	-5	-10
Small and Independent Bodies	-5	-10
International Development[2]	-250	-430

[1] *The savings are entirely within non ring-fenced Resource DEL budgets. They may not sum to the savings in table 2.1 due to rounding.*

[2] *The changes to the International Development budget result from the update to the GNI forecast.*

Total Managed Expenditure in 2015-16

2.11 At Autumn Statement 2011 the Government set out that TME would continue to fall at the same rate in 2015-16 and 2016-17 as in the last spending review period. As set out in Table 2.4, this implies a real terms average reduction of 0.7 per cent per year.[4] One-off capital measures announced at Autumn Statement 2011, the measures announced at this Autumn Statement and the OBR's forecast Allowance for Shortfall are excluded from the calculation of the rate of reduction for overall spending.

2.12 Savings measures announced at this Autumn Statement will continue to contribute to savings needed over the remainder of the forecast period. This includes savings from AME of £3.6 billion in 2015-16 as a result of welfare measures announced in the Autumn Statement, which are incorporated into the AME forecast.[5] It also includes £2.4 billion from departmental resource budgets, which will bring forward savings needed from departmental spending in 2015-16 and £515 million savings in 2015-16 from changes to ODA to reflect the latest GNI forecast. Table 2.3 sets out how each of these measures continues to generate savings throughout the rest of the forecast period.

Table 2.3: Savings from AME and DEL

Measure	Impacts through	Scored savings		Impact in later years		
		£ million				
		2013-14	2014-15	2015-16	2016-17	2017-18
Net AME savings as a result of welfare package[1]	AME forecast	445	1,820	3,620	4,195	4,555
Departmental budget reductions	Brings forward savings needed in later years	980	2,400	2,400	2,400	2,400
Reduce ODA in line with latest GNI forecast	Greater share of envelope available for other spending	250	430	515	615	870
TOTAL ONGOING SAVINGS		**1,675**	**4,650**	**6,535**	**7,210**	**7,825**

[1] Total welfare savings announced at the Autumn Statement are different because they include the impact of tax and Resource DEL measures, and because net AME savings include several non-welfare AME costs.

2.13 The Government will set out detailed spending plans for 2015-16 in the first half of next year. Table 2.4 shows the envelope for TME, and the breakdown within the envelope between current spending and capital spending that will form the basis of that exercise.

[4] This is a higher growth rate than that published at the June Budget 2010 (0.8 per cent). This is a result of changes to the measure of general inflation in the economy over the forecast period and slightly higher overall spending within the Spending Review 2010 years.
[5] The Autumn Statement announces total welfare savings of £3.7 billion in 2015-16, including tax consequentials.

Table 2.4: Total Managed Expenditure

	£ billion					
	2012-13[1]	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
CURRENT EXPENDITURE[2]						
Resource AME (forecast)	321.2	332.7	346.1	360.9	375.4	391.7
Resource DEL, excluding depreciation (plans)[3]	321.3	321.1	316.1			
Ring-fenced depreciation	18.2	18.1	19.3			
Implied Resource DEL, including depreciation				*336.5*	*331.4*	*324.5*
Public sector current expenditure	**660.7**	**671.9**	**681.5**	**697.4**	**706.9**	**716.2**
CAPITAL EXPENDITURE						
Capital AME (forecast)	-23.7	7.2	6.6	7.1	7.6	7.8
Capital DEL (plans)	37.4	40.8	42.9			
Implied Capital DEL				*40.2*	*40.7*	*41.4*
Public sector gross investment	**13.7**	**48.0**	**49.5**	**47.3**	**48.3**	**49.2**
TOTAL MANAGED EXPENDITURE	**674.3**	**719.9**	**731.0**	**744.7**	**755.1**	**765.5**
Total Managed Expenditure (%GDP)	*43.1%*	*44.4%*	*43.3%*	*42.2%*	*40.9%*	*39.5%*
Provisional spending envelope for 2015-16[4] *of which*				744.7		
Current spending envelope				*697.4*		
Capital spending envelope				*47.3*		
Memo: TME baseline for years beyond 2014-15[4]						
	686.6	*723.3*	*735.9*	*744.7*	*755.1*	*765.5*
Average annual real growth	*SR10 period*		*-0.6%*	*Beyond SR10 period*		*-0.7%*

[1] *In 2012-13, TME is temporarily reduced by a £28 billion capital grant to the public sector resulting from the transfer of assets from the Royal Mail Pension Plan to the public sector. For budgeting purposes, income from this transaction is treated as Capital AME.*

[2] *Current expenditure is affected by switches between AME and Local Government DEL from 2013-14. For a full breakdown of these switches, see Box 4.2 of the OBR's Economic and fiscal outlook. The net transfer from Resource DEL to Resource AME is (£ billion):*

	2013-14	2014-15	2015-16	2016-17	2017-18
	6.5	*7.0*	*7.3*	*7.7*	*8.6*

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

[4] *The baseline for TME beyond 2014-15 is set before taking into account the effect of Autumn Statement 2012 measures and excludes the OBR's forecast for Allowance for Shortfall in the Spending Review 2010 period. The average annual real rate of TME growth beyond SR10 is lower than in the SR10 period as a result of excluding Autumn Statement 2011 capital measures in 2015-16, consistent with policy set at Autumn Statement 2011.*

2.14 Absent further policy changes, Resource AME will continue to rise in real terms over the remainder of the forecast period. However, the total share of AME as a percentage of GDP is forecast to fall between 2012-13 and 2017-18. Table 2.5 shows the path of AME and its different components as a percentage of GDP over the years 2010-11 to 2017-18.

Table 2.5: Components of Annually Managed Expenditure (% GDP)

	% GDP							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
RESOURCE AME								
Social security benefits and tax credits[1]	13.1	13.2	13.5	12.8	12.6	12.4	12.2	11.9
o/w								
Working age[2]	*3.7*	*3.7*	*3.7*	*3.2*	*3.1*	*3.0*	*2.9*	*2.9*
Pensioners[3]	*6.0*	*6.1*	*6.3*	*6.1*	*6.1*	*6.0*	*5.9*	*5.8*
Disability and carers[4]	*1.3*	*1.3*	*1.3*	*1.3*	*1.3*	*1.3*	*1.2*	*1.2*
Other (including Northern Ireland)[5]	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.3*	*0.3*
Tax credits	*1.7*	*1.8*	*1.8*	*1.7*	*1.7*	*1.7*	*1.8*	*1.8*
Net public service pension payments	0.4	0.5	0.7	0.7	0.8	0.8	0.8	0.8
Expenditure transfers to EU institutions	0.5	0.4	0.5	0.4	0.4	0.4	0.3	0.3
Locally-financed current expenditure[1]	1.5	1.4	1.5	2.2	2.2	2.2	2.2	2.2
Central government gross debt interest	3.0	3.1	3.0	3.0	3.1	3.2	3.3	3.5
Other	0.9	1.1	1.4	1.4	1.4	1.5	1.5	1.5
Total Resource AME	**19.4**	**19.8**	**20.5**	**20.5**	**20.5**	**20.5**	**20.3**	**20.2**

[1] Locally financed expenditure and social security are affected by switches between AME and DEL from 2013-14. See Box 4.2 of the OBR's Economic and fiscal outlook.

[2] The main benefits are Jobseeker's Allowance, Income Support, Employment and Support Allowance, and Housing Benefit. The additional costs of Universal Credit are included from 2015-16. Council Tax Benefit is included to 2012-13. All figures are for Great Britain except for Child Benefit.

[3] Includes Housing Benefit for pensioners. All figures are for Great Britain.

[4] Extra-cost disability benefits and Carers Allowance. All figures are for Great Britain.

[5] Including Northern Ireland benefit expenditure.

2.15 The allocation of DEL between departments will be set out in the first half of next year. The Government will seek total savings of at least £10 billion. The Government will operate on the principle that departmental resource budgets will continue on the same trajectory in 2015-16 as over the period of Spending Review 2010. In line with the policy set at Spending Review 2010, spending on health, schools and ODA will be protected from further reductions.

2.16 Within this, the Government is committed to delivering more efficient and effective public services. As part of the process to allocate budgets in 2015-16, the Government will accelerate programmes of work to progress reform and drive efficiency and reduce wasteful bureaucracy. This will be part of a drive to ensure that all public services deliver to the standards of the best, and that all are engaged in a programme of continuous improvement to cut back unnecessary processes, collaborate and share across services, and assess the evidence to ensure the Government invests in what works. Ministers and Accounting Officers will initiate a review of all projects in their departments to identify further efficiencies. Supported by the Efficiency and Reform Group, the review will make proposals to drive down budgeted costs or reshape projects in order to maximise value for money.

Spending assumption for 2017-18

2.17 The Government has set a fiscal assumption that TME in 2017-18 will continue to fall at the same rate as over the Spending Review 2010 period. This assumes that TME in 2017-18 will be £4.6 billion lower than if held flat in real terms from 2016-17 onwards. (5) The fiscal consolidation from 2017-18 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead.

Financial transactions and contingent liabilities

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

Table 2.6: Financial Transactions: Impact on Central Government Net Cash Requirement [1,2]

		£ million					
		2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
i	Private Rented Equity Fund	0	-60	-180	0	0	0
ii	Large scale development	0	-50	-110	0	0	0
iii	Lending by UK Export Finance	0	-300	-320	-275	+120	+130
iv	Business Bank	0	-50	-250	-300	-250	-150
TOTAL POLICY DECISIONS		**0**	**-460**	**-860**	**-575**	**-130**	**-20**

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

[2] *Following scorecard convention a negative shows an increase in CGNCR.*

Capital spending

2.19 Table 2.7 sets out £5.5 billion of additional capital investment over the spending review period. The details of each policy decision are set out in more detail below. (6)

Table 2.7: Autumn Statement Capital Package[1]

		£ million		
		2012-13	2013-14	2014-15
Transport[2]				
a	*Accelerate delivery of four road schemes (M1, M3, M6 and A160/180 Immingham)*	0	-60	-55
b	Roads 'Pinch Point' Fund for Local and National improvements	0	-115	-210
c	Highways Agency and local authority road maintenance and renewal	0	-260	-140
d	Development funding for Highways Agency Pipeline	0	-20	-30
e	Sustainable Transport Fund (cycling)	0	-20	-30
f	A1 enhancements (Leeming to Barton)	0	-40	-130
g	A1 enhancements (Lobley Hill)	0	0	-15
h	New A5-M1 link road	0	-30	-80
i	Dualling A30 (Temple to Carblake)	0	0	-10
j	Northern Line extension to Battersea	-5	-20	-10
Housing and Local Infrastructure				
k	*Empty Homes*	0	-30	-60
l	*Affordable Housing*	0	-60	-210
m	*First Buy*	-50	-285	0
n	*Private Rented Equity Fund*	0	-60	-180
o	*Public Land Acquisitions*	0	-105	-10
p	*Flood defences*	0	-40	-100
Upfront Infrastructure Fund				
q	*Large Stalled Sites*	0	-85	-185
r	*Public Land (Investment fund)*	0	-75	-155
s	Enterprise Zones infrastructure funding	0	-30	-40
Regional Growth and Business				
t	*Business Bank*[3]	0	-50	-250
u	Additional funding for Regional Growth Fund[4]	0	-75	-200
v	LEP Capacity Funding	0	-10	-10
w	Start up loans	0	-40	-50
x	Advanced Manufacturing Supply Chain Initiative	0	-20	-35
Exports				
y	Lending by UK Export Finance[5]	0	-300	-320
z	UKTI additional support for SMEs and reform of overseas network	0	-70	-70
aa	GREAT Campaign	0	-30	0
Science and Innovation				
ab	*UK Research Partnership Investment Fund*	0	-70	-130
ac	Research Council infrastructure and facilities for applied R&D	-10	-280	-310
ad	*UK Space Agency*	0	-60	-60
Schools				
ae	Schools investment (including enough funding for 100 new free schools and academies)	0	-275	-895
Further Education and Skills				
af	Further education college capital investment	-5	-285	-20
ag	Skills in digital industries	0	-5	-5
TOTAL CAPITAL PACKAGE[6]		**-70**	**-2905**	**-4005**
of which financial transactions		0	-460	-860
of which funded from existing allocations		0	-105	-85
of which new funding		**-70**	**-2340**	**-3045**
of which Capital		-70	-2230	-2950
of which Resource		0	-110	-100

Italics denotes previously announced measures.

[1] This table sets out costs that fall within the Spending Review 2010 period. Any costs in later years will be met from within the existing spending assumption for capital expenditure.

[2] The transport package also includes the commitment to fund £150 million of improvement works to Junction 30 of M25 starting in 2015-16 and a UK Guarantee to support up to £1 billion in borrowing for the Northern Line Extension to Battersea.

[3] Up to £1 billion of lending of which £700 million is forecast to fall outside of this Spending Review as set out in Table 2.6.

[4] In total, the Autumn Statement announces £350 million available for the Regional Growth Fund of which £75 million will be provided in 2015-16 and £100 million will come from existing budgets.

[5] Up to £1.5 billion of lending, as set out in Table 2.6.

[6] May not sum due to rounding. The costs in the above table include the impact of Barnett consequentials, where applicable. They therefore reflect the total cost of implementing any policy, including any funding for the devolved administrations.

2.20 Investment in schools – The Government will invest an additional £980 million in schools in England by the end of this Parliament. This includes enough funding for 100 new free schools and academies, as well as investment to expand good schools, in the areas experiencing the greatest pressure on places. (ae)

2.21 Further education colleges – The Government will provide an additional £270 million for capital investment in further education colleges in England. £58 million of this will be funded from existing DEL. (af)

2.22 University research facilities – As announced by HM Treasury and the Department of Business, Innovation and Skills (BIS) in October 2012, the Government has added £200 million to the UK Research Partnership Investment Fund, originally launched at Budget 2012 with £100 million of public funding, in order to support enhancements to university research infrastructure. (ab)

2.23 Capital allocation to the UK Space Agency – As announced by the Chancellor on 9 November, the Government will increase the capital allocation to the UK Space Agency by £60 million in both 2013-14 and 2014-15, as part of a plan to increase the UK's contribution to European Space Agency programmes to an average of £240 million a year over the next five years. (ad)

2.24 Science and innovation capital – In addition to the above, the Government will invest £600 million to fund facilities for technological R&D and Research Council infrastructure, supporting academic research and innovation that will drive long term economic growth. (ac)

2.25 Advanced Manufacturing Supply Chain Initiative – The Government will provide an additional £120 million to fund two additional rounds of the Advanced Manufacturing Supply Chain Initiative. (x)

2.26 Investing in the road network – The Government will invest £1.5 billion, of which £1 billion will be invested in this spending review period to improve the national road network and to accelerate the development and delivery of major road schemes, including:

- £378 million for upgrades to the A1 at Lobley Hill and Leeming to Barton; (f) (g)
- £127 million on a new link between the A5 and M1 and £30 million for dualling the A30 Temple to Carblake; (h) (i)
- £150 million of investment for improvement works to Junction 30 of the M25 starting in 2015; and £10 million on improvements works at Junction 12 of the M40 starting in 2013;
- £270 million for priority national and local projects which will deliver significant improvements on the road network such as removing bottlenecks, enable housing and business developments, and help to provide improved access to Enterprise Zones; (b)
- £333 million for essential maintenance of our national and local road network; (c)
- £95 million to test an accelerated approach to the delivery of major road schemes with 4 pilot schemes; three managed motorways on the M1 Junction 28 to 31, M3 Junction 2 to 4A and M6 Junction 10A to Junction 13; and one conventional scheme A160/A180 Immingham improvement; (a)
- £42 million to develop the pipeline of potential Highways Agency road schemes for investment in the next spending review period; and (d)
- £42 million investment in the Sustainable Transport Fund for cycling infrastructure. (e)

2.27 A5 in Northern Ireland – To support capital investment in Northern Ireland, the Government has agreed to allow the Northern Ireland Executive to defer up to £50 million of borrowing under the Reinvestment and Reform Initiative from 2012-13 to 2014-15. This will facilitate the Northern Ireland Executive's investment in the project to upgrade the A5.

2.28 M4 in south Wales – The Government is engaging with the Welsh Government to explore funding options for improving the M4 in south Wales. Funding options are being considered alongside discussions on the recommendations of the Silk Commission and recent announcements on Welsh funding. The Government plans to issue an initial response to the Silk Commission in spring 2013.

2.29 Flood defences – The Government will increase investment in flood defences by £120 million over the remainder of this spending review period. (p)

2.30 Supporting the Northern Line extension to Battersea – The Government will provide UK Guarantees to allow the Mayor of London to borrow £1 billion at new preferential rates to support the Northern Line extension to Battersea, subject to due diligence and the agreement of a binding Funding and Development Agreement with developers, the Mayor of London and partner authorities before the end of 2013. (j)

2.31 Tech City – The Government will provide up to £50 million of funding to support the construction costs of the Open Institute as part of the Old Street Roundabout regeneration project.

Housing and local development

2.32 FirstBuy – As announced on 6 September, the Government will provide an additional £280 million for the FirstBuy equity loan scheme to help a further 16,500 first-time buyers in England. (m)

2.33 Affordable housing – As announced on 6 September, the Government will invest £300 million in the Affordable Homes Programme which, alongside the debt guarantees, will deliver 15,000 affordable homes and bring 5,000 empty homes back into use in England. (k) (l)

2.34 Debt guarantees for housing – The Infrastructure (Financial Assistance) Bill, enabling the private and affordable rent housing guarantee schemes, received Royal Assent on 31 October. The Department for Communities and Local Government has received almost 60 formal 'Expressions of Interest' detailing potential sites that the guarantees could support. In response to this demand, the Government has issued a Prior Information Notice (which starts an EU procurement process) in December 2012.

2.35 Private rented housing – As announced on 6 September 2012, the Government will introduce a £200 million fund to provide equity finance to support the building of private rented sector homes as recommended by Sir Adrian Montague. (n)

2.36 Local infrastructure – To support both housing and commercial development and support growth and jobs, the Government is providing £683 million through capital grant and financial transactions. In England, the Government will invest £474 million in local infrastructure on a recoverable basis. Around £60 million of this will be made available to support infrastructure in a limited number of Enterprise Zones. Around £225 million of the funding will be used to accelerate delivery of large housing sites, supporting around 50,000 homes. Around £190 million of the funding will be used to prepare public sector land, enabling the quicker disposal of surplus sites for new homes. Alongside this, the Government will provide £100 million to bring forward surplus public land for development. (o) (q) (r) (s)

2.37 High Income Social Tenants – The Government has consulted on proposals to introduce an income threshold for social housing above which tenants would be expected to pay full market rents. The Government will respond to this consultation by Budget 2013.

Cost of living

2.38 Transport for London and regulated rail fares – As announced in October 2012, the Government will limit the average increase in regulated rail and Transport for London fares in January 2013, and again in January 2014, to the Retail Prices Index plus 1 per cent.

2.39 Council tax – As announced on 8 October 2012, the Government will set aside £450 million to fund a grant for 2013-14 and 2014-15 to local authorities in England who freeze or reduce their council tax in 2013-14. The devolved administrations will receive additional funding based on the Barnett formula. (4)

International development

2.40 Official Development Assistance – The allocation of ODA will be adjusted in line with the OBR's revised growth forecast, so that the UK spends 0.56 per cent of GNI on ODA in 2012, and 0.7 per cent in 2013 and thereafter. (3)

Public sector pay

2.41 Local pay – The Government has today published the report of the independent Pay Review Bodies on local pay and intends to accept their recommendations, including that there should be no new centrally-determined local pay rates or zones but that there should be greater use of existing flexibilities. The Schoolteachers' Review Body recommends much greater freedom for individual schools to set pay in line with performance and, subject to consultation, the Government will implement these reforms. There will be no centrally-imposed changes to the geographical structure of pay in the Civil Service.

Other spending measures

2.42 Sovereign grant – In 2013-14 the sovereign grant will be £36 million, in line with the Sovereign Grant Act 2011.

2.43 Spectrum receipts – The commercial auction for 4G spectrum, being overseen by Ofcom, is due to be completed by March 2013. Following formal assessment, based on independent analysis of the likely valuation of spectrum receipts by the OBR, the spectrum receipts will be reflected in this Autumn Statement at £3.5 billion. (7)

2.44 Special Reserve – The Government will reduce the Special Reserve provision to reflect the progress made by the Afghans in taking on responsibility for their security. This is funding held over and above the Ministry of Defence budget. The cost of operations will continue to be paid on the same basis. (2)

2.45 European Investment Bank – As announced in the agreement at the European Council of 28 and 29 June 2012, the Government confirms its agreement to increasing the paid-in capital of the European Investment Bank by €10 billion. In line with its shareholding, the UK's contribution will be €1,617 million. It is envisaged that this capital increase could support additional lending from the European Investment Bank of up to €60 billion, that together with other providers of finance, will provide a total investment package for the EU economy, including the UK, of up to €180 billion.

2.46 Local authority spending forecast – The OBR's forecast reflects changes to the local authority spending forecast, as a result of reforms legislated in the Local Government Finance Act 2012. From 1 April 2013 local authorities in England will be able to retain a share of locally-raised business rates and will provide support for council tax locally. The local authority self-financed expenditure forecast has increased to include the local share of business rates, and separately the Council Tax Benefit element of the forecast is removed. Offsetting adjustments have been made to local government DEL to reflect the removal of the local share, and so that local authorities are funded to provide support for council tax. The expected overall level of local government funding remains unchanged as a result of these reforms, except for the 10 per cent reduction in funding available for Council Tax Support announced at Spending Review 2010. The resulting switches between DEL and AME are set out in the OBR's forecast for locally financed expenditure, Box 4.2 of the *Economic and fiscal outlook*.

Personal tax and welfare

Personal tax

2.47 Income tax: higher rate threshold – The Government will adjust the basic rate limit for income tax such that the higher rate threshold above which individuals pay income tax at 40 per cent increases by 1 per cent in 2014-15 and 2015-16. The upper earnings limit and upper profits limit for NICs will increase to stay in line with the higher rate threshold. (23)

2.48 Capital gains tax: annual exempt amount – The annual increase in the annual exempt amount for capital gains tax will be 1 per cent for 2014-15 and 2015-16. (25)

2.49 Inheritance tax – The inheritance tax nil rate band will rise by 1 per cent in 2015-16. (24)

2.50 Income tax: personal allowance – The Government will raise the tax-free personal allowance by a further £235 to £9,440 in 2013-14 and pass on equal gains from this further increase to higher rate taxpayers, who receive a personal allowance. (16)

2.51 Income tax: capping unlimited reliefs – As announced at Budget 2012, the Government will cap all previously unlimited income tax reliefs at the greater of £50,000 or 25 per cent of an individual's income. Charitable reliefs will be exempt from this cap. (38)

2.52 Operational integration of income tax and NICs – The Government will wait for further progress on planned operational changes to the tax system before formally consulting on the operational integration of income tax and NICs.

2.53 Gift Aid Small Donations Scheme – As announced at Budget 2011, the Government will introduce a Gift Aid Small Donations Scheme from April 2013. Following consultation and the passage of the Small Donations Bill through Parliament, policy adjustments have been made to this scheme to increase the limit per donation to £20, allow some charities meeting certain conditions to access the scheme on more than £5,000 of donations, and concerning the eligibility criteria and ongoing conditions regarding Gift Aid. (37)

2.54 Gift Aid – The Government will examine whether the administration of Gift Aid can be improved to reflect new ways of giving money to charity, in particular digital giving.

2.55 Capital gains tax: employee shareholder status – As announced on 8 October 2012, the Government has introduced a new employee shareholder status. Employee shareholders will have different employee rights to other employees and will receive a minimum of £2,000 of shares. The Government will introduce legislation to exempt gains on up to £50,000 of shares acquired by employees taking up the new employee shareholder status from capital gains tax from April 2013. (14)

2.56 Income tax and NICs: employee shareholder status – The Government is considering options to reduce income tax and NICs liabilities that arise when employee shareholders receive the shares, including an option to deem that employee shareholders have paid £2,000 for shares they receive. This option would mean that the first £2,000 of shares received under the new status would be free from income tax and NICs.

Taxation of pensions and savings

2.57 Restricting pensions tax relief – From 2014-15 the Government will reduce the lifetime allowance for pension savings from £1.5 million to £1.25 million and the annual allowance from £50,000 to £40,000. The Government will offer a fixed protection regime to individuals to prevent any retrospective tax charges from reducing the lifetime allowance. The

Government also wishes to offer a personalised protection regime for individuals, in addition to fixed protection, and will discuss the feasibility of this with interested parties in the coming months. (33)

2.58 Pensions drawdown policy – The Government will increase the capped drawdown limit for pensioners of all ages with these arrangements from 100 per cent to 120 per cent of the value of an equivalent annuity.

2.59 Individual Savings Accounts (ISAs): Qualifying Investments – The Government will consult on expanding the list of Qualifying Investments for stocks and shares ISAs to include shares traded on small and medium enterprises (SMEs) equity markets such as the Alternative Investment Market and comparable markets.

Welfare

2.60 Benefits uprating – Most working age benefits will be uprated by 1 per cent for three years from April 2013. This will apply to: Jobseeker's Allowance; Employment and Support Allowance; Income Support; applicable amounts for Housing Benefit; Maternity Allowance; Statutory Sick Pay; Statutory Maternity Pay; Statutory Paternity Pay; and Statutory Adoption Pay. This excludes the disability, carers and pensioners premia in these benefits and the support component in Employment and Support Allowance, which will continue to be uprated by prices. Child Benefit will be frozen in April 2013, as set out in the June Budget 2010, but will be uprated by 1 per cent for two years from April 2014. (19) (20)

2.61 Tax credits uprating – Uprating by 1 per cent will also extend to the Child Tax Credit and Working Tax Credit (excluding disability elements). The couple, lone parent and child elements will be uprated by 1 per cent for three years from April 2013. The basic and 30 hour elements will not be uprated in 2013-14 as set out in Spending Review 2010 but will be uprated by 1 per cent in 2014-15 and 2015-16. All disability elements will continue to be uprated by prices each year. (19)

2.62 Pensions uprating –The Government confirms that the basic State Pension will be increased in line with the triple guarantee in April 2013, meaning a cash increase of £2.70 a week.

2.63 Universal Credit – Parameters for Universal Credit have been set. These parameters will be confirmed in regulations on 10 December 2012. The earnings disregards will be set for April 2013 and increased by 1 per cent in April 2014 and April 2015. (22)

2.64 Housing Benefit – In April 2013 Local Housing Allowance rates will be uprated as previously announced. In April 2014 and April 2015 Local Housing Allowance rates will be uprated by current policy, subject to a 1 per cent cap, with exemptions for rates in those areas in which rent increases are highest. 30 per cent of the potential savings from this measure will be reserved to fund the exemptions in these two years. (21)

2.65 Support for Mortgage Interest (SMI) – Temporary changes to SMI are extended until 2015-16 for working-age SMI claims. The waiting period will remain at 13 weeks and the working-age capital limit will remain at £200,000 until 31 March 2015. (26)

2.66 Household benefit cap exemption – Housing payments for those in supported exempt accommodation will be disregarded for the purpose of the benefit cap. Funds available for Discretionary Housing Payments will be reduced by £10 million in 2013-14 and 2014-15, and by £5 million in 2015-16 and 2016-17, to fund this measure.

2.67 Collection of tax credits debt – The Government will conduct a payment-by-results pilot on outsourcing the collection of tax credits debt. (29)

2.68 Collection of overlapping tax debts – The Government will run a pilot between HMRC and DWP to test whether it could improve overall debt collection performance where a customer has debts owing to both departments.

2.69 Tax credits debt reduction: recovery of old debts from current awards – The Government will introduce an information technology (IT) change to allow the recovery of old tax credits debt through an individual's current tax credits award. (29)

2.70 Tax credits error and fraud: childcare costs – The Government will require tax credits claimants who report high childcare costs to provide evidence to HMRC. (28)

2.71 Tax credits error and fraud: Child Tax Credit payments for 16-19 year olds – The Government will require annual parental certification that a child aged over 16 is in Full Time Non Advanced Education or Advanced Training qualifying them for the continuation of Child Tax Credit payments until the age of 19. (28)

Corporate taxes

Corporation tax

2.72 Corporation tax: main rate – The Government will reduce the main rate of corporation tax by a further 1 percentage point to 21 per cent from April 2014. The rate will fall from 24 per cent to 23 percent from 1 April 2013, as announced at Budget 2012. (8)

2.73 Corporation tax reliefs for the creative sector – The Government announced at Budget 2012 that, following consultation on design, it would introduce corporation tax reliefs for the video games, animation and high-end television industries from April 2013, subject to state aids approval. Under these reliefs, qualifying companies will be able to choose between an additional deduction at a rate of 100 per cent of enhanceable expenditure or a payable tax credit at a rate of 25 per cent of qualifying losses surrendered. (15)

Allowances from corporation tax

2.74 Annual Investment Allowance – The Government will increase the Annual Investment Allowance limit from £25,000 to £250,000 for two years for all qualifying investments in plant and machinery made on or after 1 January 2013. (9)

2.75 Enhanced capital allowances in Wales – The Government will make enhanced capital allowances available at designated sites in the Ebbw Vale and Haven Waterway Enterprise Zones in Wales with the potential to deliver more than 1,000 new jobs. This follows the announcement at Budget 2012 that the Deeside Enterprise Zone would benefit from enhanced capital allowances, bringing the number of Welsh sites where these allowances will be available to three.

2.76 Corporation tax and foreign banks levies – The Government will legislate to ensure that from 1 January 2013 foreign bank levies paid by a foreign banking group trading in the UK cannot be claimed as a deduction against UK corporation tax and income tax. Transitional arrangements will make clear, with immediate effect, that any future claim to double taxation relief in respect of a foreign bank levy will prevent that foreign bank levy from being claimed as an expense against corporation tax and income tax.

North Sea oil and gas

2.77 Large shallow-water gas field allowance – As announced in July 2012, the Government will introduce a new £500 million field allowance for large shallow-water gas fields. (13)

2.78 Allowance for investment in existing fields – As announced in September 2012, the Government will introduce a field allowance of up to £50 per tonne of expected incremental reserves for additional investment in existing fields relating to projects with high unit costs. The maximum available allowance for a project or projects forming part of a wider development will be £250 million, or £500 million for projects forming part of a wider development in fields where companies are paying Petroleum Revenue Tax. This allowance is expected to bring new investment and jobs to Scotland and the UK as a whole. (13)

Other corporate taxes

2.79 Bank Levy – The Government will set the full rate of the Bank Levy at 0.130 per cent from 1 January 2013. (34)

Indirect taxes

VAT measures

2.80 VAT: static holiday caravans – Budget 2012 announced a change to the VAT treatment of static holiday caravans. Following consultation, a 5 per cent reduced rate of VAT will apply to static holiday caravans and large touring caravans from 6 April 2013. (35)

2.81 VAT: hot takeaway food – Budget 2012 announced a change to the VAT legislation for hot takeaway food. The change was implemented on 1 October 2012. Following consultation, food remains zero-rated if it is cooling down naturally, provided that it is not heated to order, kept hot, provided in packaging which retains heat or is specifically designed for hot food, or marketed as hot. (35)

2.82 VAT: alterations to protected buildings – Budget 2012 announced that, from 1 October 2012, approved alterations to protected buildings would be liable to VAT at the standard rate. Following consultation, the transitional arrangements were amended to make them more generous. (35)

2.83 VAT: self-storage – Budget 2012 announced that, from 1 October 2012, all supplies of self-storage would be liable to VAT at the standard rate. Following consultation, the Government amended the Capital Goods Scheme for providers of self-storage so that small firms would be able to benefit from the scheme in the same way as their larger competitors. (35)

Property taxes

2.84 Small Business Rate Relief – The Government will extend the temporary doubling of the Small Business Rate Relief for a further 12 months from 1 April 2013. (11)

2.85 Empty property rates – Subject to consultation, the Government will exempt all newly built commercial property completed between 1 October 2013 and 30 September 2016 from empty property rates for the first 18 months, up to the state aids limits. (10)

Carbon taxes

2.86 Carbon price floor – The Government intends to introduce an exemption for electricity generators in Northern Ireland from the carbon price floor, subject to discussion with the European Commission.

2.87 Carbon Reduction Commitment (CRC): simplification – The Government will simplify the CRC energy efficiency scheme from 2013 and the Performance League Table will be abolished. The Department of Energy and Climate Change will publish details of these simplifications. The Government will review the effectiveness of the CRC in 2016. This review will consider whether the CRC remains the appropriate policy to meet industrial energy efficiency and carbon reduction objectives, and will consider alternative approaches that could achieve the same objectives. The tax element of the CRC introduced at Spending Review 2010 will be a high priority for removal when the public finances allow. (36)

2.88 Carbon Reduction Commitment: allowance price – The forecast allowance price remains unchanged at £12 per tonne of carbon dioxide in 2013-14 and £16 per tonne of carbon dioxide in 2014-15. From 2015-16 onwards, the allowance price will increase in line with the RPI. (36)

Other taxes

2.89 Fuel duty – In June 2012 the Government announced that the fuel duty increase planned for 1 August 2012 would be deferred to 1 January 2013. (17)

2.90 Fuel duty – To support motorists and businesses with the high cost of fuel, the Government will cancel the 3.02 pence per litre fuel duty increase that was planned for 1 January 2013. The Government will move the 2013-14 increase planned for April 2013 to 1 September 2013. There will be only one fuel duty increase in 2013. For the remainder of the Parliament, subsequent increases will take effect on 1 September each year instead of 1 April. (17) (18)

2.91 Rural fuel rebate – Following the successful implementation of the rural fuel rebate pilot scheme for island communities, the Government will consider whether to seek European Union approval to support an extension of the scheme to remote parts of the UK that are likely to display similar cost characteristics to the islands.

2.92 Company car tax – The Government will consider the case for providing time-limited incentives through company car tax to encourage the purchase and development of ultra-low emission vehicles, while ensuring that all company cars are subject to a fair level of taxation. The Government will continue to seek the views of car manufacturers and motoring groups ahead of Budget 2013.

Tax simplification

2.93 Government response to Office of Tax Simplification (OTS) employee share schemes review – The Government announced at Budget 2012 that it would consider recommendations made by the OTS on the Government's tax advantaged employee share schemes and consult on taking these forward. Following this consultation, the Government will implement a package of simplifications to its employee share schemes. Most of these changes will take effect during 2013.

2.94 Cash basis for calculating tax – The Government confirms introduction of a new cash basis for small, unincorporated businesses to calculate their tax from April 2013. Businesses with receipts of up to £77,000 will be eligible and will be able to continue to use the cash basis until receipts reach £154,000. (12)

2.95 Simplified expenses – Unincorporated businesses will also be able to use flat rates to calculate some types of expenses rather than having to calculate actual amounts.

2.96 Office of Tax Simplification future review – The Government will ask the OTS to carry out a review of ways to simplify the taxation of employee benefits and expenses and employee termination payments. This will include an initial scoping exercise to identify which areas are most complex for taxpayers. Further details will be provided by the OTS shortly.

Avoidance and evasion

2.97 Agreement between the UK and Switzerland – The Government is today reflecting the benefit of the UK-Switzerland agreement in the public finances following the passing of the agreement by both the Swiss and UK Parliaments. The additional revenues reflect reclaimed tax on money hidden in Switzerland. (30)

2.98 Enhanced tax information sharing agreement between the UK and the United States of America (US) – The Government will legislate to implement the UK-US Agreement to Improve International Tax Compliance and Implement the Foreign Account Tax Compliance Act. (31)

2.99 Offshore evasion strategy – The Government will publish a comprehensive offshore evasion strategy in spring 2013.

2.100 Offshore capability building –The Government will establish a centre of excellence on tackling offshore evasion, aimed at building HMRC's offshore capability, making better use of HMRC data to identify tax evaders, reviewing HMRC's legal powers in this area and developing a more proactive approach to international engagement to tackle evasion.

2.101 HMRC powers – The Government will amend HMRC's bulk data-gathering powers to allow it to issue notices to merchant acquirers, who process payment card transactions, to identify businesses who are not declaring their full tax liability.

2.102 Disguised remuneration – The Government's strategy on disguised remuneration has been effective and will continue. HMRC compliance activity has brought in a further £200 million from outstanding cases in this area.

2.103 The taxation of controlling persons – The Government has decided not to proceed with the proposal to tax those who meet the definition of a controlling person at source. This is because HMRC's new approach to policing IR35, along with the measures introduced in the public sector this year, are sufficient to prevent the loss through disguised employment in this way. However, the Government is strengthening the existing intermediaries' legislation (IR35) to put beyond doubt that it applies to office holders for tax purposes. The Government will keep this area under review.

2.104 Offshore employment intermediaries – The Government will undertake an internal review of offshore intermediaries being used to avoid tax and NICs and will provide an update at Budget 2013.

2.105 Public procurement and tax avoidance – The Cabinet Office and HMRC will consult on the use of the procurement process to deter tax avoidance and evasion and the proposed definition of key concepts, with a view to the new arrangements coming to effect from 1 April 2013.

2.106 Large business tax risks – The Government will strengthen HMRC's risk assessment capability by enhancing its ability to analyse risks posed in relation to large multinational companies and increasing its transfer pricing specialist resources. (31)

2.107 Tax avoidance schemes – The Government will increase HMRC's resources to accelerate its resolution of avoidance schemes, including long-standing avoidance schemes involving partnership losses. (31)

2.108 HMRC Affluent Unit – As announced by the Chief Secretary to the Treasury in September 2012, the Government will expand HMRC's Affluent Unit, extending its remit to taxpayers with a net worth of £1 million. (31)

2.109 Personal tax avoidance and evasion – The Government will increase HMRC's resources to tackle offshore evasion and avoidance of inheritance tax using offshore trusts, bank accounts and other entities. (31)

2.110 Enhancing capability of risking tools – The Government will invest in HMRC's risking technology to enhance its capability to tackle tax avoidance and evasion.

2.111 Avoidance schemes involving loan relationships and derivatives – With effect from 5 December 2012, the Government will close down three corporation tax avoidance schemes involving financial products.

2.112 Withdrawal of relief for payments of patent royalties – The Government will withdraw the relief for payments of patent royalties by individuals at section 448 of the Income Tax Act 2007 to combat abuse of these rules.

Tax administration

2.113 Expanding debt collection capacity – The Government will invest in expanding debt collection capacity within HMRC in order to deliver additional revenue to the Exchequer in 2012-13 and 2013-14. (31)

2.114 HMRC tax administration reduction targets – HMRC will introduce a target to reduce the annual cost to business of tax administration by £250 million by the end of this spending review period.

2.115 Digital tax services: The Government will invest in expanding the online services that HMRC offers over the next three years. SMEs will be able to access all the tax services they need from a personalised homepage with secure digital messaging. Taxpayers in Self-Assessment will be able to conduct all tax transactions online. Pay As You Earn taxpayers will be able to transact with HMRC online for the first time.

Financial services measures

2.116 Business Bank – As announced by the Chancellor and Secretary of State for Business, Innovation and Skills in September 2012, the Government will create a Business Bank. It will deploy £1 billion of additional capital to stimulate the private sector market for long-term capital and address structural gaps in the supply of finance to SMEs. As part of this, the Government will co-invest at least £300 million over the next two years, alongside private investors, in channels that will help diversify the sources of finance available to SMEs. The Business Bank will bring together under a single institution the strategy, management and communication of existing government finance schemes for SMEs. In addition, the Government will also seek to bring government-backed business advice services closer together, harmonise their engagement with customers and coordinate them closely with finance interventions, to improve accessibility for SMEs. A number of the Business Bank's functions will be operational from spring 2013, with the institution becoming fully operational in autumn 2014. The Secretary of State for Business, Innovation and Skills will set out further details later in December 2012. (t)

2.117 Business Growth Fund Investment – The £2.5 billion Business Growth Fund (introduced by Barclays, HSBC, Royal Bank of Scotland and Lloyds to invest in small business equity) is budgeting to substantially increase its level of investment to £200 million in 2013, with the ambition of increasing investment further in 2014 and beyond as demand continues to build.

2.118 Business Finance Partnership – The Business Finance Partnership, which aims to stimulate new non-bank sources of finance, has invested £600 million and raised another £650 million from the private sector to create four new funds that will lend to mid-sized companies[6]. These funds are now open for business. The Secretary of State for Business, Innovation and Skills will shortly provide an update on the £100 million tranche of investment aimed at non-traditional channels that can reach smaller businesses.

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[6] The fund managers are Alcentra Limited, Haymarket Financial, M&G Investment Management and Pricoa Capital. An additional £100 million is expected to be invested with a fifth fund manager shortly, and the Treasury is currently assessing bids for another £400 million of investment next year.

2.119 Trade credit pilot of the Enterprise Finance Guarantee Scheme – The Government will launch a pilot enabling businesses to obtain additional non-bank lending through trade credit with Kingfisher using the existing Enterprise Finance Guarantee Scheme. The pilot will begin in early 2013.

2.120 British Bankers' Association (BBA) Business Finance Taskforce – The Business Finance Taskforce will launch a new awareness raising campaign across the UK during 2013 to promote its commitments to improve customer relationships, access to finance and information between businesses and the banks. The Government also welcomes the BBA's decision to review the commitments entered into by the Business Finance Taskforce and to consider next steps.

2.121 Business Finance Taskforce: extension of the Community Development Finance Institution Referral Scheme – The BBA has confirmed the national roll out, early next year, of the network for referring businesses that are declined finance to the Community Development Finance Association. The Government will work closely with the BBA in order to extend the referral network to other finance providers.

2.122 Start-up loans – The Government will provide £72 million of follow-on funding for start-up loans. (w)

Supply-side reform of the economy

Infrastructure and investment

2.123 UK Guarantees – As announced in July 2012, the Government will provide up to £40 billion in guarantees to ensure that priority infrastructure projects in England, Scotland, Wales and Northern Ireland can raise the finance they need despite challenging credit market conditions. To date, projects with a capital value of around £10 billion have been prequalified as eligible for consideration of a guarantee and the Government will provide a UK Guarantee to support £1 billion of Greater London Authority borrowing to finance the construction of the Northern Line extension.

2.124 Gas Generation Strategy – The Government will publish a Gas Generation Strategy setting its view of the expected role for gas in power generation up to 2030. As part of this, the Government will set up an Office for Unconventional Gas which will provide a single point of contact for investors and streamline the regulatory process. The Government will also consult on the tax regime for shale gas. Certainty has been provided for investors in renewables and gas, by setting funding limits on the Levy Control Framework up to 2020. Support will be capped at £7.6 billion per year, in real 2012 prices, by 2020-21 – more than triple the £2.35 billion available in 2012-13.

2.125 Energy Intensive Industries – The Government has announced an intention to exempt Energy Intensive Industries from the cost of Contracts for Difference under Electricity Market Reform, subject to state aids clearance and further consultation.

2.126 Urban broadband – In addition to the £100 million the Government committed to create the first 10 super-connected cities, £50 million was announced in Budget 2012 for a second wave of cities. Following a competitive bid process, the winning second wave of cities are: Brighton and Hove, Cambridge, Coventry, Derby, Oxford, Portsmouth, Salford, and York in England; Aberdeen and Perth in Scotland; Newport in Wales; and Derry/Londonderry in Northern Ireland. The availability of funding is subject to state aids approval.

2.127 Airport operational freedoms – The Airports Commission has been set up to identify and evaluate how to maintain the UK's position as Europe's most important aviation hub in the short, medium and long term. In the interim, Heathrow is currently trialling operational measures to improve the punctuality and resilience of the airport. The Government will bring forward the timetable for public consultation and final decisions on making these measures permanent, subject to successful completion of the trial.

2.128 Private Finance Two (PF2) – The Government has published its conclusions to the review of the Private Finance Initiative and full details of the Government's new approach, alongside the Autumn Statement. The first programme to which PF2 will be applied is the £1.75 billion privately financed element of the Priority Schools Building Programme. In addition, the Treasury is working with the Ministry of Defence, as they finalise their basing strategy and infrastructure investment plans for a more cost effective estate that meets 'Future Force 2020' requirements, to explore how much of this investment – including construction and maintenance activity – can be delivered through PF2. In the health sector, the Sandwell and West Birmingham Hospitals NHS Trust project is working with the Department of Health to assess the suitability of PF2 to deliver significant new investment (c. £325 million), enabling consolidation of services from multiple sites and reorganisation of activity between hospital and community settings.

2.129 Infrastructure UK (IUK) – The Government will strengthen the mandate of IUK and increase its commercial expertise to boost the delivery of growth enhancing infrastructure projects across government. As part of this new role, IUK, together with an enhanced Major Projects Authority, will undertake a detailed assessment of Whitehall's ability to deliver infrastructure, building on existing work. This assessment will be completed by Budget 2013. To ensure the assessment is as thorough as possible, it will be led Paul Deighton as his first duty as Commercial Secretary to the Treasury, working closely with the Minister for the Cabinet Office and the Chief Secretary to the Treasury.

2.130 Reforming pension regulation – DWP will consult on providing the Pensions Regulator with a new statutory objective to consider the long-term affordability of deficit recovery plans to sponsoring employers. DWP will consult on whether to allow companies undergoing valuation in 2013 or later to smooth asset and liability values.

2.131 UK Export Finance (UKEF) – UKEF will establish a scheme to provide up to £1.5 billion of loans to finance smaller export transactions. The scheme will run until the end of 2015-16. (y)

2.132 UK Trade and Investment (UKTI) – The Government will increase the annual budget of UKTI by £70 million, to deliver services to more small and medium size exporters, help to refocus UKTI activities on the highest value opportunities and emerging markets and improve its capacity to support ministerial visits. UKTI will target inward investment at UK growth sectors, and more flexible financial arrangements will enable it to make greater use of private sector providers and will build capacity in the overseas chambers of commerce and other British business groups. UKTI will also provide SMEs that are new to exporting with financial help to buy trade services from UKTI or third parties. UKTI will also establish a new unit tasked with attracting the best and the brightest overseas talent to the UK including through a dedicated visa route. (z)

2.133 Foreign Direct Investment (FDI) – Alongside its existing ambition to increase exports to £1 trillion, the Government is introducing an ambition to maintain the UK's position as the primary location for new inward FDI in Europe and become the number one destination in Europe for new FDI from emerging markets.

2.134 GREAT – The Government will increase funding for the GREAT campaign to £30 million in 2013-14. (aa)

Deregulation

2.135 Red Tape Challenge: water regulation – Following public consultation through the Red Tape Challenge, the Government will:

- scrap or improve 63 per cent of the 168 water regulations in scope;

- assess whether competition can be extended by allowing self-lay operators to undertake the connection between the development and the live water supply network;
- explore simplifying flood consents and moving them onto one easy to use website; and
- review the trade effluents permitting regime.

2.136 Red Tape Challenge: medicines regulation – Following public consultation through the Red Tape Challenge, the Government, through the Medicines and Healthcare products Regulatory Agency, will:

- publish new reclassification procedures which could halve the time for medicines to be reclassified from prescription-only to over-the-counter; and
- undertake a comprehensive review of its guidance as part of transition to Gov.uk.

2.137 One-In, Two-Out Rule – As announced on 19 November 2012, the Government will introduce a 'One-In, Two-Out' rule for new domestic regulation coming into force from January 2013. Under the rule, the Government will offset the cost to business of new domestic regulation with deregulatory measures that deliver double the savings to business.

2.138 Accounting discipline for regulators – From January 2013 regulators, including the Food Standards Agency, the Marine Management Organisation and, from April 2013, the Environment Agency, will participate in the first phase of a new system where regulators will quantify and consult with industry on the scale of new impacts each regulator has on business (both increases and decreases in costs). The Government will extend this to other regulators in July 2013.

2.139 Non-economic regulatory enforcement – The Government will make enforcement of non-economic regulation less burdensome, including by:

- consulting on requiring regulators to have regard to growth, taking account of the economic impacts of their actions, as recommended by Lord Heseltine;
- consulting on a revised version of the Regulators' Compliance Code to improve regulators' interaction with businesses. The consultation will look at recommendations in Lord Heseltine's report;
- requiring regulators to be transparent about the fees they charge and controlling their costs through amending Memoranda of Understanding and Framework Documents as necessary with departments; and
- conducting a Focus on Enforcement review into regulators' appeals systems in response to concerns raised by Lord Heseltine.

2.140 Economic regulators – The Government will take steps to reduce the regulatory burden that might constrain infrastructure investment by:

- reviewing the appeals system for sector regulators to make appeals faster and more efficient;
- asking economic regulators to provide a transparent breakdown of how they calculate their fees; and
- introducing legislation in the Enterprise and Regulatory Reform Bill and amending the Competition and Market Authority framework to increase the incentives for regulators to make better use of their concurrent competition powers, to seek pro-competition solutions to market failures.

2.141 Transfer of Undertakings (Protection of Employment) (TUPE) Regulations – The Government will shortly launch a consultation on TUPE regulations. The proposals will remove unnecessary burdens on business.

Labour market

2.142 Employer Ownership Pilot – The Government will increase the size of the Employer Ownership Pilot by £90 million, from £250 million to £340 million. This will be funded from within existing departmental allocations. Two further successful city bids from round one of the Employer Ownership Pilot in Liverpool and Manchester will take the total amount allocated in the first round of the pilot to around £87 million over two years, leveraging a further £115 million from employers.

2.143 Improving Information for further education students – The Government will make available the same information on further education course outcomes that is available for university courses through the Key Information Sets. Providing clear information to students on the potential returns to their investment in education and training will help them to exercise informed choice and exert upwards pressure on the quality and labour market relevance of further education courses. This will involve publishing through the National Careers Service website:

- useable data on average earnings and employment destinations following vocational study, presented by sector and Local Enterprise Partnership (LEP) area, by the end of 2013; and
- local priorities for skills identified by LEPs by July 2013. This should give a picture of the local labour market and growth trends in employment, and show what skills are in demand in local areas.

2.144 Digital content skills – The Government will match fund voluntary industry contributions of up to £6 million over the next two years to the existing Skills Investment Fund administered by Creative Skillset, expanding its scope to include support for skills provision in the film, television, animation and video games sectors. (ag)

2.145 New Enterprise Allowance – The Government has extended the New Enterprise Allowance scheme so that jobseekers can now access self-employment support from day one of their Jobseeker's Allowance claim. (27)

2.146 Employee ownership – The Government supports employee ownership as a business model, which offers benefits to employers and the wider economy. *Sharing Success: Nuttall Review of Employee Ownership* (published in July 2012) set out recommendations to support an expansion in the number of employee-owned businesses. HM Treasury and HMRC will support the Department for Business, Innovation and Skills (BIS) and the Cabinet Office in implementing the Government's response to the Nuttall review, by contributing to the new BIS-led Implementation Group and development of 'off the shelf' employee ownership templates and toolkits, and working with BIS, John Lewis Partnership and Santander to develop a forum to promote better access to finance for the sector. The Government is considering further incentives to support this objective and will report at Budget 2013.

Planning

2.147 Reform of the planning system – The Government introduced legislation in October 2012, including new powers to appeal the affordable element of unviable section 106 agreements and tackle poorly performing planning authorities. The Government will shortly set out its response to Lord Matthew Taylor's review of planning practice guidance.

2.148 Streamlining planning consents – The Government published a consultation in November 2012 on streamlining the list of planning consents which sit outside the Development Consent Order process, amending secondary legislation to update and streamline the list of prescribed consultees, and establishing new arrangements to improve coordination and communication between the Planning Inspectorate, applicants and other consenting bodies in order to make the overall consents process more efficient.

2.149 Environmental impact assessments – The Government will consult on updated guidance on conducting environmental impact assessments by Budget 2013, and will consult on raising screening thresholds set out in the Town and Country Planning (Environmental Impact Assessment) Regulations 2011 later in 2013.

Lord Heseltine's Review

2.150 Following a commission from the Prime Minister, Lord Heseltine presented his report *No Stone Unturned* to the Chancellor and Secretary of State for Business, Innovation and Skills on 31 October 2012. Lord Heseltine makes a series of recommendations in all aspects of government policy that affect economic growth. The first stage of the Government's response is set out below; a full response will follow in the spring.

Unleashing local growth – empowering Local Enterprise Partnerships

2.151 LEP Strategic Plans – LEPs will be asked by the Government to lead the development of new strategic plans for local growth consistent with national priorities. In developing the plans, LEPs will be expected to consult with all relevant local partners, including the local chambers of commerce and other business bodies. These multi-year plans will build on any existing plans and include coordination with ongoing public programmes.

2.152 Funding for strategic plans – The Government will provide £10 million a year for capacity building within LEPs. Each LEP will be asked to apply for up to £250,000 additional funding per year to support the development and delivery of their strategic plan. (v)

2.153 Funding devolution – The Government will devolve a greater proportion of growth-related spending on the basis of strategic plans developed by LEPs, by creating a single funding pot for local areas from April 2015. Funding will reflect the quality of strategic proposals put forward by LEPs, as well as local need.

2.154 EU Common Strategic Framework – The Government will take the opportunity to streamline its management of the European Union Common Strategic Framework funds in England, aligning priorities on the basis of the plans from LEPs.

2.155 Concessionary public works loan rate – The Government will make available a new concessionary public works loan rate to an infrastructure project nominated by each LEP (excluding London), with the total borrowing capped at £1.5 billion.

2.156 Regional Growth Fund – The Government will provide a further £350 million for the Regional Growth Fund, of which £100 million is being contributed from existing budgets, to provide support for jobs and growth across England until the end of this Parliament.

2.157 Combined authorities – The Government will support local authorities who wish to create a combined authority or implement other forms of collaboration, including ensuring that the existing legislation is fit for purpose.

LEPs and the skills system

2.158 Role for LEPs in further education colleges – The Government will give LEPs a new strategic role in skills policy in line with the recommendations of the Heseltine Review. LEPs will be given a role setting skills strategies consistent with national objectives and charted status for further education colleges will be linked to having taken account of the skills priorities of local LEPs. In addition, the Government will encourage LEPs to have a seat on further education colleges' governing bodies, with colleges represented on LEPs' boards. LEPs will also be able to determine how the European Union Common Strategic Framework funds, including the European Social Fund, are used locally, and will be able to bring bidders together to access Employer Ownership Pilot funding.

Government setting the framework

Industrial strategy – ensuring a voice for sectors

2.159 Industry partnerships – The Government will work with individual sectors to develop approaches that best suit the needs of each industry. Over the next year the Government will set out the details of the approach for the professional and business services, information economy, oil and gas, offshore wind, civil nuclear, life sciences (agri-tech), life sciences (health), higher and further education, automotive, construction and aerospace sectors. This will bring together all relevant parts of government in partnership with business to set a long-term vision for the sector, and to provide confidence for business investment.

2.160 Strategic Relationship Management – Lord Heseltine recommended that the Strategic Relationship Management model be extended to encourage growth through better engagement with business. The Government will double the number of companies by April 2013, and seek to double again by 2015. To support this, every economic department will ensure that they have dedicated staff.

Deregulation – easing the burden on business

2.161 Deregulation – Lord Heseltine made a number of recommendations on the structure and approach of regulators. The Government will ensure regulatory processes for non-economic regulators better take account of the needs of stakeholders, including consulting on requiring regulators to have regard to growth, taking account of the economic impact of their actions. In addition the Government will consult on amending the Regulators' Compliance Code to ensure regulators are internally and geographically consistent, give consideration to earned recognition, and establish and offer minimum service standards. It will require regulators to be transparent about the fees they charge and control their costs through amending memoranda of understanding and framework documents with departments. Finally, for non-economic regulators, it will conduct a Focus on Enforcement Review of appeals systems.

Planning

2.162 Local Development Orders – To ensure local areas can implement development as efficiently as possible, the Government will continue to support local authorities across the country to implement Local Development Orders, and to set up locally funded enterprise zones.

2.163 Public land – Lord Heseltine recommended that the Government Property Unit (GPU) should work with local authorities to identify and publish details of surplus and derelict public land in ePIMS so the land can be brought back into use for local growth. The Department for Communities and Local Government and the GPU will work with the wider public sector to identify the best way of publishing open data in a single database, using the local authority Transparency Code, which the Government is currently consulting on, which will require local authorities to publish their data on land and assets.

Procurement – driving improvement in the public sector and ensuring a competitive private sector

2.164 Procurement vision – Lord Heseltine identified the need to continue to develop commercial and procurement capability at the heart of Whitehall. These findings align closely to the Civil Service Reform Strategy, Lord Browne's recent comments and the Minister for the Cabinet Office's focus on the need to strengthen commercial, procurement, digital, and change management skills within the civil service, particularly at the centre of government. The Cabinet Office will review the organisational structure, roles and remuneration that are currently available, reporting back to the Minister for the Cabinet Office and Chief Secretary to the Treasury in the new year.

Other announcements

2.165 Superlong and perpetual gilts – In light of the responses received to the Debt Management Office's (DMO) consultation on superlong and perpetual gilts, the Government judges that issuance of gilts with maturities in excess of 50 years could represent cost-effective financing for the Exchequer. The Government will therefore remove the current maturity cap on gilt issuance which was set at approximately 50 years and anticipates that in 2013-14 the DMO will look to launch new issuance in the 50-60 year area, subject to demand and market conditions.

2.166 Coinage programme – From January 2013, the Royal Mint will recover a number of five pence and ten pence coins made of cupronickel alloy from circulation. The recovered coins will be replaced by the new specification, nickel-plated steel coins. This follows the change in composition for new five pence and ten pence coins in January 2012. Affected parties were notified in October 2012.

A Financing

A.1 This annex sets out revisions to the Government's financing plans for 2012-13, which were previously set out on 24 April 2012. Further details of the revised remit for 2012-13, including progress against the remit to date, can be found on the Debt Management Office's (DMO) website at www.dmo.gov.uk.

Financing arithmetic

A.2 As set out in Chapter 4 of the Office for Budget Responsibility's (OBR) December 2012 *Economic and fiscal outlook*, the revised forecast for the 2012-13 central government net cash requirement (CGNCR) is £106.1 billion. The relationship between public sector net borrowing (PSNB) and the CGNCR is set out in the OBR's December 2012 *Economic and fiscal outlook.*

A.3 The net financing requirement (NFR) comprises the CGNCR, plus any financing required for gilt redemptions, additional Official Reserves and other adjustments, less the net contribution to financing from National Savings and Investments (NS&I).

A.4 The NFR for 2012-13 is projected to be £147.3 billion, a decrease of £15.2 billion on the figure projected in April 2012. The change reflects mainly:

- a decrease in the forecast for the CGNCR in 2012-13 of £14.9 billion. This includes the effect of £11.5 billion of cash which is expected to be transferred from the Asset Purchase Facility this year. It also reflects the impact of financial transactions which do not impact on PSNB, including the fact that assets formerly belonging to the Royal Mail Pension Plan have been disposed of at a faster rate than was forecast at the time of Budget 2012;
- a -£2.6 billion adjustment for Northern Rock (Asset Management) (NRAM) and Bradford and Bingley plc (B&B). NRAM and B&B have been reclassified as part of central government and so their activities influence the CGNCR.[1] However, there are additional cash flows, mostly from the repayment of loans into the Exchequer, which reduce the Exchequer's need to raise cash;
- a £2.0 billion reduction in the forecast net contribution to financing from NS&I; and
- a £0.2 billion increase in the CGNCR outturn for 2011-12.

A.5 The reduction in the NFR will be accommodated mainly by a reduction in the stock of Treasury bills. There will be a net change in the Treasury bill stock of -£15.0 billion from the plans set out in April 2012, taking the planned end-March 2013 Treasury bill stock to £53.5 billion.

A.6 Planned gilt sales in 2012-13 will be reduced slightly by £0.2 billion to £164.2 billion.

Gilt issuance by maturity and type

A.7 The maturity skew of gilt issuance by auction and syndication in 2012-13 was set out in April 2012. This skew will remain broadly unchanged. In particular:

- short maturity conventional gilt issuance will remain unchanged at £50.4 billion (30.7 per cent of total issuance);

[1] See Chapter 1

- medium maturity conventional gilt issuance will remain unchanged at £34.5 billion (21.0 per cent of total issuance);
- long maturity conventional gilt issuance will remain unchanged at £37.2 billion (22.7 per cent of total issuance); and
- index-linked gilt issuance will increase slightly to £35.8 billion (21.8 per cent of total issuance), as was announced in May 2012.[2]

A.8 In addition, the DMO will deliver sales via mini-tender of £6.3 billion (3.8 per cent of total issuance). This is a reduction of £0.2 billion on the figure announced in May 2012. The DMO determines the maturities and types of gilts to be issued by mini-tender, in consultation with the market.

Gilt issuance methods

A.9 Auctions will remain the Government's primary method of gilt issuance. The Government will continue to use syndications and mini-tenders as supplementary methods of gilt issuance.

A.10 It is anticipated that for 2012-13 as a whole:

- £125.7 billion (76.6 per cent of total issuance) will be issued by pre-announced auctions;
- £32.3 billion (19.7 per cent of total issuance) will be issued by syndications; and
- £6.3 billion (3.8 per cent of total issuance) will be issued by mini-tenders.

A.11 £0.8 billion of financing has been switched from the long-maturity syndication programme to the long-maturity auction programme, in order to maintain the remaining long-maturity auctions at an operationally viable size.

Super-long gilts

A.12 The DMO has today published a summary of the responses it received to its consultation on the case for the issuance of gilts with maturities in excess of 50 years and/or perpetual gilts.

A.13 In light of these responses, the Government judges that issuance of gilts with maturities in excess of 50 years could represent cost-effective financing for the Exchequer, while contributing to effective risk management of the Government's debt portfolio. However, it recognises that the strength of demand for these instruments is uncertain and that a cautious approach to issuance and, therefore, to extension of the yield curve is appropriate. **The Government will therefore remove the current maturity cap on gilt issuance which was set at approximately 50 years and anticipates that in 2013-14 the DMO will look to launch new issuance in the 50-60 year area, subject to demand and market conditions.** Decisions on specific maturities for issuance during the year will be taken by the DMO after consultation with the market through the normal channels.

National Savings and Investments

A.14 NS&I's forecast net contribution to financing has been reduced to -£2 billion, due to changes in the savings market that have seen a decrease in new deposits. To reflect these changing market conditions, NS&I's net financing target for 2012-13 has been revised to -£1 billion, within a range of -£3 billion to £1 billion.

A.15 In addition, NS&I's target of delivering positive value (as measured by the Value Indicator) has been set a lower bound of -£320 million. NS&I's target remains to deliver positive value but in recognition of external market conditions, the lower limit will allow them to continue to meet their operating framework of balancing the interests of their savers, the taxpayer and the stability of the broader savings market.

[2] On 29 May 2012, the DMO announced a slight adjustment in the split between the syndication and mini-tender programmes. Press release available at www.dmo.gov.uk

Table A.1: Revised financing arithmetic for 2012–13

£ billion	April 2012	Autumn Statement
Central government net cash requirement	121.0	106.1
Adjustment for Northern Rock (Asset Management) and Bradford and Bingley plc[1]	0.0	-2.6
Gilt redemptions	52.9	52.9
Financing for the Official Reserves	6.0	6.0
Buy-backs[2]	0.0	0.0
Planned short-term financing adjustment[3]	-17.4	-17.2
Gross financing requirement	162.5	145.3
less		
National Savings and Investments (NS&I)	0.0	-2.0
Net financing requirement	162.5	147.3
Financed by:		
1. Debt issuance by the Debt Management Office (DMO)		
a) Treasury bills[4]	-1.9	-16.9
b) Gilts	164.4	164.2
of which		
Conventional:		
Short	50.4	50.4
Medium	34.5	34.5
Long	37.2	37.2
Index-linked	35.3	35.8
Mini-tenders	7.0	6.3
2. Other planned changes in net short-term debt[5]		
Change in the Ways and Means Advance	0.0	0.0
3. Changes in net short-term cash position[6]	0.0	0.0
Total financing	162.5	147.3
Short-term debt levels at end of financial year		
Treasury bill stock	68.5	53.5
Ways and Means Advance	0.4	0.4
DMO net cash position	0.5	0.5

Figures may not sum due to rounding.

[1] *See explanation in paragraph A.4.*

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

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

[4] *The stock change shown for 2012-13 is a planning assumption and measures the change in the level of the Treasury bill stock in issue between end-March 2012 and that currently forecast for end-March 2013. The stock of bills for this purpose comprises both those issued at weekly tenders and those issued separately to individual cash management counterparties. The stock change shown for 2012-13 is that currently required to take the stock of Treasury bills to £53.5 billion by end-March 2013.*

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

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

B OBR's Economic and fiscal outlook: selected tables

B.1 The Office for Budget Responsibility (OBR) has published its December 2012 *Economic and fiscal outlook* alongside the Autumn Statement 2012. This annex reproduces the OBR's key projections for the economy and public finances. Further details and explanations can be found in its report.

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

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2011	2012	2013	2014	2015	2016	2017
UK economy							
Gross domestic product (GDP)	0.9	- 0.1	1.2	2.0	2.3	2.7	2.8
GDP Level (2011=100)	100.0	99.9	101.1	103.2	105.6	108.4	111.4
Nominal GDP	3.6	2.2	3.3	4.1	4.4	4.7	4.9
Output Gap (per cent of potential output)	- 2.7	- 3.1	- 3.5	- 3.3	- 3.0	- 2.5	- 1.9
Expenditure components of GDP							
Domestic demand	-0.4	0.5	0.9	1.9	2.1	2.5	2.7
Household consumption[1]	-0.9	0.5	0.9	1.6	1.8	2.4	2.9
General government consumption	0.2	2.4	-0.7	-1.4	-1.2	-2.1	-3.0
Fixed investment	-2.4	1.0	2.1	8.1	8.5	8.7	8.7
Business	2.9	3.8	4.9	8.1	10.2	10.1	9.5
General government[2]	-20.4	-9.2	-2.5	4.8	-3.0	-2.6	0.7
Private dwellings[2]	0.3	2.4	-1.1	9.5	10.0	10.0	9.7
Change in inventories[3]	0.3	-0.6	0.2	0.0	0.0	0.0	0.0
Exports of goods and services	4.5	0.1	3.1	4.5	5.1	5.5	5.4
Imports of goods and services	0.5	2.1	2.1	3.9	4.5	4.9	5.0
Balance of payments current account							
Per cent of GDP	-1.9	-4.0	-2.6	-2.3	-2.0	-1.6	-1.4
Inflation							
CPI	4.5	2.8	2.5	2.2	2.0	2.0	2.0
RPI	5.2	3.2	3.0	2.6	3.1	3.4	3.7
GDP deflator at market prices	2.7	2.3	2.0	2.0	2.0	2.0	2.0
Labour market							
Employment (millions)	29.2	29.5	29.6	29.7	29.9	30.2	30.4
Wages and salaries	2.5	3.3	2.7	3.2	4.5	4.8	4.9
Average earnings[4]	2.2	2.7	2.2	2.8	3.7	4.0	4.0
ILO unemployment (% rate)	8.1	8.0	8.2	8.2	8.0	7.6	7.1
Claimant count (millions)	1.53	1.59	1.66	1.69	1.63	1.53	1.43
Household sector							
Real household disposable income	-1.5	2.1	0.4	0.8	1.6	2.0	2.3
Saving ratio (level, per cent)	6.0	7.1	6.2	5.5	5.5	5.4	5.0
House prices	-1.0	1.4	0.7	2.5	3.8	4.0	4.0
World economy							
World GDP at purchasing power parity	3.9	3.2	3.5	4.2	4.5	4.6	4.7
Euro Area GDP	1.5	-0.4	0.0	1.1	1.4	1.7	1.9
World trade in goods and services	5.8	3.0	4.4	5.9	6.3	6.5	6.6
UK export markets[5]	6.0	2.7	4.3	5.5	5.8	6.0	6.1

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

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

[3] Contribution to GDP growth, percentage points.

[4] Wages and salaries divided by employees.

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

Table B.2: Determinants of OBR central fiscal forecast

	Percentage change on previous year unless otherwise specified						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
GDP and its components							
Real GDP	0.5	0.1	1.5	2.1	2.4	2.7	2.8
Nominal GDP (£ billion)[1]	1529	1564	1620	1689	1763	1848	1939
Nominal GDP[1]	3.3	2.3	3.6	4.2	4.4	4.8	4.9
Nominal GDP (centred end-March)	2.5	2.7	4.1	4.3	4.6	4.9	4.9
Wages and salaries[2]	2.4	3.7	2.5	3.5	4.6	4.8	4.9
Non-oil PNFC profits[2,3]	7.7	2.0	5.1	7.9	7.8	8.8	7.5
Non-oil PNFC net taxable income[2,3]	9.4	3.6	4.7	6.5	5.8	7.0	5.4
Consumer spending[2,3]	3.7	3.7	3.8	3.7	3.9	4.5	4.9
Prices and earnings							
GDP deflator	2.4	2.5	2.0	2.0	2.0	2.0	2.0
RPI (September)	5.6	2.6	3.1	2.7	3.1	3.4	3.7
CPI (September)	5.2	2.2	2.6	2.2	2.0	2.0	2.0
Whole economy earnings growth	2.6	2.6	2.2	3.0	3.9	4.0	4.0
Key fiscal determinants							
Claimant count (millions)[4]	1.57	1.60	1.68	1.68	1.61	1.50	1.40
Employment (millions)	29.2	29.6	29.6	29.8	30.0	30.2	30.5
VAT gap (per cent)	9.7	10.5	10.6	10.6	10.6	10.6	10.6
Financial and property sectors							
Equity prices (FTSE All-share index)	2903	2979	3102	3231	3376	3538	3711
HMRC financial sector profits[1,3,5]	-5.0	2.0	2.5	2.5	2.5	4.1	4.9
Financial sector net taxable income[1,3]	3.2	-2.4	6.7	5.6	3.6	6.0	5.6
Residential property prices[6]	-0.9	1.7	0.7	3.0	3.8	4.0	4.0
Residential property transactions (thousands)	914	945	1116	1225	1311	1388	1456
Commercial property prices[7]	4.4	-2.1	1.0	3.1	3.6	3.9	3.5
Commercial property transactions[7]	-2.8	-2.1	-4.4	1.2	2.8	4.4	5.2
Volume of share transactions	-10.2	-9.9	1.4	0.0	0.0	0.0	0.0
Oil and gas							
Oil prices ($ per barrel)[3]	111	112	106	102	98	95	92
Oil prices (£ per barrel)[3]	69.2	70.7	66.9	63.7	61.0	59.1	57.4
Gas prices (p/therm)	60.6	57.8	55.9	53.2	50.8	48.9	47.4
Oil production (million tonnes)[3,8]	51.9	45.6	45.1	44.7	44.4	44.1	43.8
Gas production (billion therms)[3,8]	16.1	14.2	14.2	14.0	13.9	13.8	13.7
Interest rates and exchange rates							
Market short-term interest rates (per cent)[9]	1.0	0.7	0.7	0.7	0.9	1.2	1.7
Market gilt rates (per cent)[10]	2.2	1.7	2.3	2.6	2.9	3.1	3.4
Euro/Sterling exchange rate	1.16	1.25	1.25	1.25	1.26	1.25	1.25

[1] *Not seasonally adjusted.*

[2] *Nominal.*

[3] *Calendar year.*

[4] *UK seasonally-adjusted claimant count.*

[5] *HMRC Gross Case 1 trading profits.*

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

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

[8] *Department for Energy and Climate Change (DECC) forecasts from 2012 available at www.og.decc.gov.uk.*

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

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

Table B.3: Current Receipts: OBR forecast

	£ billion						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Income tax (gross of tax credits)[1]	152.7	154.0	161.6	172.0	181.5	193.9	206.5
of which: Pay as you earn	*132.1*	*132.2*	*137.1*	*142.2*	*152.5*	*162.9*	*173.8*
Self assessment	*20.3*	*22.6*	*23.8*	*29.4*	*28.9*	*30.6*	*32.2*
Tax credits (negative income tax)	-4.7	-3.9	-3.8	-3.2	-1.8	-0.8	-0.1
National insurance contributions	101.6	104.1	107.8	111.1	117.0	123.5	130.3
Value added tax	98.1	101.1	104.1	108.3	112.5	116.8	121.5
Corporation tax[2]	43.1	39.8	38.9	38.7	38.7	41.2	42.8
of which: Onshore	*33.8*	*34.7*	*34.3*	*34.5*	*35.6*	*38.0*	*39.7*
Offshore	*9.2*	*5.2*	*4.6*	*4.3*	*3.2*	*3.1*	*3.1*
Corporation tax credits[3]	-0.9	-0.9	-0.9	-0.8	-0.7	-0.7	-0.8
Petroleum revenue tax	2.0	2.2	2.1	1.7	1.7	1.5	1.4
Fuel duties	26.8	26.2	26.5	27.1	27.8	29.0	29.9
Business rates	25.0	25.7	26.8	28.2	29.6	30.6	31.2
Council tax	26.0	26.3	27.2	28.0	28.8	29.8	30.7
VAT refunds	14.0	14.0	14.6	14.6	14.6	14.4	14.2
Capital gains tax	4.3	3.7	4.6	5.4	6.0	6.7	7.4
Inheritance tax	2.9	3.1	3.3	3.5	3.6	3.8	4.0
Stamp duty land tax	6.1	6.5	7.5	8.6	9.7	10.9	12.2
Stamp taxes on shares	2.8	2.4	2.7	2.8	2.9	3.0	3.2
Tobacco duties	9.9	9.8	9.9	10.0	10.2	10.3	10.6
Spirits duties	2.9	2.8	2.8	3.0	3.2	3.3	3.5
Wine duties	3.4	3.5	3.6	3.9	4.3	4.6	5.0
Beer and cider duties	3.8	3.8	3.7	3.8	3.9	3.9	3.9
Air passenger duty	2.6	2.9	2.9	3.1	3.3	3.6	3.9
Insurance premium tax	3.0	3.1	3.2	3.2	3.3	3.3	3.4
Climate Change Levy	0.7	0.7	1.4	1.8	2.4	2.4	2.4
Other HMRC taxes[4]	5.9	6.0	6.4	6.7	7.1	7.3	7.5
Vehicle excise duties	5.9	5.9	5.9	5.8	5.8	5.7	5.6
Bank levy	1.8	1.8	2.8	2.9	2.8	2.8	2.8
Licence fee receipts	3.1	3.1	3.2	3.2	3.2	3.2	3.3
Environmental levies	0.5	2.0	2.3	2.8	3.3	3.8	4.2
Swiss capital tax	0.0	0.3	2.9	0.0	0.0	0.0	0.0
EU ETS Auction Receipts	0.0	0.4	0.9	0.9	0.9	1.0	1.0
Other taxes	5.9	6.7	6.9	7.1	6.9	6.8	6.7
National Accounts taxes	**549.3**	**557.2**	**581.6**	**604.2**	**632.6**	**665.7**	**698.3**
Less own resources contribution to EU budget	-5.2	-5.3	-5.2	-5.5	-5.7	-5.9	-6.1
Interest and dividends	2.9	17.6	18.9	17.9	17.1	18.0	13.1
Gross operating surplus	23.5	25.2	26.2	27.4	28.4	29.4	30.0
Other receipts	-0.9	-0.8	-0.9	-0.9	-1.0	-1.1	-1.1
Current receipts	**569.5**	**593.8**	**620.6**	**643.0**	**671.4**	**706.1**	**734.2**
Memo:							
UK oil and gas revenues[5]	*11.3*	*7.3*	*6.7*	*6.0*	*4.9*	*4.6*	*4.4*

[1] Income tax includes PAYE and Self Assessment and also includes tax on savings income and other minor components.

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

[3] Includes enhanced company tax credits.

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

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

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

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

Table B.4: Total Managed Expenditure: OBR forecast

	£ billion						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Public sector current expenditure (PSCE)							
PSCE in RDEL[1]	**322.6**	**322.4**	**321.1**	**317.6**	**318.7**	**313.7**	**306.7**
PSCE in Annually Managed Expenditure	**320.5**	**338.3**	**350.8**	**363.9**	**378.6**	**393.2**	**409.5**
of which:							
Social security benefits	174.9	182.6	179.8	183.5	187.9	192.3	196.6
Tax credits	27.2	27.8	27.9	28.6	30.5	32.5	34.1
Net public service pension payments	8.0	11.0	11.3	12.8	14.0	15.0	16.3
of which: CG unfunded pension schemes	*6.7*	*9.4*	*9.7*	*11.1*	*12.1*	*13.1*	*14.2*
LG police and fire pension schemes	*1.4*	*1.6*	*1.6*	*1.7*	*1.8*	*1.9*	*2.0*
National lottery current grants	1.1	1.1	1.2	1.2	1.3	1.3	1.3
BBC domestic services current expenditure	3.8	3.6	3.4	3.7	3.7	3.8	3.9
Fees associated with financial interventions	-2.0	-0.6	-0.3	-0.2	0.0	0.0	0.0
Other PSCE items in departmental AME	0.1	1.7	1.3	1.2	1.2	1.2	1.2
Expenditure transfers to EU institutions	5.9	7.3	6.6	7.3	6.6	5.8	6.0
Locally-financed current expenditure	21.6	23.2	36.0	37.8	39.2	40.6	42.7
Central government gross debt interest	47.1	47.1	48.6	51.8	56.6	61.6	67.1
Depreciation	16.0	17.0	17.7	18.4	19.1	19.8	20.5
Current VAT refunds	11.8	11.7	12.5	12.5	12.5	12.3	12.0
Single use military expenditure	5.5	5.0	4.7	4.7	4.7	4.8	5.0
Environmental levies	0.5	1.3	1.7	2.1	2.8	3.6	4.3
Other National Accounts adjustments	-1.1	-1.4	-1.6	-1.5	-1.4	-1.3	-1.5
Total public sector current expenditure	**643.1**	**660.7**	**671.9**	**681.5**	**697.4**	**706.9**	**716.2**
Public sector gross investment (PSGI)							
PSGI in CDEL[1,2]	**34.8**	**2.3**	**34.3**	**36.2**	**33.8**	**34.3**	**35.2**
PSGI in Annually Managed Expenditure	**13.0**	**11.3**	**13.7**	**13.3**	**13.6**	**13.9**	**14.1**
of which:							
National lottery capital grants	0.4	0.5	0.5	0.6	0.6	0.6	0.6
Other PSGI items in departmental AME	-7.6	-1.5	1.1	1.1	0.9	0.8	1.1
Locally-financed capital expenditure	16.0	6.2	4.8	4.9	5.3	5.6	5.4
Public corporations capital expenditure	6.8	7.8	7.3	6.9	6.8	6.9	6.9
Other National Accounts adjustments	-2.5	-1.7	-0.1	-0.1	-0.1	0.0	0.0
Total public sector gross investment	**47.8**	**13.7**	**48.0**	**49.5**	**47.3**	**48.3**	**49.2**
Less depreciation	-21.1	-22.2	-23.1	-23.9	-24.7	-25.5	-26.4
Public sector net investment	**26.7**	**-8.5**	**24.9**	**25.6**	**22.6**	**22.7**	**22.9**
Total managed expenditure	**690.9**	**674.3**	**719.9**	**731.0**	**744.7**	**755.1**	**765.5**

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

[2] 2012-13 PSGI in CDEL includes £28 billion receipt from the transferral of assets from the Royal Mail pension fund, which at Budget 2012 was classified as AME.

Table B.5: OBR forecast of the fiscal aggregates

	Per cent of GDP						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Receipts and expenditure							
Public sector current receipts *(a)*	37.3	38.0	38.3	38.1	38.1	38.2	37.9
Total managed expenditure *(b)*	45.2	43.1	44.4	43.3	42.2	40.9	39.5
of which:							
Public sector current expenditure *(c)*	42.1	42.3	41.5	40.4	39.5	38.2	36.9
Public sector net investment *(d)*	1.7	-0.5	1.5	1.5	1.3	1.2	1.2
Depreciation *(e)*	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Deficit							
Public sector net borrowing *(b-a)*	7.9	5.1	6.1	5.2	4.2	2.6	1.6
Surplus on current budget *(a-c-e)*	-6.2	-5.7	-4.6	-3.7	-2.9	-1.4	-0.4
Cyclically-adjusted net borrowing	6.0	3.0	3.8	2.9	2.0	0.9	0.3
Primary balance	-5.0	-3.2	-4.2	-3.1	-1.8	-0.2	1.2
Cyclically-adjusted primary balance	-3.1	-1.1	-1.8	-0.8	0.3	1.6	2.6
Fiscal mandate and supplementary target							
Cyclically-adjusted surplus on current budget	-4.3	-3.6	-2.2	-1.4	-0.8	0.4	0.9
Public sector net debt[1]	66.4	74.7	76.8	79.0	79.9	79.2	77.3
Financing							
Central government net cash requirement	8.3	6.8	6.5	6.0	4.9	3.9	2.6
Public sector net cash requirement	8.1	6.6	6.3	5.8	4.6	3.7	2.4
Stability and Growth Pact							
Treaty deficit[3]	7.7	5.2	6.2	5.3	4.3	2.8	1.8
Cyclically-adjusted Treaty deficit[2]	5.8	3.1	3.9	3.0	2.2	1.0	0.4
Treaty debt ratio[3]	85.8	90.3	93.5	96.3	97.4	96.6	94.4
	£ billion						
Surplus on current budget	-95	-89	-74	-62	-51	-26	-8
Net investment	27	-9	25	26	23	23	23
Public sector net borrowing	121	80	99	88	73	49	31
Central government net cash requirement	127	106	105	102	86	72	51
Public sector net debt	1025	1186	1270	1362	1442	1498	1534
Memo: PSNB ex. Royal Mail transfer	*121.4*	*108.5*	*99.3*	*87.9*	*73.3*	*49.0*	*31.2*
Memo: PSNB ex. Royal Mail transfer (per cent of GDP)	*7.9*	*6.9*	*6.1*	*5.2*	*4.2*	*2.6*	*1.6*
Memo: Cyclically-adjusted PSNB ex. Royal Mail transfer (per cent of GDP)	*6.0*	*4.8*	*3.8*	*2.9*	*2.0*	*0.9*	*0.3*
Memo: Output gap (per cent of GDP)	*-2.7*	*-3.2*	*-3.5*	*-3.3*	*-2.9*	*-2.4*	*-1.7*

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

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

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

Table B.6: Changes to the OBR fiscal forecast

	£ billion						
	Outturn	Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Surplus on current budget							
June 2010 forecast	-88	-65	-40	-17	0		
March 2012 forecast	-98	-95	-74	-52	-30	1	
Change	*3*	*6*	*0*	*-10*	*-20*	*-27*	
December 2012 forecast	-95	-89	-74	-62	-51	-26	-8
Net investment							
June 2010 forecast	27	24	20	21	21		
March 2012 forecast	28	-3	23	23	22	22	
Change	*-1*	*-5*	*2*	*2*	*1*	*1*	
December 2012 forecast	27	-9	25	26	23	23	23
Net borrowing							
June 2010 forecast	116	89	60	37	20		
March 2012 forecast	126	92	98	75	52	21	
Change	*-5*	*-11*	*2*	*13*	*21*	*28*	
December 2012 forecast	121	80	99	88	73	49	31
	Per cent of GDP						
Net borrowing							
June 2010 forecast	7.5	5.5	3.5	2.1	1.1		
March 2012 forecast	8.3	5.8	5.9	4.3	2.8	1.1	
Change	*-0.3*	*-0.7*	*0.2*	*0.9*	*1.3*	*1.6*	
December 2012 forecast	7.9	5.1	6.1	5.2	4.2	2.6	1.6
Cyclically-adjusted surplus on current budget							
June 2010 forecast	-3.2	-1.9	-0.7	0.3	0.8		
March 2012 forecast	-4.6	-4.2	-2.7	-1.5	-0.7	0.5	
Change	*0.3*	*0.6*	*0.5*	*0.2*	*-0.1*	*-0.1*	
December 2012 forecast	-4.3	-3.6	-2.2	-1.4	-0.8	0.4	0.9
Cyclically-adjusted net borrowing							
June 2010 forecast	5.0	3.4	1.8	0.8	0.3		
March 2012 forecast	6.4	4.0	4.1	2.9	1.9	0.7	
Change	*-0.4*	*-1.0*	*-0.4*	*0.0*	*0.1*	*0.2*	
December 2012 forecast	6.0	3.0	3.8	2.9	2.0	0.9	0.3
Net debt[1]							
June 2010 forecast	67.2	69.8	70.3	69.4	67.4		
March 2012 forecast	67.3	71.9	75.0	76.3	76.0	74.3	
Change	*-0.9*	*2.8*	*1.8*	*2.6*	*3.9*	*4.9*	
December 2012 forecast	66.4	74.7	76.8	79.0	79.9	79.2	77.3

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

List of abbreviations

AME	Annually Managed Expenditure
APF	Asset Purchase Facility
B&B	Bradford and Bingley plc
BBA	British Bankers' Association
BIS	Department for Business, Innovation and Skills
CDEL	Capital Departmental Expenditure Limits
CGNCR	Central Government Net Cash Requirement
CPI	Consumer Prices Index
CRC	Carbon Reduction Commitment
DEL	Departmental Expenditure Limits
DMO	Debt Management Office
DWP	Department for Work and Pensions
EU	European Union
FE	Further Education
FLS	Funding for Lending Scheme
FOI	Foreign Direct Investment
FSA	Financial Services Authority
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
GAAR	General Anti-Abuse Rule
GDP	Gross Domestic Product
GEMM	Gilt-edged market maker
GGNB	General Government Net Borrowing
GNI	Gross National Income
GVA	Gross Value Added
GW	Gigawatts
HMRC	Her Majesty's Revenue & Customs
IMF	International Monetary Fund
IT	Information Technology
IUK	Infrastructure UK
JSA	Jobseeker's Allowance

LEP	Local Enterprise Partnership
MPC	Monetary Policy Committee
NHS	National Health Service
NICs	National Insurance Contributions
NRAM	Northern Rock (Asset Management)
NS&I	National Saving and Investments
OBR	Office for Budget Responsibility
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
OTS	Office of Tax Simplification
PF2	Private Finance Two
PPF	Pension Protection Fund
Ppl	Pence per litre
PIP	Pensions Infrastructure Platform
PSCE	Public Sector Current Expenditure
PSNB	Public Sector Net Borrowing
PSNI	Public Sector Net Investment
R&D	Research and Development
RPI	Retail Prices Index
SGP	Stability and Growth Pact
SMEs	Small and medium-sized enterprises
SMI	Support for Mortgage Interest
TME	Total Managed Expenditure
TUPE	Transfer of undertakings (Protection of Employment) Regulations
UKEF	UK Export Finance
UKTI	UK Trade and Investment
VAT	Value Added Tax
UK	United Kingdom
US	United States of America

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ISBN 978-0-10-184802-2

9 780101 848022