HM Treasury

BUDGET 2014

HC 1104

March 2014

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Sajid Javid
Her Majesty's Treasury
19 March 2014

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

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Executive Summary

This Budget sets out further action to secure the recovery and build a resilient economy. The government is continuing to take difficult decisions to put the public finances on a sustainable path. The Budget supports businesses to invest, export, and create jobs, and cuts taxes for hard-working people – laying the foundations for sustainable economic growth. The Budget sets out the most radical reforms to saving for a generation, providing security for families to plan for their future.

The UK has been hit by the most damaging financial crisis in generations and the government inherited the largest deficit since the Second World War. The government's long-term economic plan has protected the economy through a period of uncertainty, and provided the foundations for the UK's economic recovery which is now well established. Since Budget 2013, economic growth has exceeded forecasts, inflation is below target, and the deficit has been reduced year on year. However, the job is not yet done and more work will be needed to tackle historic weaknesses, including low productivity, poor skills and inadequate infrastructure.

Budget 2014 sets out the next steps in the government's long-term economic plan:

The UK economy and public finances: the deficit as a share of GDP is forecast to have fallen by a half by 2014-15 compared to 2009-10, and the Office for Budget Responsibility (OBR) forecasts a small surplus by 2018-19. Budget 2014 announces further detail on the difficult decisions needed to reduce the deficit and debt beyond this Parliament, including setting the level of the welfare cap and controlling the cost of public sector pay and pensions.

Growth: a record number of people are in work and business investment is forecast to increase this year. Budget 2014 sets out further action to help businesses invest and export, to reduce energy costs – especially for manufacturers – and to increase housing supply.

Fairness: Budget 2014 delivers an income tax cut for 25 million people, with 3.2 million low earners being lifted out of income tax altogether through increases in the personal allowance. Budget 2014 announces radical reforms to give people greater freedom over how they access their pension savings and to support savers at every stage of their lives.

The UK economy and public finances

The government's long-term economic plan has protected the economy through a period of global uncertainty and provided the foundations for the UK's economic recovery. GDP growth has exceeded forecasts and has been balanced across the main sectors of the economy. However, the job is not yet done. Abandoning the government's long-term economic plan and the path of fiscal credibility would represent the most significant risk to the recovery. The UK also faces a number of external risks, including slowing growth and financial instability in some emerging markets, and ongoing weakness in the euro area. The situation in Ukraine is a new risk, and any further deterioration is likely to have some impact on the UK.

The performance of the UK labour market has continued to improve, with a net increase of over 1.6 million jobs in the private sector. A record number of people are in work, and all nations and regions of the UK have seen an increase in employment. Only a sustained economic recovery, with growing productivity, will deliver a lasting improvement in living standards. The OBR forecasts that real household disposable income per capita will grow in 2014 and throughout the forecast period.

Activity is expanding across all sectors of the economy. The OBR judges that business investment activity is likely to gather pace this year, and has revised up its forecast for business investment growth from 5.1% to 8.0% this year. Exports of goods to countries outside the EU have risen by 23% since 2010 and exports of goods to the EU by 8% – but export performance needs to improve to support a balanced recovery.

Economic forecast

The OBR has revised up its forecast for GDP growth from 2.4% to 2.7% in 2014 and from 2.2% to 2.3% in 2015, and forecasts GDP growth of 2.6% in 2016, 2.6% in 2017 and 2.5% in 2018. It expects GDP to return to its pre-crisis peak in the third quarter of 2014.

The OBR has revised up its forecast for employment across the forecast period and expects employment to reach 31.4 million by 2018. At the start of 2014 the claimant count was 1.2 million, the lowest level since December 2008, and the OBR now expects it to fall below 1 million in 2017 for the first time since 2008.

The OBR expects CPI inflation to be below target at 1.9% in 2014 and then to stay at the 2.0% target for the rest of the forecast period. It expects average earnings to grow faster than inflation throughout the forecast period.

Fiscal forecast

The government remains on course to meet the fiscal mandate one year early, in 2017-18.

'Underlying' public sector net borrowing as a percentage of GDP is forecast to have fallen by half from its 2009-10 peak by 2014-15, and the OBR forecasts a small surplus in 2018-19.

The supplementary debt target is missed by one year, as forecast at Autumn Statement 2013. Public sector net debt is forecast to peak at 78.7% of GDP in 2015-16 – 1.2% lower than forecast at Autumn Statement 2013 – before falling each year and reaching 73.8% of GDP in 2018-19.

The government's response

The government has set out a credible plan to eliminate the deficit over the next 4 years, but further difficult decisions are required. High levels of public debt impose significant burdens now and in the future through higher interest rate payments, and increase the UK's vulnerability to future shocks. Given these costs and risks, once the supplementary debt target has been met, any future government will need to ensure that debt falls as a percentage of GDP.

In recognition of the need to continue reducing the deficit and debt, this Budget:

- is fiscally neutral despite lower borrowing across the forecast period, with an overall reduction in tax funded by a reduction in spending
- sets the level of the welfare cap from 2015-16 to 2018-19 at the OBR's forecast of spending in scope, with a forecast margin of 2% above this level; the government is modifying the Charter for Budget Responsibility to include the new welfare cap alongside the fiscal mandate – and this will be voted on by the House of Commons
- confirms that departments remain ahead of their consolidation targets; the OBR forecasts that departments will underspend by £7 billion in 2013-14, and will continue to underspend until the end of this Parliament
- reduces spending in the next Parliament by locking in spending reductions announced at Autumn Statement 2013 for future years

- ensures that employers are meeting the costs of public service pension schemes, and confirms that pay awards for most public sector workers covered by the recent Pay Review Body recommendations will be limited to 1% in 2014-15, and that the intention is to limit awards to 1% in 2015-16

The government will also introduce a new and highly secure £1 coin.

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

Growth

The changing global economy is opening up new opportunities for British businesses, but there is more work to do to secure sustainable economic growth. The government's ambitious programme of structural reform is creating the right environment for businesses to invest, export and grow. Corporation tax will fall to 21% in April 2014 before reaching 20% in April 2015 – the joint lowest rate in the G20. The introduction of the £2,000 Employment Allowance in April 2014 will also support businesses to grow and create jobs.

Budget 2014 announces further reforms to capital allowances, energy and housing to support investment and a sustained recovery across the UK. The government will:

- support businesses across the UK to invest and expand by doubling the annual investment allowance to £500,000 until the end of 2015
- ensure that UK businesses are able to take advantage of new global opportunities by offering the best export finance in Europe – doubling the UK's direct lending programme to £3 billion and cutting interest rates – and reducing the cost of long-distance flights for exporters and visitors to the UK by abolishing two tax bands
- reduce business energy costs to ensure that the UK remains a competitive location for manufacturing, including by capping the Carbon Price Support rate at £18 from 2016-17 to 2019-20 and providing targeted support to energy intensive industries and Combined Heat and Power plants
- ensure that the buying power of the Levy Control Framework will be unaffected by other Budget decisions, introduce a Capacity Market to ensure security of supply, and provide £60 million to develop new technologies to support carbon capture and storage
- take further action to boost housing supply by extending the Help to Buy: equity loan scheme, creating a £500 million Builders Finance Fund to provide loans to SME housing developers, and creating an Urban Development Corporation for a new garden city in Ebbsfleet
- provide £140 million of new funding to repair flood defences that have suffered damage in the recent severe flooding, and provide £200 million to establish a potholes challenge fund
- set out the next steps in the government's industrial strategy, including establishing a new Alan Turing Institute for analysing and identifying useful insights in Big Data, and investing another £74 million over 5 years in the UK's network of Catapults to support the commercialisation of novel technologies
- maximise the benefit of North Sea oil and gas for the UK economy by announcing a new allowance for ultra high pressure, high temperature oil and gas projects, and working with the new oil and gas agency to ensure that the UK's tax regime remains competitive

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

Fairness

The government's long-term economic plan is underpinned by its commitment to fairness. Distributional analysis confirms that the richest are continuing to contribute the most to consolidation, even as a share of income and benefits in kind. Office for National Statistics data show that inequality is at its lowest level since 1986. In April 2014, the income tax personal allowance will rise to £10,000, and a typical basic rate taxpayer will pay £705 less income tax per year in cash terms than they would have paid in 2010-11. Fuel duty remains frozen for the remainder of this Parliament, saving the average motorist £11 every time they fill their tank by 2015-16.

This Budget announces radical measures to help savers at all stages of their lives, and to give people greater freedom over how they access their pension savings. As the economy recovers, the government is also taking further action to cut taxes for hardworking people, and to reduce tax avoidance.

Budget 2014 announces that the government will:

- reduce taxes by increasing the level of the personal allowance again to £10,500 from April 2015 – meaning that this government's increases to the personal allowance will then be worth £805 to a typical basic rate taxpayer, and over 3.2 million low earners will have been taken out of income tax altogether
- introduce the most fundamental reform to the way people access their pensions in almost a century by abolishing the effective requirement to buy an annuity, giving people much greater freedom over how they access their pension savings
- support households to save through a package of measures for people at every stage of their lives, including introducing a New ISA (NISA) for cash and stocks and shares with a significantly raised annual limit of £15,000, abolishing the 10% savings tax rate and extending the 0% band to £5,000, and issuing new National Savings and Investments pensioner bonds
- cut beer duty to take 1 penny off a pint, freeze duty on most cider, and abolish the above-inflation duty escalator for wine to support community pubs; and freeze duty on spirits to support the whisky industry
- reduce bingo duty to 10% and raise duty on fixed odds betting terminals to 25%
- tackle tax avoidance by requiring users of disclosed tax avoidance schemes and schemes covered by the General Anti-Abuse Rule to pay the tax in dispute upfront
- introduce further tax charges to discourage people from using corporate envelopes to invest in housing, and leaving it empty or under-used while not paying tax

The third section of Chapter 1 sets out further information on these and other announcements. Further information on the distributional impact of the Budget is available in 'Impact on households: distributional analysis to accompany Budget 2014'.

Chapter 2 sets out all measures announced in this Budget.

Annex A sets out further details on the welfare cap.

Annex B sets out the UK's long-term debt challenge.

Annex C presents financing information.

Annex D presents selected tables from the OBR's March 2014 'Economic and fiscal outlook'.

Budget decisions and government spending and revenue

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

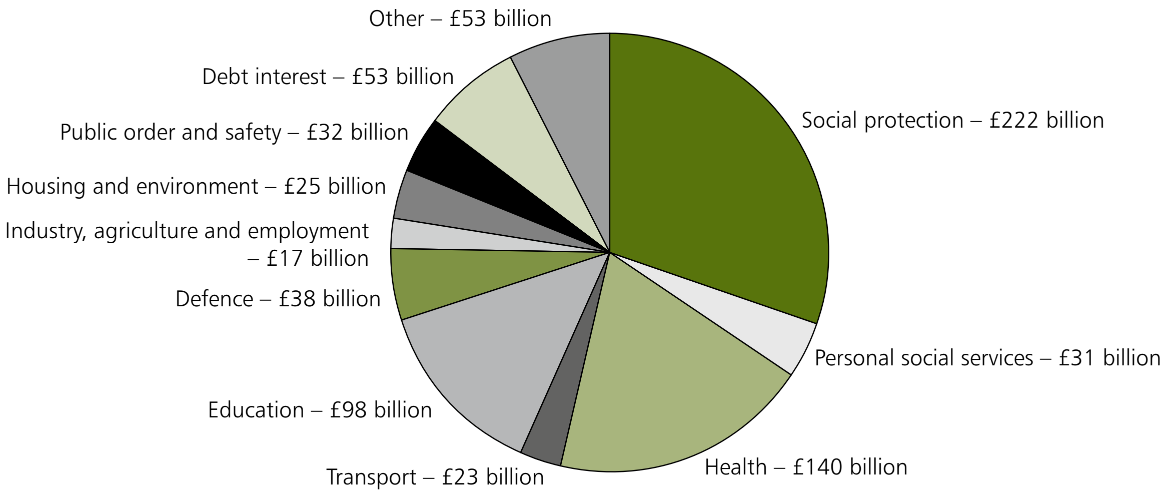
Table 1: Summary of Budget policy decisions[1]

	£ million				
	2014-15	2015-16	2016-17	2017-18	2018-19
Total spending policy decisions	-540	+80	+2,025	+2,055	+2,085
Total tax policy decisions	-10	-640	-1,800	-1,420	-1,685
TOTAL POLICY DECISIONS	**-550**	**-560**	**+225**	**+635**	**+400**

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

Chart 1 presents public spending by main function. Total Managed Expenditure is expected to be around £732 billion in 2014-15.

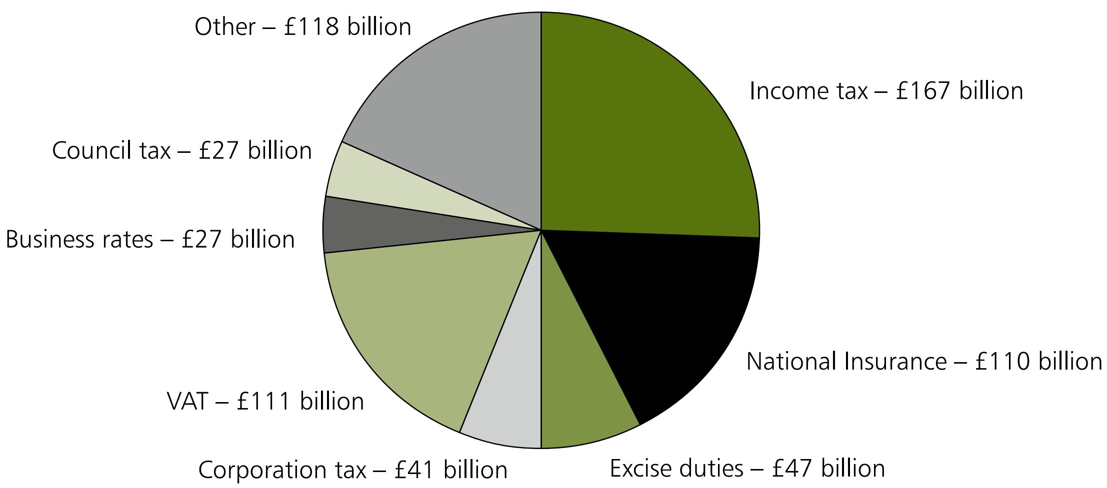
Chart 1: Government spending 2014-15



Source: Office for Budget Responsibility, 2014-15 estimates. Allocations to functions are based on HM Treasury analysis.

Chart 2 shows the different sources of government revenue. Public sector current receipts are expected to be around £648 billion in 2014-15.

Chart 2: Government receipts 2014-15



Source: Office for Budget Responsibility, 2014-15 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts - for example, interest and dividends. Figures may not sum due to rounding.

Budget Report

1 Budget Report

The UK economy and public finances

1.1 The UK has been hit by the most damaging financial crisis in generations and the government inherited the largest deficit since the Second World War. Through this period of uncertainty, the government's long-term economic plan ensured economic stability and provided the foundations for the UK's economic recovery. The plan is working. The UK had the fastest growth of the G7 economies in the year to the fourth quarter of 2013 and an increase in private sector employment of over one and a half million since the first quarter of 2010. The government has continued to take the difficult decisions needed to secure a resilient recovery for all, build a fairer society and to help equip the UK to succeed in the global race.

UK economy since 2010

1.2 After gaining momentum through 2013 the UK economic recovery is now well established. UK GDP grew 0.7% in the fourth quarter of 2013. UK inflation in January was below the 2% target for the first time since November 2009. The government's long-term economic plan has restored fiscal credibility, allowing activist monetary policy and the automatic fiscal stabilisers to support the economy. Measures such as the Funding for Lending Scheme (FLS) have helped ease credit conditions. This has been supported by far-reaching reform of the financial system and a comprehensive package of structural reforms.

1.3 UK annual GDP growth was 1.8% in 2013, exceeding the Office for Budget Responsibility's (OBR) Autumn Statement forecast of 1.4%, and significantly higher than GDP growth of 0.6% forecast at Budget 2013.[1] GDP growth in the year to the fourth quarter of 2013 was broad-based across the main sectors of the economy: the services sector grew by 2.7%, the production sector grew by 2.2% and the construction sector grew by 3.4%.[2] Reflecting increased momentum, the OBR's Budget 2014 forecast revises up GDP growth in 2014 to 2.7% and in 2015 to 2.3%.[3]

1.4 Recent UK growth has been strong compared to other advanced economies. In the fourth quarter of 2013 the UK experienced the fastest growth of the G7 economies, joint with Canada.[4] In the International Monetary Fund's (IMF) latest 'World Economic Outlook Update', GDP growth forecasts for the UK were revised up by more than any other G7 economy in both 2014 and 2015.[5]

[1] All UK economy data from the Office for National Statistics (ONS) unless otherwise stated.
[2] Service sector growth, 'Second estimate of GDP', ONS, February 2014; Construction sector growth, 'Construction output', ONS, March 2014; Production sector growth, 'Index of production', ONS, March 2014.
[3] 'Economic and fiscal outlook', OBR, March 2014.
[4] 'Quarterly National Accounts: Quarterly Growth Rates of Real GDP, change over previous quarter', Organisation for Economic Co-operation and Development (OECD), March 2014.
[5] 'World Economic Outlook Update', IMF, January 2014.

1.5 The UK saw a net increase of over 1.6 million jobs in the private sector between the first quarter of 2010 and the third quarter of 2013.[6] Around 4 jobs have been created in the private sector for every public sector job lost. Over the same period all nations and regions of the UK saw an increase in employment. And Scotland has the highest employment rate of all the nations in the UK.

1.6 In the last year, employment in the UK has grown faster than in France, Germany, Italy, Japan and the averages for the EU and G7 countries.[7] Employment at the end of 2013 has surpassed 30 million and the employment rate in the UK is higher than in the US for the first time since 1978.[8] The UK unemployment rate was 7.2% in the 3 months to December 2013, the lowest rate for nearly 5 years.

1.7 The effect of the financial crisis, high global commodity prices and euro area economic uncertainty were the main causes of lower than expected economic growth, especially in 2011 and 2012. The OBR's October 2013 'Forecast evaluation report' confirms their previous conclusion that fiscal policy "does not look the most obvious explanation for the bulk of the shortfall" in growth compared to their 2010 forecast.[9] Supporting this judgement, analysis by the Organisation for Economic Co-operation and Development (OECD) shows that the effect of the euro area crisis "has been a more important source of [forecast] error" than fiscal consolidation.[10] Furthermore, if Greece is excluded from the analysis, the OECD states that there does not appear to be any identifiable impact from fiscal consolidation on forecast errors.

Earnings and incomes

1.8 Only a sustained economic recovery, with growing productivity, will deliver a lasting improvement in living standards. Living standards have been directly affected by the financial crisis, as recognised by external commentators including the Institute for Fiscal Studies.[11] Against this, a resilient labour market and falling inflation have eased pressures on households' budgets.

1.9 Autumn Statement 2013 analysis made clear there has not been a break in the long-run relationship between productivity and total compensation, which takes into account both earnings and employer social contributions. Increases in productivity should therefore feed through into higher earnings growth; the Bank of England's February 'Inflation Report' reiterated this link.[12]

1.10 The OBR forecasts "productivity growth to pick up" to 2.2% in 2015 from 1.2% in 2014. Reflecting this, the OBR forecasts average earnings growth to increase to 3.2% in 2015 from 2.5% in 2014 and to rise more rapidly than inflation throughout the forecast period.

1.11 Earnings alone do not provide a complete picture of living standards, since they do not take into account other sources of income or the effect of tax and benefits. Taking tax policy into account, including the government's rise in the personal allowance, between April 2012 and April 2013 take-home pay increased faster than inflation on average across the earnings distribution, except for the top 10%.[13] Real household disposable income takes tax and benefits into account. The OBR forecasts growth in real household disposable income per capita to turn positive this year, growing at 0.5% in 2014 and 1.2% in 2015.

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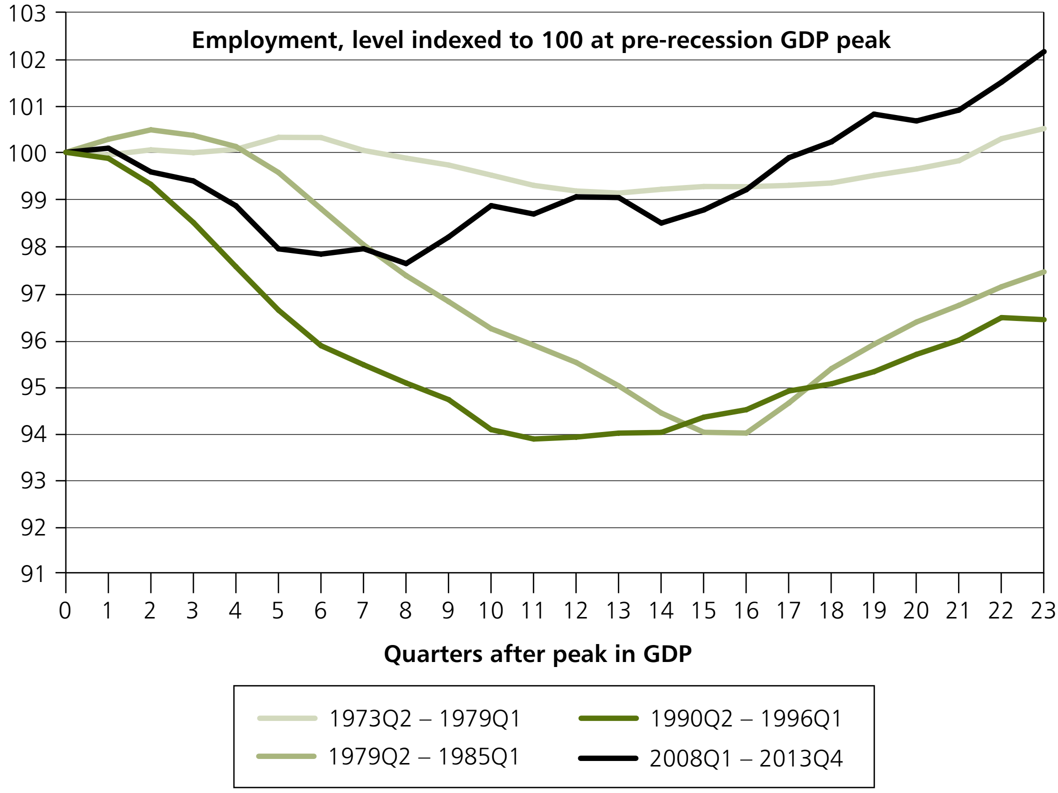
[6] 'Labour Market Statistics', ONS, February 2014. The net increase in private sector jobs between February to April 2010 and August to October 2013, excludes the impact of the reclassification from May to July 2012 of 196,000 employees in some educational bodies from the public to the private sector.
[7] 'Short-Term Labour Market Statistics: Employed Population', 2012 Q3 to 2013 Q3, OECD, March 2014.
[8] 'Databases, Tables & Calculators by Subject', 16 plus employment rate, Bureau of Labor Statistics, March 2014.
[9] 'Forecast evaluation report', OBR, October 2013.
[10] 'OECD Forecasts During and After the Financial Crisis: A Post Mortem', OECD, February 2014.
[11] Paul Johnson, Institute for Fiscal Studies, "There have been very significant falls in real earnings as a direct but delayed result of the 2008 recession, essentially." Treasury Select Committee experts hearing, December 2013.
[12] 'Inflation Report', Bank of England, February 2014.
[13] 'BIS analysis of changes in earnings net of income tax and NICs 2012-2013', Department for Business, Innovation and Skills, February 2014.

1.12 An individual's living standards are best supported by being in employment. The UK labour market has proved more resilient than expected since the start of the financial crisis, with employment performing strongly compared to previous recessions and recoveries, as set out in Chart 1.1. Employment returned to its pre-crisis level faster than in any other previous recovery over the last 40 years. Since early 2010, the pace of net employment creation has been 3 times as fast as over the same period in previous recessions and recoveries, with over 1 million more people in work.

Chart 1.1: Employment levels through recessions and recoveries

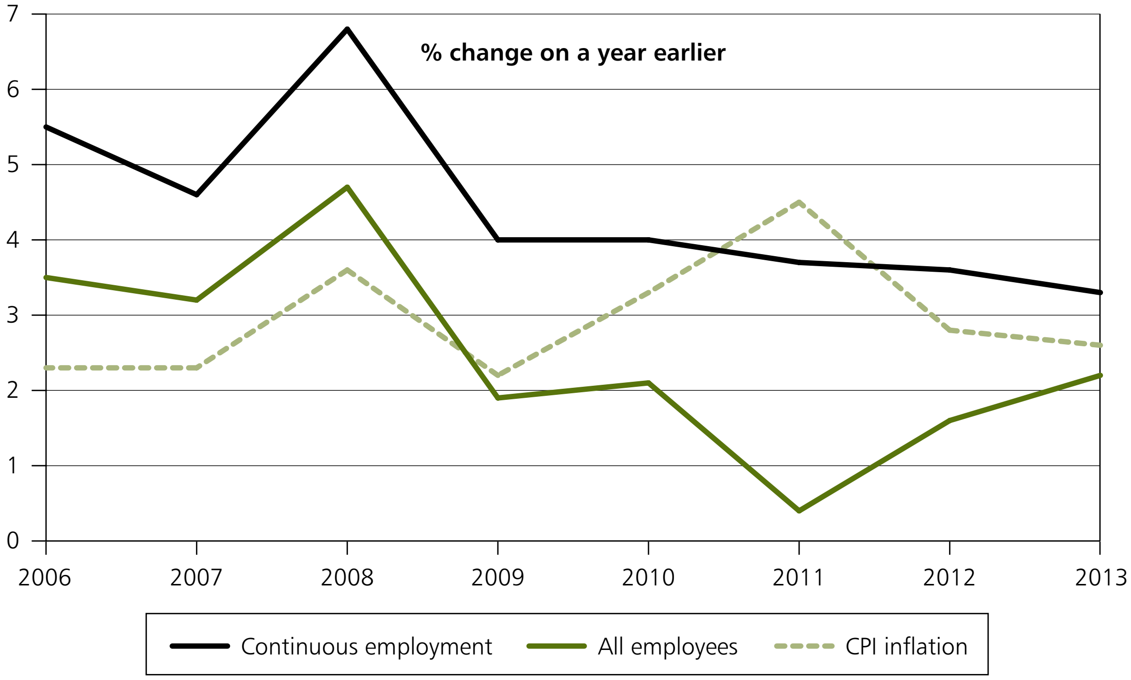


Source: Office for National Statistics and HM Treasury.

1.13 Relatively strong performance in employment has implications for movements in average wages. Looking only at jobs in which the employee has been in post for at least 1 year removes the influence of the changes in composition of the labour market.[14] Of all full-time employees, around two-thirds have stayed in the same job continuously for over a year.[15]

[14] 'Annual Survey of Hours and Earnings', ONS, December 2013 (provisional results).
[15] 'Annual Survey of Hours and Earnings' data, ONS, December 2012 and December 2013 (provisional results) and HM Treasury.

Chart 1.2: Growth in median full-time gross weekly earnings for all employees and those in continuous employment



Source: Office for National Statistics.

1.14 Chart 1.2 shows the difference in median earnings growth between all full-time employees and those who have stayed in continuous employment. As the chart shows, those who have been continuously employed for at least 1 year are typically experiencing faster earnings growth than the overall average. They have also typically seen their wages grow faster than inflation, with the exception of 2011 when the UK experienced commodity price driven inflation. Changes within the labour force, such as new entrants, can lower average wage growth across the whole economy. In practice however, in most cases where individuals are entering the workforce, they will benefit from an increase in income overall. The growth rate of average earnings therefore does not fully reflect the earnings growth seen by many individuals.

UK rebalancing, investment and trade

1.15 During the pre-crisis period weaknesses developed in the UK economy including low levels of investment and geographical imbalances. The manufacturing sector fell from 19% of the economy in 1997 to 11% in 2008. Over the same period the services sector grew from 69% of the economy to 77%. While total investment remained stable at roughly 17% of the economy the UK performed poorly compared to international peers. In the UK, the investment share of the economy was the lowest of all the G7 economies in every year since 1999. In 1998, imports exceeded exports for the first time since 1992, and have continued to do so.

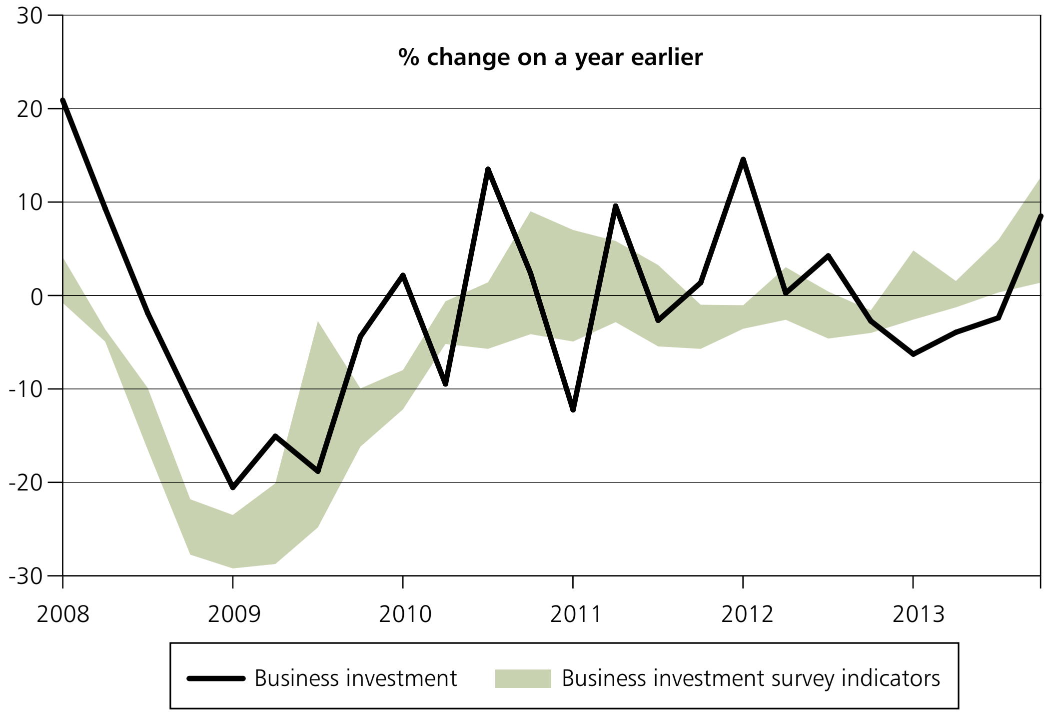
1.16 Between 1997 and 2008, London's economy grew by 95% in nominal terms, much faster than any other nation or region of the UK. As a consequence, the percentage of the UK economy accounted for by London rose from 19% in 1997 to 22% in 2008. As the recovery has become established, growth has been balanced across all main sectors in the year to the fourth quarter of 2013. This Budget sets out further action to help businesses to invest and export, and to ensure that growth is balanced across all sectors and throughout the UK.

1.17 Recent activity has seen expansion across all sectors of the economy. According to the Confederation of British Industry (CBI), business optimism in the services sector is the highest it has been since the survey began in 1998.[16] Business surveys suggest strong expansion in the construction sector with 10 consecutive months of growth.[17] Residential housing sector surveys have been especially strong and are considerably higher than the long-run average.

1.18 As the UK economy stabilises, uncertainty recedes and credit conditions ease, the investment environment will continue to improve. Business surveys have indicated improving conditions since the end of 2012 and for much of 2013 suggested positive business investment growth. Business investment strengthened during 2013 with growth of 8.5% in the year to the fourth quarter.

1.19 The OBR expects investment activity to gather pace this year. Its Budget 2014 forecast revises up annual business investment growth to 8.0% in 2014 and 9.2% in 2015.

Chart 1.3: Business investment and surveys of investment intentions



Source: Office for National Statistics, Confederation of British Industry, PricewaterhouseCoopers, British Chambers of Commerce, Bank of England and HM Treasury.

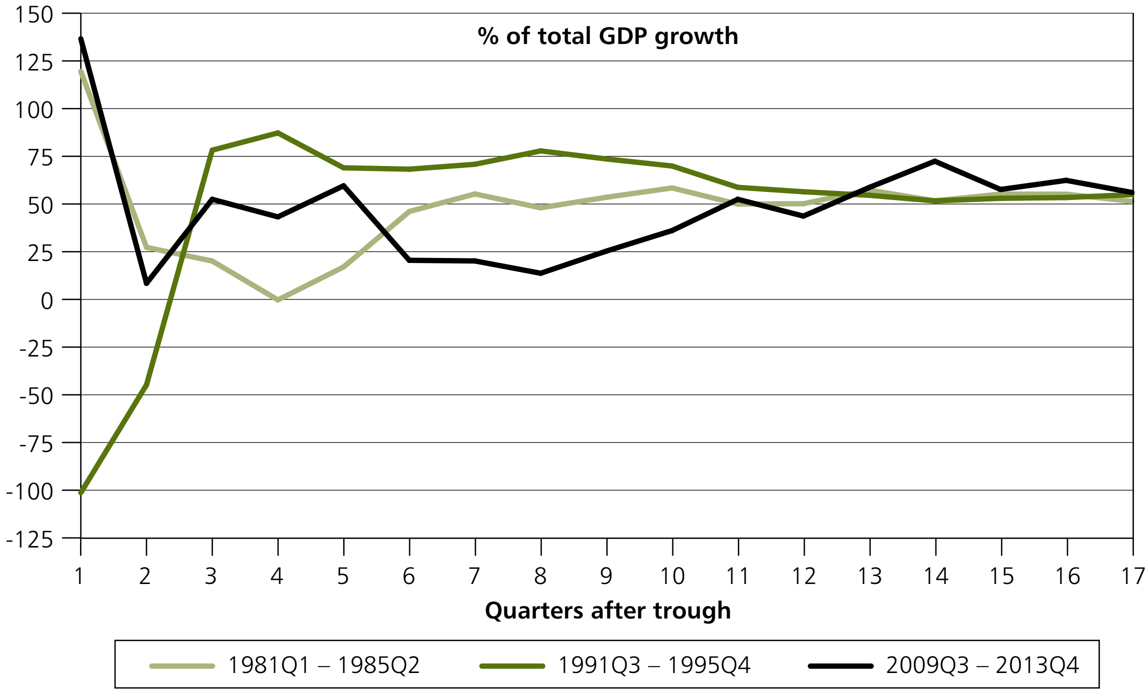
1.20 Net trade contributed 0.4 percentage points to GDP growth in the fourth quarter of 2013. But it was volatile through the year contributing 0.1 percentage points to GDP growth over the year as a whole. Goods exports to other EU countries have been subdued, but should pick up as confidence and growth in the euro area improves. At the same time, UK exporters have continued to expand in other markets, with goods exports to countries outside the EU rising 23% since 2010. Business surveys suggest exports may have risen further over the most recent period and January saw the fastest growth in export orders in nearly 3 years.[18]

1.21 Household consumption accounts for around two-thirds of UK GDP. In the immediate aftermath of the financial crisis household consumption was constrained by the need to pay down debt. This weighed on growth. As confidence has returned and the pace of household deleveraging has eased, consumption has increased and helped drive growth. This is consistent with historical precedent. Chart 1.4 shows that consumption made a contribution to GDP

[16] 'Service Sector Survey', CBI, February 2014.
[17] 'Market/CIPS UK construction PMI', Markit, February 2014.
[18] 'Market/CIPS UK manufacturing PMI', Markit, January 2014.

growth in the last 2 recoveries similar to that in the current recovery. In recent quarters the contribution of consumption to growth has been smaller than the consumption share of GDP.

Chart 1.4: Proportion of total GDP growth accounted for by household consumption in recoveries after GDP trough



Source: Office for National Statistics and HM Treasury.

1.22 Having fallen as low as ¼% in the first quarter of 2008, the saving ratio peaked at 8½% in the second quarter of 2009. It has since declined to around 5½% in the third quarter of 2013. Falls in the rate of saving are to be expected in periods where confidence is increasing. But the total stock of savings continues to increase and the total stock of financial assets rose 31% between the second quarter of 2009 and the third quarter of 2013. Total household debt as a percentage of disposable income has fallen over 30 percentage points since its pre-crisis peak. Unsecured debt as a percentage of disposable income has fallen 13 percentage points since its pre-crisis peak and is below its long-run average.[19]

Global developments and risks

1.23 Abandoning the government's long-term economic plan and the path of fiscal credibility would represent the most significant risk to the recovery. In addition, the UK faces a number of external risks. The nature of these risks is evolving. Autumn Statement 2013 highlighted an easing of some tail risks, particularly in the euro area, but with some political and economic risks remaining with regard to US fiscal policy and emerging markets. In the intervening period, global growth has picked up, led by advanced economies. US fiscal risks have diminished further, but risks in some emerging markets have increased, and the situation in Ukraine in particular represents a significant new risk.

1.24 In the US, which accounted for 17% of UK goods and services exports in 2012, fiscal uncertainties have eased. A bipartisan deal on expenditures through 2014 and 2015 was

[19] Total household debt as a percentage of household disposable income has fallen from a pre-crisis peak of 170% in the first quarter of 2008 to 138% in the third quarter of 2013. Unsecured household debt as a percentage of household disposable income has fallen from a pre-crisis peak of 42% in the first quarter of 2007 to 28% in the third quarter of 2013.

agreed in December, and legislation to raise the debt ceiling was passed by Congress in January. Stronger and relatively broad-based growth has been established and the unemployment rate continues to decline. As a result the Federal Reserve decided to slow its rate of asset purchases in December. Recent economy data has been mixed but it has been adversely affected by severe weather.

1.25 The euro area accounted for 40% of UK goods and services exports in 2012. Economic rebalancing in the periphery economies has been considerable. But while growth has returned, it is weak and unemployment remains high. Structural reforms will be necessary for individual countries to improve growth, employment and the competitiveness of the euro area. The UK is leading the argument for completion of the EU single market.

1.26 Emerging markets are a key focus of ongoing UK efforts to increase exports and rebalance the economy. Of these the BRIC economies (Brazil, Russia, India and China) taken together accounted for 7% of UK goods and services exports in 2012. China is undertaking substantial economic reform to rebalance its economy from investment and exports towards slower, consumption-driven growth, which would also increase their imports of goods and services the UK produces. Managing this transition and moving to a more moderate rate of credit growth while maintaining financial stability is a significant challenge but one upon which the Chinese authorities are acting.

1.27 The situation in some other emerging markets remains a concern as growth is below trend in many cases. But many emerging markets are more robust to shocks than in the mid 1990s. Tighter global financial conditions have contributed to capital outflows and currency depreciations since last summer. The underlying causes of vulnerability are domestic fragilities in many countries, which have built up over a long period of time and which require countries to undertake significant reforms. The reform challenge that has led Ukraine to seek international financial assistance is an example of such risk. In common with other emerging markets, the economic priority is for Ukraine, backed by external support, to undertake the reforms that will generate economic stability and prosperity for its citizens.

1.28 The broader geopolitical risks prompted by Russia's actions in Crimea and the potential impact of any disruption to energy markets are more serious. Any further deterioration in the situation is likely to have some impact on the UK, but the exact nature of any impact will depend on future political developments and in particular how persistent they are. As the Prime Minister said in the House of Commons on 10 March 2014: "…sanctions would have consequences for many EU member states, including Britain, but... the costs of not standing up to aggression are far greater."

Scotland in the UK

1.29 In September 2014, a referendum will ask the people in Scotland whether they want to stay in the UK, or leave and become a separate state.

1.30 Scotland has performed strongly because it is part of the UK. After gaining momentum in 2013, the recovery in the Scottish economy is now well established. And growth is better balanced, with all sectors of the economy contributing to growth in the most recent quarters. Like the rest of the UK, the Scottish labour market has also performed strongly, with employment growing by over 90,000 in the year to the fourth quarter of 2013.[20]

[20] 'Regional labour market statistics', ONS, February 2014. Annual increase in total employment to the fourth quarter of 2013.

1.31 Being part of a larger economy allows Scotland to pool resources and risks, and shields it from volatility. This provides Scotland with stable and secure funding to face major challenges, most notably from:

- fluctuating and declining North Sea tax revenues – in the last year alone, the OBR has revised down oil and gas revenues by £8 billion over the next 5 years. Since Budget 2010 the OBR has revised down these tax revenues over the 5 years to 2015-16 by £21 billion. Instead of needing to cut spending, the Scottish government has benefited from an additional £2.2 billion during the same period.
- a more rapidly ageing population than the UK, and a proportionately smaller working age population, which will increase pressures on Scottish health and welfare spending

1.32 Driven primarily by these 2 factors, a number of independent bodies have forecast that the fiscal positions of the UK and Scotland will diverge over time, with Scotland's notional fiscal position being worse than the UK as a whole.[21]

1.33 Earlier this year, the Treasury published 'Scotland analysis: Assessment of a sterling currency union' which concluded that it would not be in the economic interests of the UK or Scotland to enter a currency union.[22] This analysis has been supported by external commentators such as the National Institute of Economic and Social Research. A currency union would expose the UK to unacceptable risks, and an independent Scotland would have severe limitations on its sovereignty and the prospect of much more costly adjustment to economic shocks, both of which have been seen in the euro area. All 3 major UK political parties have ruled out sharing the pound as part of a currency union in the event of a vote for independence. Budget 2014 confirms the UK government's decision.

1.34 Regardless of the choice of currency, significant, long-lasting costs would come from dividing the UK market. Scottish businesses trade more with the rest of the UK than with the rest of the world combined. The separation of tax, regulation and welfare systems, and the emergence of a 'border effect', would make it harder for goods, capital and workers to move between Scotland and the continuing UK.

1.35 As part of the UK, Scottish individuals, businesses and sectors benefit from the support of the UK government. This is demonstrated by Budget 2014 which announces:

- a freeze on duties on spirits, which will support the Scotch whisky industry, one of Scotland's global success stories
- oil and gas measures to support further investment, exploration and the supply chain, which will support Scottish jobs
- an additional increase in the personal allowance to £10,500 in 2015-16; 2.3 million people in Scotland have benefited from this government's increases to the personal allowance, with 263,000 people lifted out of income tax altogether

[21] 'The next five years look better, but tough choices remain for Scotland', Institute for Fiscal Studies (IFS), 2014. 'UK – Scottish Independence: Will It Happen? What Would Be the Implications?', Citigroup, 2014. 'CPPR Briefing Paper: Analysis of Scotland's past and future fiscal position', Centre for Public Policy for Regions (CPPR), 2013.
[22] 'Scotland analysis: Assessment of a sterling currency union', HM Treasury, 2014.

Summary of economic forecast

Table 1.1: Summary of the OBR's central economic forecast[1]

	Percentage change on a year earlier, unless otherwise stated						
			Forecast				
	2012	2013	2014	2015	2016	2017	2018
GDP growth	**0.3**	**1.8**	**2.7**	**2.3**	**2.6**	**2.6**	**2.5**
Main components of GDP							
Household consumption[2]	1.5	2.3	2.1	1.8	2.5	2.7	2.4
General government consumption	1.6	0.9	1.2	-0.5	-1.2	-1.8	-0.9
Fixed investment	0.7	-0.5	8.6	8.2	7.8	7.9	6.8
Business	3.9	-1.2	8.0	9.2	8.1	8.7	7.7
General government[3]	0.6	-6.4	10.7	1.0	2.2	0.8	-0.5
Private dwellings[3]	-3.5	4.3	9.0	10.0	10.0	9.5	8.1
Change in inventories[4]	-0.2	0.3	0.1	0.0	0.0	0.0	0.0
Net trade[4]	-0.7	0.1	-0.2	0.1	0.0	0.0	-0.1
CPI inflation	**2.8**	**2.6**	**1.9**	**2.0**	**2.0**	**2.0**	**2.0**
Employment (millions)	**29.5**	**29.9**	**30.4**	**30.6**	**30.9**	**31.2**	**31.4**

[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 and statistical discrepancy.

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

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

[4] Contribution to GDP growth, percentage points.

Source: Office for Budget Responsibility.

1.36 Reflecting increased momentum during 2013, the OBR has revised up its forecasts for UK GDP growth in 2014 from 2.4% to 2.7% and in 2015 from 2.2% to 2.3%. The OBR forecasts GDP growth of 2.6% in 2016, 2.6% in 2017 and 2.5% in 2018. The OBR forecasts that GDP will return to its pre-crisis peak in the third quarter of 2014.

1.37 The claimant count fell by 327,600 in the year to January 2014, the largest annual fall since March 1998. At the start of 2014, the claimant count was 1.2 million, the lowest level since December 2008. The claimant count is forecast to continue falling, dropping below 1 million for the first time since 2008 by the middle of 2017.

1.38 The OBR has revised down its forecast for unemployment in all years, and expects a rate of 6.8% in 2014, falling to 5.4% in 2018. It has revised up its forecast for employment, and expects it to rise by 1 million over the forecast period from 30.4 million in 2014 to 31.4 million in 2018. Youth unemployment is falling, including for those who are long-term unemployed. Youth unemployment fell 48,000 in the fourth quarter of 2013 and 58,000 in the year. Long-term youth unemployment fell 25,000 in the fourth quarter of 2013 and 20,000 in the year.

1.39 The output gap, which represents the amount of spare capacity in the economy, is expected to be smaller across the forecast period than in the Autumn Statement forecast. With faster growth in GDP, unemployment falling more quickly and slack in the labour market now reducing, the OBR now expects the output gap to close in the second quarter of 2018, around a year earlier than forecast at Autumn Statement 2013. As the economy approaches full capacity, GDP growth returns to around its potential growth rate, and this narrowing of the output gap means that the upward revision to GDP growth is largely cyclical rather than structural.

1.40 The Chief Secretary to the Treasury said in March 2014: "There is now just one remaining major ingredient that needs to be added to make this recovery sustainable, and based on the rising productivity necessary for rising living standards. Business investment."[23] The OBR has

[23] 'Memo to the City: It's time to invest', City AM, RT Hon Danny Alexander MP, 4 March 2014.

revised up its business investment growth forecast in 2014 from 5.1% to 8.0% and expects it to rise further in 2015 with growth of 9.2%. The OBR's 'Economic and fiscal outlook' assumes that the temporary increase in the Annual Investment Allowance announced in Budget 2014 "leads to a total of just under £1 billion of business investment being brought forward from 2016 and 2017 into 2014 and 2015."[24] The OBR also expects private dwellings investment to grow strongly at 9.0% in 2014, 10.0% in 2015 and 10.0% in 2016. The OBR expects exports growth of 2.6% in 2014, rising to 4.7% in 2015 and 5.0% in 2016. The OBR expects this to be broadly offset by imports growth with net trade expected to make a negligible contribution to GDP growth through the forecast period.

1.41 The OBR expects CPI inflation to be below target in 2014 at 1.9% and then stay at the 2.0% target for the rest of the forecast period. The OBR forecasts average earnings to grow 2.5% in 2014. It expects average earnings to grow faster than inflation through the forecast period, rising to 3.8% in 2018. The OBR also expects growth in real household disposable income to rise through the forecast period, from 1.2% in 2014 to 2.2% in 2018.

The government's plan

1.42 The government's long-term economic plan builds a stronger, more competitive economy, a fairer society, and secures a better future for Britain by:

- reducing the deficit to deal with the UK's debts, safeguard the UK economy for the long term and keep mortgage rates low
- cutting income taxes and freezing fuel duty to help hardworking people be more financially secure
- creating more jobs by backing small business and enterprise with better infrastructure and lower job taxes
- capping welfare and controlling immigration so the UK economy delivers for people who want to work hard and play by the rules
- delivering the best schools, skills and apprenticeships for young people so the next generation can succeed in the global race

1.43 In order to safeguard the economy for the long term, the government is continuing to take decisive action through: monetary activism and credit easing, deficit reduction, reform of the financial system, and a comprehensive package of structural reforms.

Monetary activism

Monetary policy

1.44 Monetary policy has a critical role to play in supporting the economy as the government delivers on its commitment for necessary fiscal consolidation. The government has ensured that monetary policy can continue to play that role fully by updating the UK's monetary policy framework at Budget 2013. The Monetary Policy Committee (MPC) of the Bank of England has full operational independence to set policy to meet the inflation target. **In this Budget, the government reaffirms the inflation target of 2% for the 12-month increase in the Consumer Prices Index (CPI), which applies at all times.** The government also confirms that the Asset Purchase Facility (APF) will remain in place for the financial year 2014–15.

1.45 In August 2013, the MPC announced its decision to deploy forward guidance to help to secure the nascent recovery. On 12 February 2014, the MPC outlined the next phase of guidance, setting out the factors that will guide its decisions and how Bank Rate is likely to

[24] 'Economic and fiscal outlook', OBR, March 2014.

evolve as the economy continues to recover. The MPC judged that there remained scope to absorb spare capacity further before raising Bank Rate, and that when Bank Rate does increase; the appropriate path is expected to be gradual. The actual path of interest rates over the next few years will depend on economic developments. Survey evidence, reported in the Bank of England's February 2014 'Inflation Report', suggested that forward guidance is working. The majority of businesses indicated that the Bank of England's forward guidance had made them more confident about the near term prospects for the UK economy, in many cases encouraging them to hire and invest.[25]

Credit easing

1.46 The FLS has been successful in meeting its objective to provide incentives for banks and building societies to boost their lending to the UK economy. Overall net lending by banks and building societies participating in the FLS was £10.3 billion between its launch and the end of 2013.[26] Following the refocusing of the scheme announced by the Treasury and the Bank of England in November 2013, 34 participants have signed up, of which 28 will receive Initial Allowances totalling £32.7 billion. Of this Initial Allowance, £17 billion reflects 10 times the positive net lending to small and medium-sized enterprises (SME) since the start of the second quarter of 2013.

1.47 Against this backdrop, credit conditions are improving for SMEs. According to the Bank of England's 'Credit Conditions Survey 2013 Q4,' the net balance of lenders reporting increased credit availability for small businesses was the second highest since the question was first asked in the fourth quarter of 2009 and gross lending to SMEs was 13% higher in 2013 than in 2012.[27]

Deficit reduction

Fiscal strategy

1.48 The government inherited the largest deficit in post-war history due to the financial crisis of 2008 and 2009 and unsustainable pre-crisis increases in public spending.[28] The historically high level of borrowing risked undermining fairness, growth and economic stability in the UK. In 2010 the government set out clear, credible and specific medium-term fiscal consolidation plans to return the public finances to a sustainable path. The government's fiscal strategy has restored fiscal credibility, allowing activist monetary policy and the automatic stabilisers to support the economy and ensure the burden is shared fairly across society.

1.49 The government is making significant progress in reversing the unprecedented rise in borrowing between 2007-08 and 2009-10. The OBR's preferred measure of 'underlying' public sector net borrowing has fallen by a third as a percentage of GDP since 2009-10 and is forecast to have fallen by a half as a percentage of GDP by 2014-15.[29] Public sector net borrowing is forecast to reach a small surplus in 2018-19. The government's consolidation plans, as set out in Table 1.2, have been central to the reduction in the deficit, with £64 billion of the £80 billion spending reductions over Spending Review 2010 already implemented. The government is continuing to take action to improve financial management and spending control. Departments remain ahead of their consolidation targets and are again forecast to underspend by £7 billion in 2013-14. Underspends are forecast to continue to the end of this Parliament.

1.50 The OBR now expects the 'underlying' deficit to be £24 billion lower over the forecast period than predicted at Autumn Statement 2013. In the OBR's view, this reflects

[25] 'Inflation Report', Bank of England, February 2014
[26] 'New Release – Bank of England and HM Treasury Funding for Lending Scheme – 2013Q4 Usage and Lending Data and Initial Allowance data for the Scheme Extension', Bank of England, March 2014.
[27] 'Credit Conditions Survey 2013 Q4', Bank of England, January 2014; Bank of England, March 2014.
[28] 'Three Centuries of data on the UK economy', Bank of England; 'Public Sector Finances', ONS, February 2014.
[29] 'Public Sector Finances', ONS, February 2014; 'Economic and Fiscal Outlook', OBR, March 2014. Public sector net borrowing fell from 11% of GDP in 2009-10 to 7.3% in 2012-13 and is forecast to fall to 5.5% in 2014-15.

the improvement in the economic outlook since Autumn Statement 2013 rather than an improvement in the economy's growth potential. As a result, there is little change since the Autumn Statement to the structural deficit, which reflects the fiscal position taking account of the effects of the economic cycle. The persistence of this structural challenge supports the government's argument that economic growth alone cannot be relied upon to eliminate a structural deficit.

1.51 Public sector net debt is forecast to peak at 78.7% of GDP in 2015-16, 1.2% lower than at Autumn Statement 2013, but an increase of around 40% of GDP since 2007-08.[30] The UK therefore continues to face a long-term challenge in reducing debt to sustainable levels.

1.52 Reflecting the government's commitment to responsible fiscal policy, and despite the improved borrowing forecast by the OBR, Budget 2014 sets out a fiscally neutral response with the improvement in the fiscal forecast helping to return the public finances to a sustainable position.

Table 1.2: Total consolidation plans over this Parliament

	£ billion			
	2012-13	**2013-14**	**2014-15**	**2015-16**
Policy inherited by the government	**41**	**56**	**70**	
Spending[1,2]	25	37	49	
Tax[2]	17	18	21	
Spending share of consolidation (%)	59	67	69	
Total discretionary consolidation	**78**	**90**	**104**	**126**
Spending[1,2,3]	56	64	80	101
Tax[2,3]	22	25	23	25
Spending share of consolidation (%)	*72*	*72*	*78*	*80*

[1] Spending consolidation is attributable to 3 factors: (a) reductions in DEL are calculated by assessing nominal DEL totals against a counterfactual of growing DEL from 2010–11 in line with general inflation in the economy, as set out in Table 4.8 of the OBR's pre-Budget forecast (June 2010); (b) reductions in AME due to the net effect of policy changes announced since the June Budget 2010; and (c) estimated debt interest savings, updated for market interest rates consistent with the OBR's March 2014 Economic and fiscal outlook. This calculation excludes the one-off impact of the 4G spectrum asset sale and financial transactions in CDEL.

[2] This takes account of the latest costings.

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

Source: Office for Budget Responsibility and HM Treasury.

Fiscal forecast

1.53 Consistent with the OBR's definition of 'underlying' public sector net borrowing, the deficit forecasts in this Budget are presented excluding the effect of the transfer of assets from the Royal Mail Pension Plan to the public sector and excluding the effects of the transfers to and from the Asset Purchase Facility (APF).

1.54 From its post-war peak of 11% of GDP in 2009-10, public sector net borrowing is forecast to:[31]

- be 4.2% of GDP in 2015-16, the end of this Parliament
- be in a small surplus by 0.2% of GDP in 2018-19

1.55 Public sector net debt is forecast to:

- be 1.2% of GDP lower in 2015-16 than forecast at Autumn Statement 2013
- peak at 78.7% of GDP in 2015-16, before falling each year and reaching 74.2% of GDP in 2018-19

[30] 'Public Sector Finances', ONS, February 2014; 'Economic and Fiscal Outlook', OBR, March 2014.
[31] 'Public Sector Finances', ONS, February 2014.

Table 1.3: Overview of the OBR's central fiscal forecast

	% GDP, unless otherwise stated							
	Outturn		Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Fiscal mandate								
Cyclically-adjusted surplus on current budget	-3.8	-3.5	-2.8	-2.2	-1.5	-0.2	0.7	1.5
Deficit excluding Royal Mail Pension Plan transfer and APF cash transfers (OBR's 'underlying' deficit)[1]								
Public sector net borrowing	7.6	7.3	6.6	5.5	4.2	2.4	0.8	-0.2
Public sector net borrowing (£bn)	117.4	114.8	107.8	95.5	75.2	44.5	16.5	-4.8
Cyclically-adjusted net borrowing	5.6	5.3	5.0	4.5	3.4	1.9	0.6	-0.3
Surplus on current budget	-5.7	-5.9	-5.1	-3.9	-2.7	-0.9	0.5	1.5
Primary balance	-4.8	-4.7	-4.0	-2.9	-1.4	0.5	2.1	3.2
Cyclically-adjusted primary balance	-2.8	-2.8	-2.5	-1.9	-0.6	1.0	2.3	3.2
Deficit excluding Royal Mail Pension Plan transfer								
Public sector net borrowing	7.6	6.9	5.8	4.9	3.8	2.2	0.9	-0.1
Public sector net borrowing (£bn)	117.4	108.4	95.6	83.9	68.3	41.5	17.8	-1.1
Deficit including Royal Mail Pension Plan transfer								
Public sector net borrowing	7.6	5.1	5.8	4.9	3.8	2.2	0.9	-0.1
Public sector net borrowing (£bn)	117.4	80.3	95.6	83.9	68.3	41.5	17.8	-1.1
Treaty deficit[2]	7.6	5.2	6.0	5.0	4.0	2.4	1.1	0.1
Cyclically-adjusted Treaty deficit	5.6	3.2	4.4	4.0	3.2	1.8	0.9	0.1
Debt								
Public sector net debt[3]	70.9	74.2	74.5	77.3	78.7	78.3	76.5	74.2
Treaty debt[4]	84.9	88.3	89.6	91.8	93.1	91.9	89.4	86.6
Output gap	-2.9	-2.8	-2.0	-1.3	-1.0	-0.6	-0.2	0.0
Memo: total policy decisions[5]			*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*

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

[1] OBR's underlying public sector net borrowing excludes the transfers associated with the Royal Mail Pension Plan in 2012-13 and ongoing between the Exchequer and the Bank of England's Asset Purchase Facility.

[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 National Statistics, Office for Budget Responsibility and HM Treasury.

ESA10 and ONS Review of Public Sector Finance Statistics

1.56 The Office for National Statistics (ONS) has published 2 articles highlighting significant revisions to public sector net borrowing and public sector net debt that will take place in September 2014.[32] These revisions result from the introduction of the European System of Accounts 2010 (ESA10), an update of Statistical Guidance that applies across all EU member states, and the implementation of changes from the 2013 ONS review of Public Sector Finance Statistics and will apply from 1997-98 or earlier.

1.57 The OBR has provided further details of the effects of the forthcoming changes on the forecast in Annex B of its March 2014 'Economic and fiscal outlook'. These changes are summarised in Table 1.4. As noted by the OBR, "these are changes to the way the public sector's finances are measured, not to the underlying activities being measured."[33]

[32] 'Transition to ESA10: Update to Impact on Public Sector Finances', ONS, February 2014 and '2013 Review of Public Sector Finance Statistics: Consultation Response', ONS, February 2014.
[33] 'Economic and fiscal outlook', OBR, March 2014.

1.58 The most significant change from the implementation of ESA10 is the classification of Network Rail, which from September 2014 will be reclassified to central government with effect from 2004-05. As set out in Autumn Statement 2013, the decision on the classification of Network Rail will not change the industry structure or affect the day-to-day operations of the rail network. The implementation of ESA10 also changes the way in which the receipts from the sale of 3G and 4G Licences are recorded. These are now considered to be rental payments received over the period of the licence rather than as one-off capital receipts recorded at the point of the sales in 2000-01 and 2012-13 respectively.

1.59 As part of its review of Public Sector Finances, the ONS has reviewed the treatment of the APF and the Special Liquidity Scheme in the fiscal aggregates (which revise them back to 2008-09). These are now treated as part of the public sector in the same way as all the other parts of the Bank of England. The OBR notes that they will also continue to look at a measure of net borrowing that is broadly comparable to their current 'underlying' measure of public sector net borrowing.[34] The ONS's review also changes the treatment of the government's holding of shares in Royal Bank of Scotland (RBS) and Lloyds, which are now treated in the same way as other government shareholdings rather than as a liquid asset which reduces public sector net debt.

Table 1.4: Impact of ESA10 and PSF Review changes on deficit and debt[1]

	Implied Outturn	Implied forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Deficit (£ billion)							
Public sector net borrowing (current)[2]	108.4	95.6	83.9	68.3	41.5	17.8	-1.1
Public sector net borrowing (ESA10), *of which:*	120.1	98.3	86.6	68.7	41.6	16.1	-4.8
Network Rail borrowing	*2.8*	*2.8*	*3.7*	*4.0*	*3.7*	*3.6*	*2.3*
Financial sector interventions	*-3.5*	*-0.2*	*-0.9*	*-3.5*	*-3.5*	*-5.2*	*-5.7*
Public sector net borrowing (ESA10) ex RMPP and APF, *of which:*	123.5	110.6	99.1	79.1	48.1	19.9	-2.9
APF	*9.9*	*12.4*	*12.5*	*10.4*	*6.4*	*3.9*	*2.0*
Debt (% GDP)[3]							
Public sector net debt (current)	74.2	74.5	77.3	78.7	78.3	76.5	74.2
Public sector net debt ex banks (ESA10), *of which:*	78.3	79.4	82.0	83.1	82.3	80.1	77.3
Network Rail debt	*1.8*	*1.9*	*2.0*	*2.1*	*2.2*	*2.3*	*2.3*
Financial sector interventions	*5.0*	*5.7*	*5.5*	*5.1*	*4.6*	*4.1*	*3.5*
Treaty debt (current)[4]	88.3	89.6	91.8	93.1	91.9	89.4	86.6
Treaty debt (ESA10)[5]	86.9	88.3	90.5	91.9	90.9	88.6	85.8

[1] Revisions apply back to 1997-98 or earlier.

[2] Excluding the transfers associated with the Royal Mail Pension Plan in 2012-13.

[3] Debt at end March; GDP centred on end March (adjusted ESA10 nominal GDP by mid-point of ONS's 2.5% to 5% range).

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

[5] The different treatment of financial sector interventions under ESA10 does not affect Treaty debt.

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

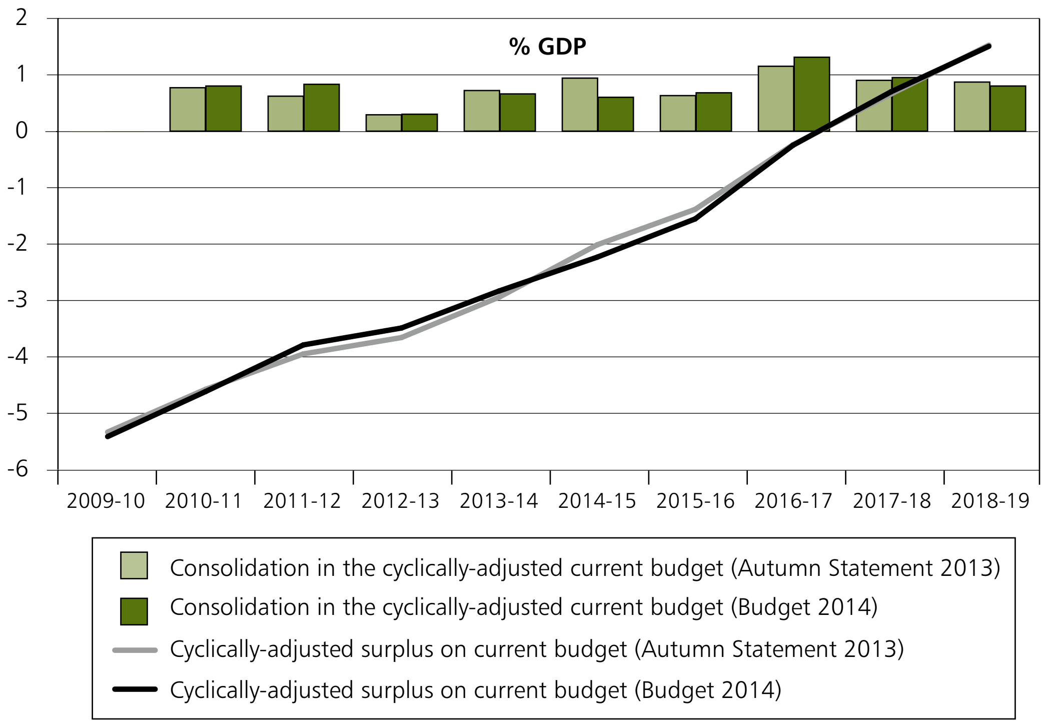
[34] The OBR notes that such a measure would continue to exclude the one-off impact of the transfer of the assets and liabilities of the Royal Mail Pension Plan in 2012-13 (a £10 billion increase to public sector net borrowing under ESA10) and also, in effect, to remove the impact on the cost of debt interest each year of the stock of gilt assets in the APF related to quantitative easing.

Performance against the fiscal mandate

1.60 As announced at 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, 5-year forecast period.

1.61 Including all measures set out in this Budget, the OBR's March 2014 'Economic and fiscal outlook' shows that the government remains on course to meet the fiscal mandate. The OBR's judgement is that the government's policies are consistent with a roughly 75% chance of achieving the fiscal mandate in 2018-19. The OBR's forecast is for the fiscal mandate to be achieved a year early, in 2017-18. Chart 1.5 shows performance against the government's fiscal mandate.

Chart 1.5: Consolidation in the cyclically-adjusted current budget

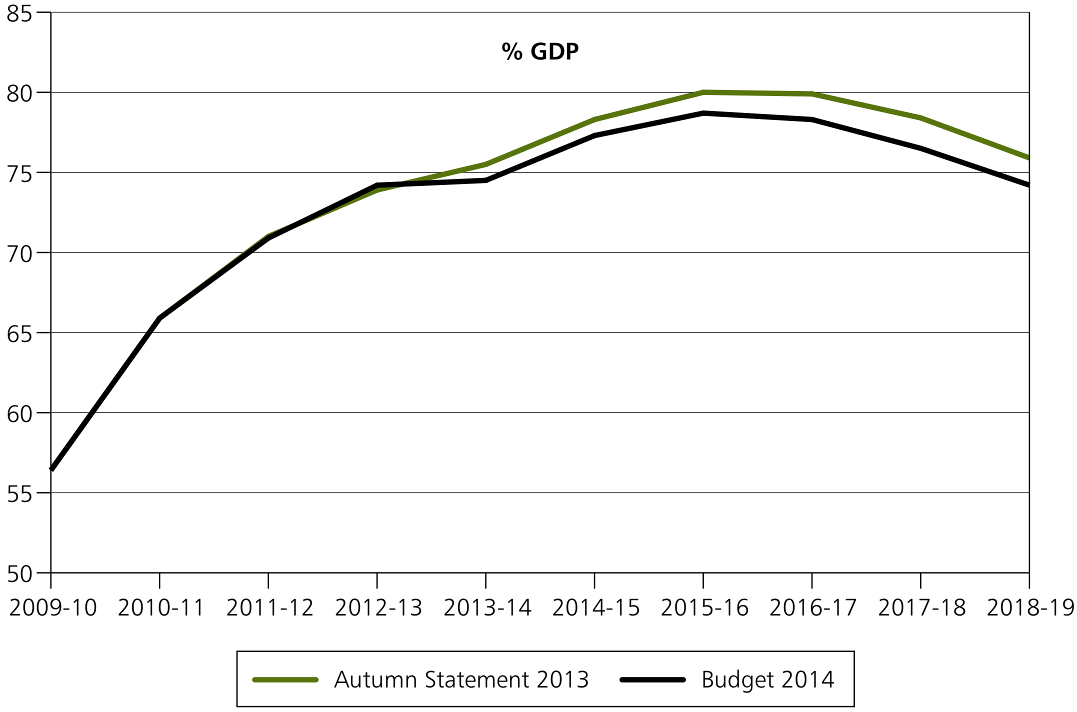


Source: Office for Budget Responsibility and HM Treasury.

1.62 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.

1.63 The OBR has forecast 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 target for debt. Chart 1.6 shows the forecast for public sector net debt as a percentage of GDP.

Chart 1.6: Public sector net debt



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

Performance against EU targets

1.64 The government remains committed to bringing the UK's Treaty deficit in line with the 3% target set out in the EU Stability and Growth Pact (SGP). The UK is forecast to meet the EU SGP target for the Treaty deficit in 2016-17.

Spending consolidation over the longer term

1.65 In line with previous policy, Budget 2014 confirms that the fiscal assumption, expressed in terms of Total Managed Expenditure (TME), will continue to fall in 2016-17 and 2017-18 at the same rate as over this Parliament. As set out in Autumn Statement 2013, the fiscal assumption expressed as TME will be held flat in real terms in 2018-19.

1.66 The TME growth rate is now calculated on a consistent basis, comparing the 2010-11 plans inherited by this government to 2015-16 plans. By 2018-19 this is equivalent to a £4.5 billion reduction in TME. At the same time ONS and OBR revisions to GDP deflators have the effect of increasing TME in 2018-19. The net effect is that the baseline, pre-measures, level of TME, from which further Budget 2014 savings are subtracted, is broadly in line with the Autumn Statement 2013 forecast.

1.67 Budget 2014 reaffirms the government's continued willingness to take tough decisions to get the public finances onto a sustainable footing and **announces that TME will be reduced by around a further £2 billion each year from 2016-17** to take account of:

- permanent reductions to spending as a result of Autumn Statement measures to reduce spending in 2015-16
- action to ensure that employers are meeting the cost of public service pension schemes, which will result in a permanent reduction to Annually Managed Expenditure (AME) of £725 million in 2015-16, rising to around £1 billion a year from 2016-17 onwards

Efficiency and reform

1.68 Over the course of this Parliament, the government has taken significant action to reduce costs by increasing the efficiency of the public sector. Meeting future fiscal assumptions will require further consolidation over the next Parliament. In this context it becomes even more important that the government gets the most out of each pound of taxpayers' money. This Budget sets out further action to prepare for future challenges.

1.69 This government has introduced a programme to drive efficiencies and reduce wasteful expenditure. By 2014-15, departments working with HM Treasury and the Efficiency and Reform Group in the Cabinet Office will be saving £20 billion a year compared to 2009-10. Spending Round 2013 identified over £5 billion additional efficiency savings in 2015-16. Further efficiency savings will be required to support the government's commitment to put the public finances on a sustainable path. **The Chief Secretary to the Treasury has asked the Minister for the Cabinet Office to set out an ambitious new efficiency programme to deliver savings from 2016-17 and across the next Parliament, in time for Autumn Statement 2014.**

1.70 On 13 March 2014, the government confirmed that in 2014-15 pay awards for most public sector workers covered by the recent Pay Review Body recommendations will be limited to 1%.

1.71 The government has exercised firm restraint over public sector pay. By 2014-15 pay restraint will have reduced spending pressures by an estimated £12 billion. In the civil service, the government is making good progress towards removing progression pay by 2015-16. **Proposals have now been agreed with departments covering over 50% of the civil service workforce previously identified with progression pay.**

1.72 The next government will need to continue to reform and take tough decisions on public sector pay and workforce beyond 2015-16. Autumn Statement 2013 announced that the government will pilot pay bill control in a number of government organisations from 2014-15. This is a new method of pay restraint where the overall pay budget is controlled for the organisation, rather than average pay awards. **The organisations participating in the pay bill control pilot will be the Intellectual Property Office and the Department for Environment, Food and Rural Affairs (DEFRA).**

1.73 The government has taken action to free up land for productive economic use. The Government Property Unit's Strategic Land and Property Review has now concluded and identified scope to generate £5 billion of receipts from land and property to support growth and drive efficiency. A significant amount of this will be brownfield land. Departments have already committed to reforms which will release £3.5 billion of land and property. A further £1.5 billion will be identified through ongoing operational reviews. By Autumn Statement 2014 the government will look to quantify its housing and growth ambitions for this new surplus land programme.

1.74 Budget 2014 announces the Government Property Unit will increase its work with local areas on better use of public sector assets, linking in with Growth Deals and building on the Strategic Land and Property Review. As with the One Public Estate pilots already taking place, this work will focus on opportunities for cross public sector working, efficiency and growth.

1.75 The government has supported local areas to radically reform public services, including through the Troubled Families Programme and **Budget 2014 announces an acceleration of this programme, expanding early to start working with up to 40,000 additional families in 2014-15**. The government is looking now to further reduce the waste and complexity of public services, whilst protecting outcomes for individuals. This could include reshaping public services to better support the unemployed into work, vulnerable children and young people, people experiencing mental health problems, and in the criminal justice system, while continuing to bear down on costs for the taxpayer. The government is launching a seminar series led by HM Treasury which will engage with key stakeholders to consider opportunities for further reform, and to develop ideas to support further fiscal consolidation in the next Parliament.

Welfare cap

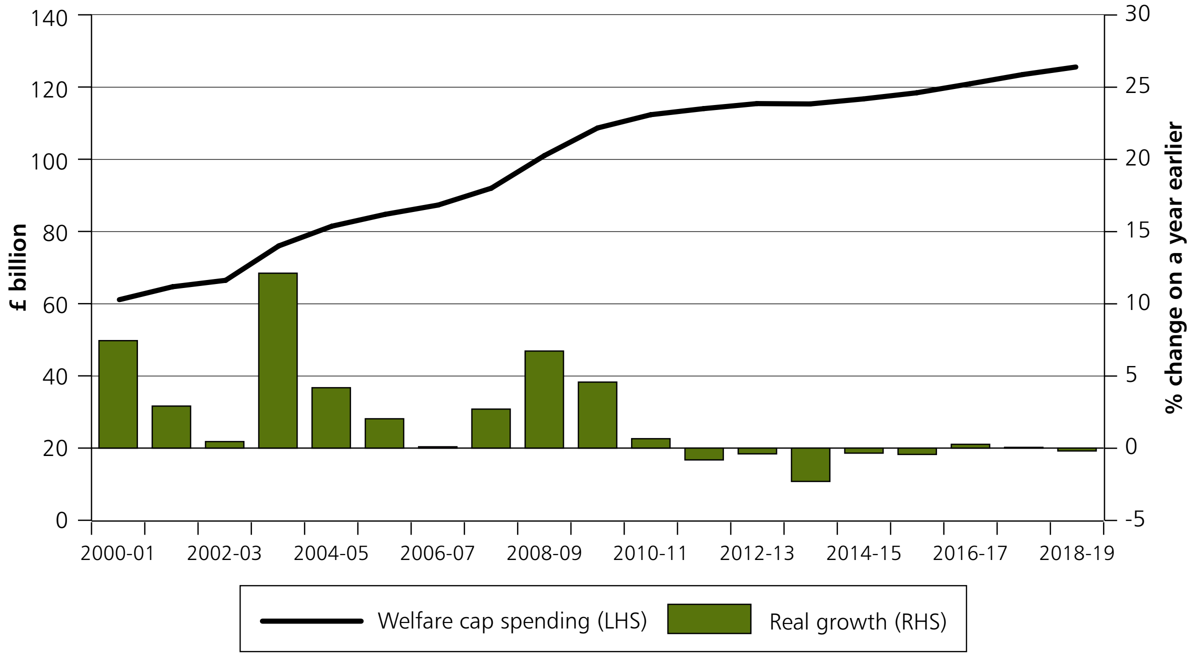
1.76 The government announced at Spending Round 2013 that a cap on welfare spending will be introduced to improve spending control. **Budget 2014 caps welfare spending in scope for the years 2015-16 to 2018-19 at the level of the OBR's forecast, as published in the OBR's March 2014 'Economic and fiscal outlook'**. The level of the welfare cap is set out in Table 1.5 and Chart 1.7. This will ensure that significant increases in spending do not go uncorrected. A forecast margin of 2% above this level will ensure that policy action is not triggered by small fluctuations in the forecast, but will not allow for discretionary policy action which breaches the level of the cap.

Table 1.5: The level of the welfare cap and the forecast margin

	£ billion			
	2015-16	**2016-17**	**2017-18**	**2018-19**
Welfare cap	119.5	122.0	124.6	126.7
Forecast margin (2%)	2.4	2.4	2.5	2.5

Source: Office for Budget Responsibility and HM Treasury.

Chart 1.7: Welfare cap spending



Note: High real growth in 2003-04 reflects the introduction of HMRC Tax Credits.
Source: Office for Budget Responsibility, Department for Work and Pensions, Northern Ireland Social Security Agency and HM Treasury.

1.77 The welfare cap will be included in the 'Charter for Budget Responsibility' alongside the fiscal mandate. An updated 'Charter for Budget Responsibility' and motion for approval was laid before Parliament on 19 March 2014. The OBR will make its first assessment of performance at Autumn Statement 2014.

1.78 As set out at Autumn Statement 2013, the cap will apply to all welfare spending in AME, with the exception of the state pension and the automatic stabilisers. In future, any new lines of spending that fall within the OBR's social security or personal tax credits forecasts and impact upon Public Sector Current Expenditure (PSCE) will be presumed to be included within the cap. A full list of expenditure items within the scope of the welfare cap is published at Annex A. The list of benefits in scope will be published at every Budget. As set out in the modified 'Charter for Budget Responsibility' laid before the House of Commons, any subsequent changes to that list must be voted on.

Longer term debt challenge

1.79 Action taken by this government has reduced the 'underlying' deficit by a third and public sector net borrowing will reach a small surplus by 2018-19. However, the record deficit inherited by the government means that public sector net debt will have risen by around 40% of GDP to a forecast peak of 78.7% of GDP in 2015-16, and will be 74.2% of GDP in 2018-19 – or over £50,000 per household.[35] This is the highest level of debt since the end of the 1960s.[36]

1.80 As set out in Annex B, high levels of debt impose significant burdens now and in the future through higher interest payments, reducing resources available to support public services. The government's consolidation plans over this Parliament are estimated to result in debt interest savings of around £10 billion per year by 2015-16.[37] Nevertheless, in 2015-16, interest payments are forecast to be £59 billion – more than the budget of the Department for Education as set out in Table 2.4. Reducing debt in future will help control these costs. For every 10% of GDP that debt was lower, debt interest payments would be reduced by £8 billion a year.[38]

1.81 High public debt also increases the UK's vulnerability to future shocks. Starting from a higher level of debt, it is more likely that a new shock will increase debt to levels the markets would view as potentially unsustainable – increasing uncertainty, pushing up interest rates, and potentially threatening economic stability. The government's fiscal strategy has allowed the automatic stabilisers to operate, supporting the economy.

1.82 While longer life expectancies are to be welcomed, funding pensions and healthcare for an ageing population will create significant cost pressures for the UK as in other countries. Alongside reforms to the State Pension Age, prudent fiscal policy to bring debt down from its current high levels will help prepare the UK to deal with these pressures.

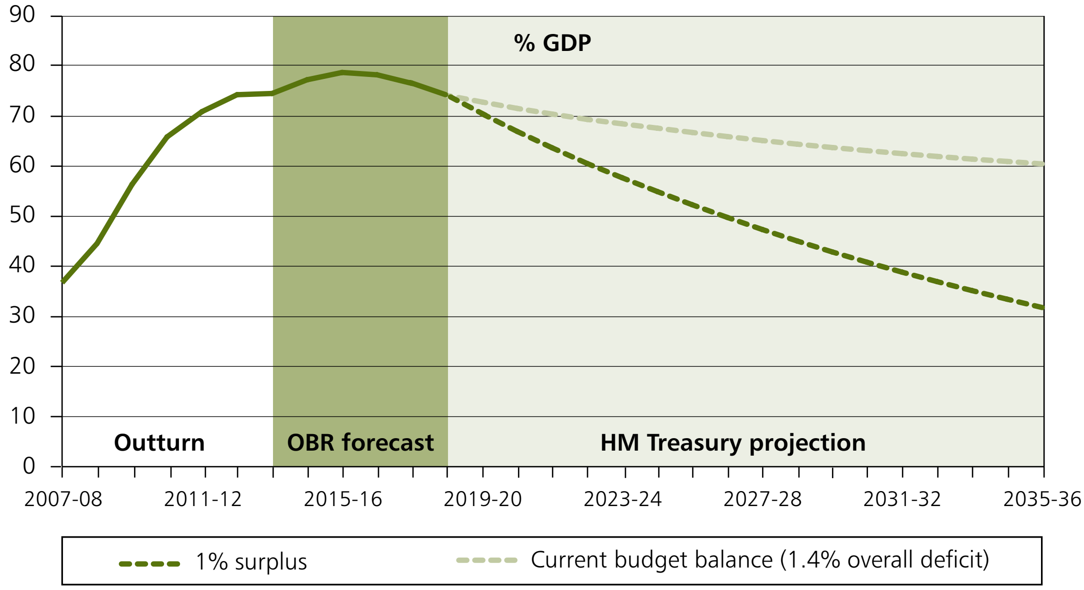
1.83 Given these costs and risks, once the supplementary debt target has been met, any future government will need to ensure that debt continues to fall as a percentage of GDP. As illustrated by Chart 1.8, even in the absence of future shocks, sustained action will be needed to bring down debt.

1.84 Although the timing and nature are inherently uncertain, the UK economy will be hit by shocks in the future. Prudent fiscal policy design should take account of this.

1.85 Over the period since 1955, the UK has had 7 recessions.[39] As set out in Annex B, the size of past recessions and their impact on public sector borrowing have varied over time. The consequences of borrowing for public debt have also varied over time. For example, the recessions of the 1970s and early 1980s increased borrowing, with deficits averaging 5.3% of

[35] 'Economic and Fiscal Outlook', OBR, March 2014; 'Public Sector Finances', ONS, February 2014; debt per household based on DCLG projections for the number of households in the UK in 2018.
[36] 'Three Centuries of data on the UK economy', Bank of England; 'Public Sector Finances', ONS, February 2014.
[37] Table 1.2 sets out the government's consolidation plans over this Parliament. These figures include the estimated debt interest savings at 2015-16 borrowing costs, resulting from the tax rises, reductions to departmental expenditure and measures to reduce AME spending that will take place over this Parliament, but not changes to financial transactions.
[38] HM Treasury calculation, consistent with the ready-reckoner published by the OBR in 2012, based on 2018-19 GDP and borrowing costs forecasts.
[39] 'Quarterly National Accounts, Q3 2013 Dataset', ONS, December 2013.

Chart 1.8: Path for public sector net debt under different policy assumptions (assuming no future shocks)



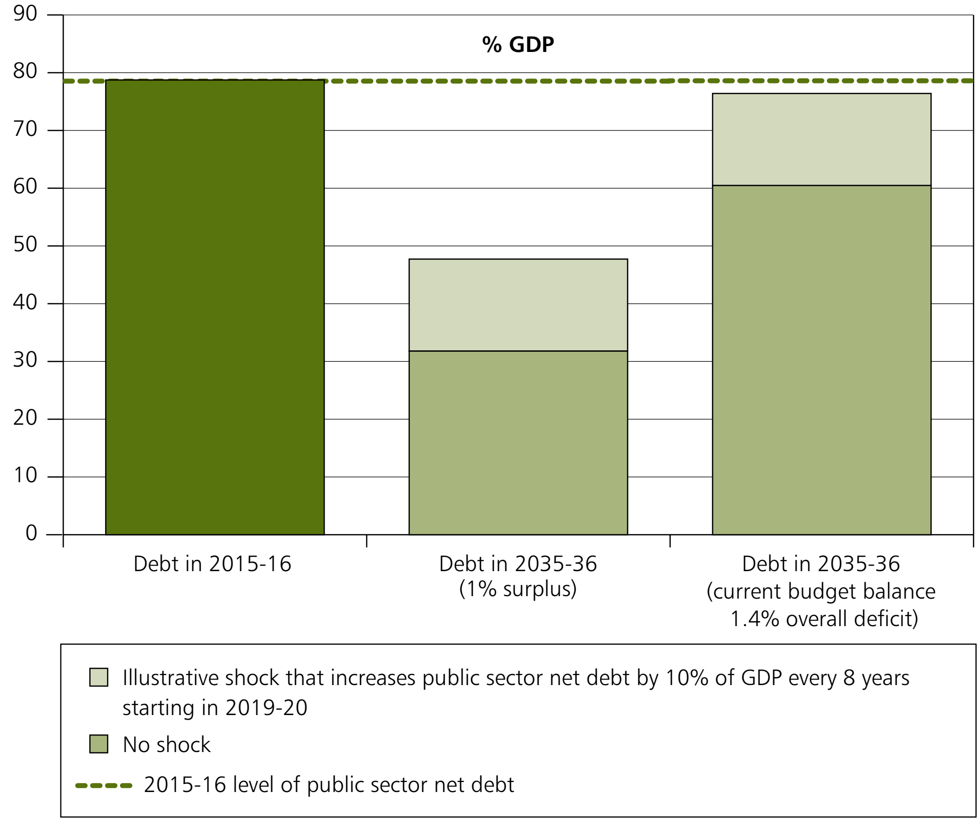
Source: Office for National Statistics, Office for Budget Responsibility and HM Treasury.

GDP between 1974-75 and 1980-81.[40] However, very high inflation eroded the value of the debt stock by so much that, despite high borrowing, debt as a percentage of GDP declined over this period.[41] Public sector net borrowing was similar in the period following the (milder) 1990s recession, but lower inflation meant that these deficits resulted in a substantial increase in debt – with public sector net debt peaking in 1996-97 at around 15% of GDP above pre-recession levels.[42] With independent monetary policy delivering low and stable medium-term inflation, to the benefit of the whole economy, future shocks to the public finances are also likely to occur in low inflation environments.

1.86 The scale and timing of future shocks are inherently unpredictable, so any analysis of potential future shocks can only be illustrative. Chart 1.9 shows how the level of debt in 2035-36 would be affected by a simple scenario in which, rather than there being no shocks, the economy is hit once every 8 years by a shock that increases public sector net debt by 10% (less than the peak increase following the 1990s recession).[43] This should not be treated as a prediction. However increases in debt of this magnitude are consistent with the experience of economic downturns on public borrowing. With a permanent 1.4% deficit, equivalent to a balanced current budget with investment equal to its 2018-19 forecast level, under this illustrative scenario by 2035-36 debt only falls by around 2% of GDP from its 2015-16 peak. With a 1% surplus under the same scenario, by 2035-36 debt falls by around 30% of GDP from its peak. Of course, larger or more frequent shocks in future would result in higher levels of public debt and vice versa.

[40] 'Public Sector Finances', ONS, February 2014.
[41] 'Public Sector Finances', ONS, February 2014.
[42] 'Public Sector Finances', ONS, February 2014.
[43] 'Quarterly National Accounts, Q3 2013 Dataset', ONS, December 2013. The approximate average frequency of UK recessions since the 1950s – though past recessions have not been evenly spaced.

Chart 1.9: Public sector net debt in 2015-16 and 2035-36 under different policy assumptions with and without illustrative shocks



Source: Office for Budget Responsibility (PSND in 2015-16) and HM Treasury (projections of PSND in 2035-36).

Reviewing the UK's fiscal policy framework

1.87 As announced at Autumn Statement 2013, the government is reviewing the current fiscal policy framework. The outcome of the review will inform an updated 'Charter for Budget Responsibility' which will be presented to Parliament alongside Autumn Statement 2014.

Debt Management

1.88 The government's financing plans for 2014-15 are summarised in Annex C. They are set out in full in the 'Debt and reserves management report 2014-15,' published alongside the Budget. It is anticipated that the net financing requirement of £144.9 billion will be met through gilt issuance of £128.4 billion and an increase of £16.5 billion in the stock of Treasury bills.

1.89 National Savings and Investments (NS&I) will have a net financing target of £13.0 billion in 2014-15, within a range of £11.0 to £15.0 billion. This will allow NS&I to support savers by launching in January 2015 a choice of fixed-rate market leading savings bonds for people aged 65 or over, taxed in line with other savings income. For the purposes of costing this measure, the central assumption made at this Budget is that NS&I will launch a 1-year bond paying 2.8% gross/annual equivalent rate (AER) and a 3-year bond paying 4.0% gross/AER, with an investment limit of £10,000 per bond. Precise details will be confirmed at Autumn Statement 2014, to take account of prevailing market conditions at that time. NS&I will also raise the Premium Bond limit from £30,000 to £40,000 from 1 June 2014, and increase the number of £1 million prizes from August 2014. An increase in the Premium Bond limit to £50,000 in 2015-16 will be factored into NS&I's 2015-16 remit, which will be set at Budget 2015.

1.90 The financing arithmetic provides for £6 billion of sterling financing for the Official Reserves in 2014-15. This additional financing, announced at Budget 2011, is intended to meet potential calls on the Official Reserves that may arise and ensure that the level of foreign currency reserves held is sufficient. The government will consider any additional financing needs beyond 2014-15 as required.

£1 coin

1.91 The current £1 coin has been in circulation for 30 years, longer than the normal life cycle of a modern British coin. Its technology is no longer suitable for a coin of its value, leaving it vulnerable to counterfeiting. The Royal Mint estimates that about 3% of all £1 coins in circulation are now forgeries. In some parts of the UK, this number is as high as 6%.[44]

1.92 Budget 2014 announces that the government will introduce a new and highly secure £1 coin. The government expects the new coin to be bi-metallic with 12 sides, and to adopt new Royal Mint technology to protect against counterfeiting. A public consultation will be held over the summer focusing on how to manage any impacts to industry. A final decision on the precise specification of the new coin, including the metal composition, will be taken following the consultation.

1.93 Following the public consultation, the government will launch a public competition to decide the design on the reverse or 'tails' of the new coin.

Reform of the financial system

1.94 The government has introduced the biggest reforms to the banking sector in a generation to make banks more resilient to shocks, easier to fix when they get into difficulties, and to reduce the severity of future financial crises.

1.95 The Financial Services (Banking Reform) Act 2013 received Royal Assent on 18 December 2013, bringing into law structural and cultural changes to the banking system. The Act is at the forefront of efforts to ensure that no bank is 'too big to fail', by ring-fencing banking services for households and small businesses from investment banking activities, and introducing powers for the Bank of England to bail-in shareholders and creditors of a bank in the event of failure, recapitalising the bank and allowing restructuring measures to be implemented that address the cause of the failure. Following the recommendations of the Parliamentary Commission on Banking Standards, the Act also introduces a tougher new regime to regulate conduct in the banking industry, as well as introducing a criminal sanction for reckless misconduct in the management of a bank.

1.96 The government launched a consultation on 13 March 2014 on implementation of the bail-in powers, including drafts of the secondary legislation that will be made in order to complete the legislation and commence the powers.[45]

1.97 The government has overhauled the previous tripartite system of financial regulation through the Financial Services Act 2012, which gained Royal Assent in December 2012. The Act gives the Bank of England responsibility for macro-prudential regulation, through a new Financial Policy Committee (FPC). The Prudential Regulation Authority (PRA), a new micro-prudential regulator, has been established as a subsidiary of the Bank and is responsible for ensuring the effective prudential regulation of deposit takers, insurers and large investment firms. The new independent conduct of business regulator, the Financial Conduct Authority (FCA), is responsible for ensuring that the markets it regulates function well and in a way that supports its consumer protection, market integrity and competition statutory objectives.

1.98 The FPC is responsible for identifying, monitoring and tackling risks to the financial system as a whole, and therefore has a central role to play in safeguarding UK financial stability. The Chancellor of the Exchequer today (19 March, 2014) has provided the FPC with its Remit and recommendations for the year ahead, as required by the Bank of England Act 1998 (as amended by the Financial Services Act 2012).[46]

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[44] Royal Mint Counterfeiting Survey as at November 2013.
[45] 'Open consultation: Bail-in powers implementation', HM Treasury, March 2014.
[46] 'Remit and recommendations for the Financial Policy Committee', HM Treasury, March 2014.

Growth

1.99 The changing global economy is creating new opportunities for British businesses, but there is more work to do to take full advantage of this. This Budget helps Britain go further, and announces structural reforms to support businesses in key stages of their development – helping them to invest in their future, to export and to grow. Budget 2014 contains a radical package to support the manufacturing sector by sharply reducing the cost of energy, and takes further action to boost the supply of housing. This will secure long-term economic prosperity and ensure that growth is balanced across all sectors and throughout the UK.

1.100 Since 2010, this government has worked systematically to address barriers to growth, unlock business investment and support the UK's competitiveness. These reforms are achieving results. Corporation tax will fall to 21% in April 2014 before reaching 20% in April 2015 – the joint lowest rate in the G20. The introduction of the £2,000 Employment Allowance in April 2014 will also support businesses to grow and create jobs, lifting 450,000 employers out of employer National Insurance Contributions (NICs) altogether. Figure 1.1 sets out the impact of this government's key supply-side reforms.

Unlocking business investment

1.101 Business investment is critical to improving productivity and long-run economic growth. This government is committed to supporting all UK businesses to invest in their future.

1.102 To continue to support business investment, **the government is doubling the annual investment allowance (AIA) to £500,000 from April 2014 until the end of 2015.** This will particularly benefit small and medium sized firms. The increased AIA will mean that up to 4.9 million firms – 99.8% of businesses – will receive 100% up-front relief on their qualifying investment in plant and machinery. Three-quarters of the companies that will benefit from this increased tax relief on investment are outside London and the South East, and it will particularly help the agriculture and manufacturing sectors.[47]

1.103 To further support innovative start ups and early stage companies to invest in research and development, **the government will raise the rate of the R&D tax credit payable to loss making small and medium sized companies from 11% to 14.5% from April 2014.** Over the next 5 years this increase will support £1.3 billion of investment in innovation.[48]

Secure and affordable energy for business

1.104 Manufacturing is playing a key role in the UK's economic recovery. As a vital export industry, manufacturers produce more than half of the UK's exports, but the cost of energy acutely impacts the international competitiveness of the sector – particularly for energy intensive industries (EIIs).[49] The recent Executive Survey by EEF, the manufacturers' organisation, showed that the most cited risk to growth for manufacturing in the next year is rising input costs – mainly the cost of energy.[50]

1.105 While UK electricity prices are currently close to the International Energy Agency (IEA) average, a typical EII in Britain currently pays almost 50% more for their electricity than they do in France, and the cost to businesses of policies to deliver new low-carbon energy infrastructure is set to increase by around 300% by 2020.[51] This Budget announces a package of reforms to radically reduce the costs of energy policy for business – particularly in manufacturing – while

[47] HMT internal analysis.
[48] HMRC internal analysis.
[49] ONS supply use tables, available at www.ons.gov.uk.
[50] Executive Survey, EEF, January 2014.
[51] 'Industrial Electricity Prices in the EU for small, medium and extra large consumers; DECC price and bill impacts note', DECC, available at www.gov.uk.

Figure 1.1: Implementation of the government's growth commitments

Tax and reliefs	Infrastructure, planning and housing
• Cuts in the main rate of **corporation tax** from 28% to 23%, and to 20% by 2015-16, the joint lowest in the G20 • From April 2014 the **NICs Employment Allowance** will benefit up to 1.25 million employers. 98% of the benefit of this allowance goes to SMEs • **Business rates** support of £2.7 billion for 5 years from April 2014 will benefit 1.8 million ratepayers in England • Government's action on **fuel duty** will save a typical motorist £680 by 2015-16 • **Oil and gas allowances** have supported £7 billion of investment in North Sea fields over the past year alone	• Over 1,900 **infrastructure projects** completed since 2010, including over 550 road and rail projects • Between 2011 and 2013, average annual public and private **infrastructure investment** was around £45 billion, significantly up on the previous period • Over 330,000 more premises have access to **superfast broadband** • **Help to Buy: equity loan** has supported over 25,000 reservations for new build homes and over 6,000 households have put in offers for homes supported by the **mortgage guarantee** scheme in the first 3 months • Levels of **planning approvals** are at a 5-year high
Access to finance and regulation	**Exports and inward investment**
• More than 14,000 entrepreneurs have been supported through **Start Up Loans** since April 2012 • Over 1,600 companies have raised over £135 million from the **SEIS** since April 2012 • The **Business Bank** helped over 25,000 businesses in 2013, with 70% more finance made available during 2013 than in 2012 • The annual net burden of **regulation on business has** fallen by almost £1.2 billion so far since January 2011 • The **Red Tape Challenge** has identified over 3,000 regulations to be either scrapped or improved	• Since 2010, **UKTI** has supported almost 66,000 businesses to export • In 2013-14 UKTI has provided UK businesses in **India and China** with assistance over 8,000 times • UKTI has helped secure 4,100 **inward investment** projects, creating or safeguarding 270,000 jobs since 2010 • **Enterprise Zones** have created 7,500 jobs and attracted £1.2 billion in private investment • **UK Export Finance** has delivered record levels of financial support to British businesses and a total of around £11.8 billion since 2009-10
Education and skills	**Science and innovation**
• 174 new **free schools** and 3,486 **academies** have been opened across England since 2010, providing places for 2 million pupils • 1.6 million people starting **apprenticeships** this Parliament, with advanced level apprenticeship starts up 137% between 2009-10 and 2012-13 • Over 130,000 two-year-olds are now eligible for 15 hours of **free early education** a week • 50 **University Technical Colleges** and 46 **studio schools** have been approved	• Since 2010, **Research Councils** have invested £1.69 billion in research capital • Over this Parliament, government has **invested £21.5 billion in science**, including major investments in the 8 Great Technologies • Over £1 billion of public and private investment in 22 research infrastructure projects through the **Research Partnership Investment Fund** • 7 **Catapult centres** launched to support sectors such as high value manufacturing

Source: HMT, DfE, BIS, DCLG, UKTI, UKEF improving security of supply and maintaining the government's ambition to increase renewable generation. This package will benefit every household, business and region in the country saving a total of up to £7 billion by 2018-19. This will particularly benefit the most energy intensive manufacturers, around 80% of which are based in the North of England, Scotland and Wales.

1.106 The UK's Carbon Price Floor (CPF) sets a rising trajectory for the carbon tax paid by electricity generators, which raises the cost of electricity. **The government remains committed to the CPF as a means to stimulate investment in low carbon infrastructure, but is capping the Carbon Price Support rate at £18.00 from 2016-17 to 2019-20 to limit any competitive disadvantage British companies face in the global race.** This could save British businesses up to £4 billion by 2018-19, over £1.5 billion in 2018-19 alone, and £15 off a typical household energy bill in the same year. The government believes it is vital to reform and strengthen the EU Emissions Trading System, including through agreement of an ambitious EU climate and energy package for 2030. The government will review the CPF trajectory for the 2020s, including whether a continued cap on the Carbon Price Support rate might be necessary, once the direction of reform of the EU Emissions Trading System is clearer.

1.107 The government is announcing specific measures to tackle the energy costs faced by the most energy intensive industries to ensure they are as competitive as possible. Building on previous announcements to exempt EIIs from the support cost of Contracts for Difference, Budget 2014 announces that the government will:

- **extend the compensation for energy intensive industries for the cost of the CPF and EU emissions trading system to 2019-20**
- **introduce a new compensation scheme, to help energy intensive industries with higher electricity costs resulting from the renewables obligation and small-scale feed in tariffs for renewable generation, from 2016-17**

1.108 The combined cost of these compensation measures is expected to be around £500 million a year from 2016-17. Together with previous announcements, this package means that EIIs will be compensated for all government policy designed to support low carbon and renewable investment up until 2019-20, saving the average EII up to £19 million by 2018-19.

1.109 The government will exempt fuel used in Combined Heat and Power (CHP) plants for electricity generated to supply manufacturing firms from the CPF.

1.110 Taken together, these measures will ensure that the UK businesses at greatest risk from high energy prices remain competitive and have long-term certainty on energy prices by reducing energy costs for the economy by up to £7 billion by 2018-19.

Table 1.6: Savings from Budget 2014 energy package in 2018-19

	Average household	Medium-sized manufacturer	Heavy Industrial firm	Typical compensated EII
Estimated total savings from package in 2018-19	**£15**	**£50,000**	**£800,000**	**£6.25m**

Source: Internal HM Treasury analysis

1.111 The government is fully committed to ensuring the UK has safe, secure and sustainable energy sources. **The government is introducing a Capacity Market to ensure security of supply** via incentivising investment in new gas capacity and getting the best out of existing power plants. This will ensure the lights stay on at the lowest possible cost. Final decisions on Capacity Market design will be announced today (19 March 2014) ahead of the first capacity auction at the end of the year.

1.112 There is no change in the government's ambition for the deployment of new renewable generation or strike prices. The government remains committed to growth in low-carbon

Figure 1.2: The regional impact of Budget energy policy announcements on energy intensive industries and combined heat and power plants

SCOTLAND

- 17 EII installations currently eligible for compensation; on average these EII installations will save around £2,573,000 in 2018-19
- 13 CHP plants eligible for an exemption from the CPF; on average these plants will save around £481,000 in 2018-19

NORTH EAST

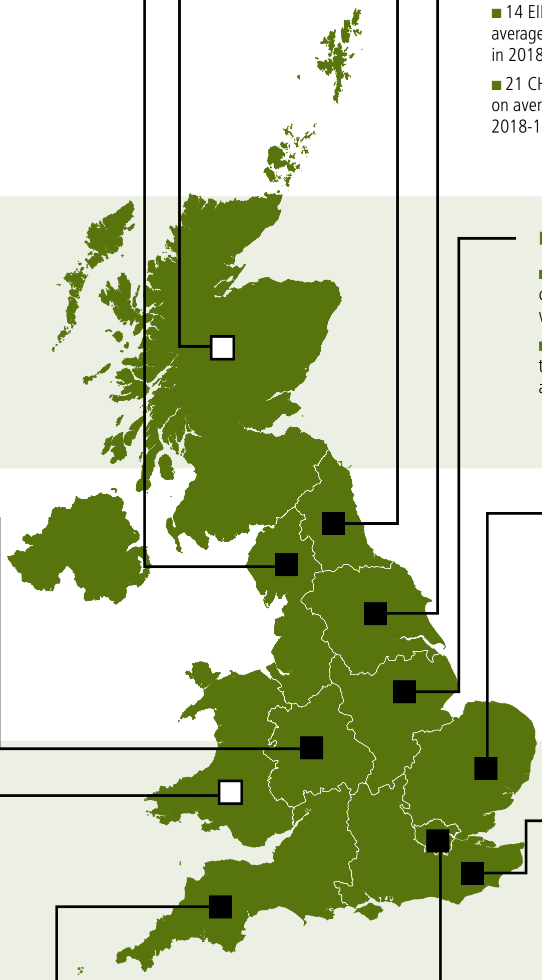
- 17 EII installations currently eligible for compensation; on average these EII installations will save around £2,930,000 in 2018-19
- 11 CHP plants eligible for an exemption from the CPF; on average these plants will save around £792,000 in 2018-19

NORTH WEST

- 18 EII installations currently eligible for compensation; on average these EII installations will save around £5,043,000 in 2018-19
- 27 CHP plants eligible for an exemption from the CPF; on average these plants will save around £404,000 in 2018-19

YORKSHIRE AND THE HUMBER

- 14 EII installations currently eligible for compensation; on average these EII installations will save around £4,460,000 in 2018-19
- 21 CHP plants eligible for an exemption from the CPF; on average these plants will save around £1,425,000 in 2018-19



EAST MIDLANDS

- 5 EII installations currently eligible for compensation; on average these EII installations will save around £935,000 in 2018-19
- 7 CHP plants eligible for an exemption from the CPF; on average these plants will save around £376,000 in 2018-19

WEST MIDLANDS

- 3 EII installations currently eligible for compensation; on average these EII installations will save around £1,010,000 in 2018-19
- 11 CHP plants eligible for an exemption from the CPF; on average these plants will save around £76,000 in 2018-19

EAST OF ENGLAND

- 2 EII installations currently eligible for compensation; on average these EII installations will save around £1,100,000 in 2018-19
- 15 CHP plants eligible for an exemption from the CPF; on average these plants will save around £257,000 in 2018-19

WALES

- 16 EII installations currently eligible for compensation; on average these EII installations will save around £4,590,000 in 2018-19
- 11 CHP plants eligible for an exemption from the CPF; on average these plants will save around £220,000 in 2018-19

SOUTH EAST

- 9 EII installations currently eligible for compensation; on average these EII installations will save around £3,301,000 in 2018-19
- 31 CHP plants eligible for an exemption from the CPF; on average these plants will save around £408,000 in 2018-19

SOUTH WEST

- 6 EII installations currently eligible for compensation; on average these EII installations will save around £779,000 in 2018-19
- 9 CHP plants eligible for an exemption from the CPF; on average these plants will save around £74,000 in 2018-19

LONDON

- 10 CHP plants eligible for an exemption from the CPF; on average these plants will save around £115,000 in 2018-19

This map shows EII installations which are currently receiving compensation. A significant number of additional EIIs are also expected to benefit, however geographical information for these companies is not currently available. The average savings are shown per installation rather than per EII company. Northern Ireland has a different energy market from the rest of the UK so government policy costs have a different impact on energy prices.

Source: HMT internal analysis

technologies. The established Levy Control Framework arrangements and budget provide the flexibility to achieve the investment and growth that is needed to tackle climate change and meet the renewable energy target. The buying power of the Levy Control Framework will be unaffected by other Budget decisions.

1.113 The government wants the UK to be the best place in the world to invest in innovative new technologies. **The government is therefore providing £60 million for new low-carbon innovation to support carbon capture and storage (CCS) technologies that show significant potential to reduce the cost of low-carbon generation in the UK.**

Oil and gas

1.114 The government is committed to maximising the benefit of North Sea oil and gas for the UK economy. Sir Ian Wood's review clearly set out the size of the prize that remains in the North Sea – and the government will ensure that it has the right long-term plan to capture this value.[52] **Budget 2014 announces that the government, working with the new oil and gas body, will review the UK's tax treatment of the North Sea to ensure that it continues to incentivise economic recovery as the basin matures.**

1.115 The government has already provided significant tax incentives for oil and gas projects that have unlocked billions of pounds of investment – around £7 billion in 2013 alone.[53] Building on the success of these allowances and embracing the challenges set out by Sir Ian, **the government will introduce a new allowance for ultra high pressure, high temperature (HPHT) clusters and consult on the details.** The allowance is expected to support the development of big HPHT projects which would create and sustain thousands of jobs, provide a significant portion of UK gas demand, and generate billions of pounds of capital investment. The new allowance will also encourage exploration in the central North Sea and help position the UK's supply chain to become world leading in this important new technology.

1.116 The government is committing to work with the oil and gas industry to ensure that the UK has the right skills and supply chain in place to benefit from the huge potential of the country's oil and gas reserves. This will be crucial not only to ensure the UK benefits fully from its shale gas reserves, but also the offshore oil and gas fields – including new high pressure, high temperature projects – and to make the UK's oil and gas supply chain world leading, creating local jobs and growth across the UK.

Supporting access to finance and competition in banking

1.117 To ensure venture capital schemes continue to effectively support small and growing businesses, **the government will make the Seed Enterprise Investment Scheme (SEIS) and the capital gains tax 50% reinvestment relief permanent. The government will also explore options for the tax reliefs to apply where individuals make investments in the form of convertible loans,** and to better target high-risk investment **will change the eligibility criteria of venture capital schemes** to avoid subsidising low-risk activities that already benefit from certain government programmes.

1.118 The government wants to encourage new investors to put money into social enterprises. **The government will set a rate of 30% income tax relief – the same as the rate for the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) – for the Social Investment Tax Relief.** This rate will allow eligible social enterprises to receive a maximum of around £290,000 investment over 3 years.

1.119 The government is determined to support increased competition and new entrants in the banking system, to deliver better results for consumers and businesses and to improve the conditions for small businesses looking to access the finance they need to invest and grow. The Office of Fair Trading (OFT) expressed concerns about competition in the SME banking

[52] 'UKCS Maximising Recovery Review: final report', Sir Ian Wood, February 2014.
[53] Oil and Gas UK Activity Survey 2014, available at www.oilandgasuk.co.uk.

market in their 11 March update and the Competition and Markets Authority (CMA) are due to take a decision on whether to undertake a more detailed investigation of the whole retail banking market in Autumn 2014.[54]

1.120 This work of the competition authorities is part of a wide-reaching programme of government reforms to address competition issues in banking. Action to remove barriers to enter the banking market has been successful, with 25 applicants currently seeking a banking licence compared to only 6 in March 2013. Building on these reforms, Budget 2014 announces:

- **more competition at the heart of the banking system –** switching on key competition powers of the Payment Systems Regulator one year ahead of schedule, enabling the new regulator, should it decide to do so, to act decisively on competition issues, such as the ownership of payment systems by the big banks, as soon as it is resourced to do so
- **faster and easier banking services –** a new agreement from current account providers to give their customers standardised data which will enable millions of people to work out which current account will suit them best
- **better banking for businesses –** building on the Autumn Statement 2013 announcement to open up SME credit data to challenger banks and other finance providers, a new consultation on legislating to help match SMEs who are turned down for a loan with alternative lenders in order to broaden the sources of finance available to small businesses

1.121 To support more bank lending to SMEs and encourage a more diverse banking sector, **the British Business Bank will issue a request for proposals to implement an innovative wholesale guarantees programme alongside the Budget.**

1.122 RBS has recently laid out further detail on its new strategy for serving its UK customers, reducing assets in its 'bad bank', and supporting lending to British businesses. This is further evidence of the bank's new management getting to grips with the problems of the past and creating a more resilient bank in the long term.

Simplifying the tax system

1.123 The government's aim is that the tax system is simple to understand and easy to comply with. Following Office of Tax Simplification (OTS) recommendations, **the government will simplify NICs for the self-employed by collecting class 2 NICs through Self Assessment from April 2016, and will implement OTS recommendations to simplify the taxation of employee benefits and expenses, employee share schemes and partnerships.** The OTS will report this summer on how the competitiveness of UK tax administration can be improved, to help meet the Prime Minister's aim that the UK rank in the top 5 countries in the world in which to do business.

Exports

1.124 This government is taking further action to support dynamic UK businesses, providing the finance and support they need to take advantage of fast-growing emerging economies and expand in the global recovery. Budget 2014 announces measures to build on the government's world-class help for exporters, and give UK businesses access to the best export finance in Europe in order to win international trade contracts. The government will:

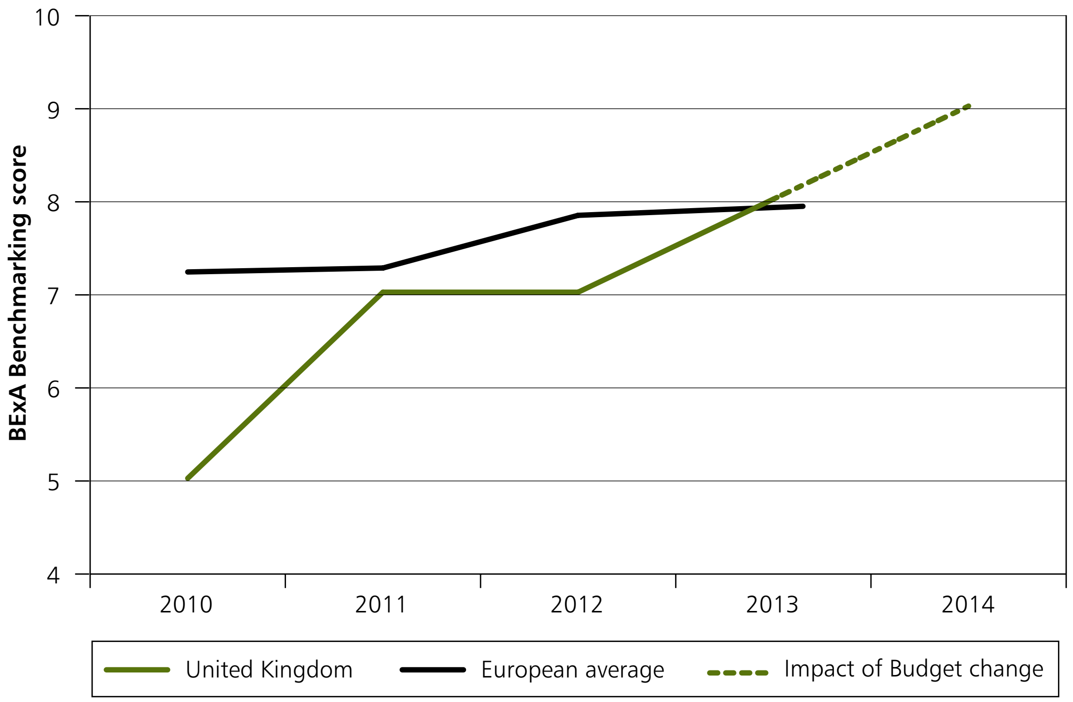
- **overhaul UK Export Finance's (UKEF) direct lending programme, doubling it to £3 billion and cutting interest rates to the lowest permitted levels** to provide competitive financing that helps UK firms win contracts and expand overseas

[54] 'OFT update on SME banking market study', Office of Fair Trading, March 2014.

- **become much more proactive in support of UK business who want to expand globally, including supporting the UK-based supply chains of exporters and intangible exports for the first time by expanding the remit of UKEF and changing its underpinning legislation**
- **step up marketing so that more businesses are aware of UKEF's products and services**

1.125 Chart 1.10 shows the British Exporters Association's (BExA) benchmarking of UK Export Finance against export credit agencies in other European countries.

Chart 1.10: Independent rating of export finance agencies



Source: British Exporters Association (BExA) data and HM Treasury analysis

1.126 The government already offers a world-class export support service through UK Trade and Investment (UKTI). To target and attract more of the world's most talented entrepreneurs to establish businesses and create jobs in the UK, **the government will double the funding and ambition of UKTI's Global Entrepreneur Programme. The government will also strengthen its support for export promotion and inward investment in the financial services sector.**

1.127 International students contribute over £10 billion to the UK's economy.[55] To support the important role that higher education plays in economic development and to strengthen the UK's strategic partnerships with emerging markets, **the government will triple the number of Chevening Scholarships from 2015-16. The government will also expand the 'Education is GREAT' campaign** to help attract more international students to the UK, and build on its reputation as a world-leading place to study.

1.128 To help British businesses strengthen links with high growth markets, and to go further to make the UK an attractive option for business visitors and tourists, **Budget 2014 announces that the government will reform air passenger duty (APD) by abolishing bands C and D from 1 April 2015.** This will eliminate the two highest rates of APD charged on flights to

[55] 'International Education: Global Growth and Prosperity', HM Government, July 2013.

countries over 4,000 miles from Britain, cutting tax for millions of passengers travelling to China, India, Brazil and many other emerging markets. This will mean that flights to South Asia and the Caribbean will pay tax at the lower band B rate. The rates applying to private jets which offer an enhanced level of comfort will be set at 6 times the level of rates applying to economy class. **The government will also extend the scope of the existing Regional Air Connectivity Fund to include start-up aid for new routes from regional airports.**

Education, science and innovation

1.129 Apprenticeships play a vital role in equipping young people with the skills they need to compete in the labour market, and that employers need to grow their businesses. **The government is building on the success of the Apprenticeship Grants for Employers (AGE) scheme, by providing an extra £85 million in both 2014-15 and 2015-16 for over 100,000 grants to employers.** The government will ensure that grants are targeted where they are most effective.

1.130 The changing nature of the labour market is demanding higher skilled workers. There are however potential barriers in the postgraduate system that may be restricting the supply of these higher skills. To ensure the UK can compete successfully in the global economy, **the government will investigate options to support increasing participation in postgraduate studies and will put forward its ideas at Autumn Statement 2014.**

1.131 Science and innovation are key drivers of long-run economic growth. The government will continue its drive to help commercialise research and ensure the UK economy benefits from its world leading science base. This Budget announces that the government will:

- **provide £42 million over 5 years for the Alan Turing Institute** – this will be a national institute which will undertake new research in ways of collecting, organising and analysing large sets of data ('Big Data'); Big Data analysis can allow businesses to enhance their manufacturing processes, target their marketing better, and provide more efficient services
- **invest £74 million over 5 years in a Cell Therapy manufacturing centre and a Graphene innovation centre as part of the UK's Catapult network** – these will enable large-scale manufacturing of cell therapies for late-stage clinical trials, and will provide SMEs with access to cutting-edge equipment for research and development of novel graphene products
- **provide £106 million over 5 years for around 20 additional Centres for Doctoral Training** – partnerships between universities, businesses and government to research new technologies and train postgraduate students

1.132 The Budget announces that the government will introduce Theatre Tax Relief from September 2014. This relief will support the production of plays, musicals, opera, ballet and dance at a rate of 25% for touring productions and 20% for other theatre productions. A consultation on the relief will be launched shortly.

Infrastructure

1.133 Many parts of the UK have been subjected to severe flooding. **Budget 2014 provides £140 million of new funding to repair and restore the condition of vital flood defences that have suffered damage.** This complements the government's long-term strategy, which in Spending Round 2013 allocated capital funding of £2.3 billion from 2015, allowing an increase in annual investment of 15% in real terms on that over the current spending period, even with the extra short-term funding allocated in this Budget. The government is developing a long-term plan that will direct this investment to protect the country from future flooding and will publish this in the autumn.

1.134 In addition, **Budget 2014 provides an extra £200 million, across the UK, to set up a potholes challenge fund**. This emergency funding set aside by government will allow local authorities to repair up to 3.2 million potholes following the severe weather.

1.135 The government is committed to the UK's system of independent economic regulation, which is widely considered to be one of the best in the world. **The government welcomes the creation of the UK Regulators' Network (UKRN)**, with its focus on key issues including facilitating efficient multi-sector infrastructure investment projects and action on customer engagement and switching in regulated markets. The government intends to consult on whether further measures would support and embed the work of the UKRN.

1.136 The government has made significant progress this year on the delivery of High Speed 2 (HS2), depositing a hybrid bill in Parliament, and appointing Sir David Higgins – former Chief Executive of Network Rail and the Olympic Delivery Authority – as Executive Chairman of HS2 Ltd. Sir David Higgins recently set out his proposals to maximise and accelerate the benefits HS2 can offer.[56] In response to this report, the government has commissioned HS2 Ltd to develop proposals for accelerating the project and opening the line to Crewe by 2027, 6 years earlier than planned, as well as exploring options for undertaking a substantial redevelopment of Euston station, one of the biggest undeveloped commercial opportunities in central London.

1.137 In 2012 the government introduced the UK Guarantees scheme, to avoid delays to investment in UK infrastructure projects by providing a government backed guarantee to investors. **The Budget announces approval of a guarantee of up to £270 million to support the Mersey Gateway Bridge**. Work can now begin on this critical infrastructure project which will help relieve traffic congestion across the Mersey and promote regeneration in the area.

1.138 The government will provide £20 million for a grant scheme for repairs to cathedrals in recognition of their heritage significance and role in forthcoming remembrance activities to commemorate the First World War.

Housing and planning

1.139 As a result of government reforms to date, planning approvals and housing starts are at 5 year highs, and housing activity recently expanded at its fastest rate for 10 years.[57]

Home ownership

1.140 The Help to Buy: equity loan scheme is expected to help at least 74,000 households buy a new-build home by March 2016. To help a further 120,000 households purchase a home and to continue to support house building as the market improves, **the government will extend the equity loan scheme to March 2020**. The Help to Buy: mortgage guarantee scheme will continue to support access to high loan to value mortgages until the scheme ends on 31 December 2016.

Housing supply

1.141 To support SME access to finance, the government will create a £500 million Builders Finance Fund, which will provide loans to developers to unlock 15,000 housing units stalled due to difficulty in accessing finance.

[56] 'HS2 Plus', Sir David Higgins, March 2014.
[57] 'Live tables on house building (222)', DCLG, February 2014.
'New Housing Pipeline', Home Builders Federation, February 2014.
'Markit/CIPS UK Construction PMI', Markit, February 2014.

1.142 For people who want to build their own home, the government will consult on creating a new 'Right to Build', giving custom builders a right to a plot from councils, and a £150 million repayable fund to help provide up to 10,000 serviced plots for custom build. The government will also look to make the Help to Buy: equity loan scheme available for custom build.

1.143 The government will establish a £150 million fund to kick start the regeneration of large housing estates through repayable loans, helping to boost housing supply. Bids will shortly be invited from private sector developers, working with local authorities on estates that might be able to benefit. Following the Autumn Statement, expressions of interest have already been made through the Greater London Authority relating to the Aylesbury Estate, Blackwall Reach and Grahame Park regeneration projects in London.

1.144 The government will work with the Mayor of London and the Greater London Authority (GLA) to develop proposals for extending the Gospel Oak to Barking Line to Barking Riverside, and to ensure that any public investment unlocks the construction of up to 11,000 new homes. It will also work with the GLA and the London Borough of Barnet to look at proposals for the Brent Cross regeneration scheme, subject to value for money and affordability.

New garden city

1.145 The government will support a new Garden City at Ebbsfleet. Ebbsfleet has capacity for up to 15,000 new homes, based on existing brownfield land. To date, under 150 homes have been built on the largest site. The government will form a dedicated Urban Development Corporation for the area, in consultation with local MPs, councils and residents, to drive forward the creation of Ebbsfleet Garden City, and will make up to £200 million of infrastructure funding available to kick start development. This will represent the first new garden city since Welwyn Garden City in 1920.

1.146 The government will also publish a prospectus by Easter 2014, setting out how local authorities could develop their own, locally-led proposals for bringing forward new garden cities.

Reform of the planning system

1.147 The government has taken decisive steps to improve and streamline the planning system. To support businesses and households further, **the government will review the General Permitted Development Order.** The refreshed approach is based on a three-tier system to decide the appropriate level of permission, using permitted development rights for small-scale changes, prior approval rights for development requiring consideration of specific issues, and planning permission for the largest scale development. As part of this, **the government will consult on specific change of use measures, including greater flexibilities for change to residential use, for example from warehouses and light industry structures, and allowing businesses greater flexibilities to expand facilities such as car parks and loading bays within existing boundaries, where there is little impact on local communities.**

Local growth

1.148 Enterprise Zones are a key part of the government's strategy for enabling growth in local areas. The government will continue to support Enterprise Zones to create even more new jobs and attract private investment to local areas. **Availability of business rate discounts and Enhanced Capital Allowances will each be extended by 3 years as an incentive for new and expanding businesses to locate in Enterprise Zones.**

1.149 The government will shortly take forward a Wales Bill that will devolve new tax and borrowing powers to Wales, enabling the Welsh government to raise more of the money it spends and providing it with further tools to support growth in the Welsh economy. In advance of implementing these new powers, the government has also agreed that the Welsh government can use existing borrowing powers to begin investing in improvements to the M4.

1.150 The government will commit £100 million to Greater Cambridge until 2019-20 to support their ambitious transport and infrastructure proposals through a Gain Share mechanism. This agreement could be worth up to £500 million over 15 to 20 years, dependent on the economic impact of their investments and, in addition to Greater Cambridge's own plans, could deliver over £1 billion of infrastructure investment in the Greater Cambridge area.

1.151 Following the announcement at Autumn Statement 2013, the government is in detailed discussion with Glasgow to develop a city deal that will drive employment and economic development across the city region. Glasgow has identified infrastructure, strengthening the local labour market, and support for business growth as priorities, and good progress is being made in determining how best the government can support Glasgow to take forward this ambitious plan.

Fairness

1.152 The government's long-term economic plan is underpinned by its commitment to fairness. As the economy recovers, the government will continue to support and reward hard-working families. This Budget announces radical measures to help savers at all stages of their lives. The government will also take further action to reduce tax avoidance, and to ensure that everyone pays their fair share.

Supporting savers

1.153 Over the last 5 years, low interest rates have helped households and businesses through difficult economic times. These have kept mortgage payments down, but it has also meant that returns on savings have been low. The government recognises this has made it difficult for people's savings to grow, and that it has been harder for people to secure the income they expected in retirement.

1.154 The Budget reduces taxes for the lowest income savers, gives all savers greater flexibility in how they save and invest through the ISA system, and introduces new products to help retired savers with a better return. The Budget also introduces the most fundamental change to the way people access their pension in almost a century, through removing the effective requirement to buy an annuity.

1.155 The reforms in this Budget will ensure that people have greater freedom and choice over how they save money and access their pension, and will support savers to make the long-term decisions that ensure they can benefit from a better and more secure financial future.

Greater freedom and choice at retirement

1.156 This government has made security in retirement a central part of its reforms, through the introduction of auto-enrolment, the announcement of the single tier pension and uprating of the basic State Pension by the triple lock. These reforms to the way people build their pension change the context for how people can access their savings. The nature of retirement is changing as people live longer and their needs in retirement become more varied. With the right consumer advice and support, people should now be able to make their own choice about how and when to spend their pension funds.

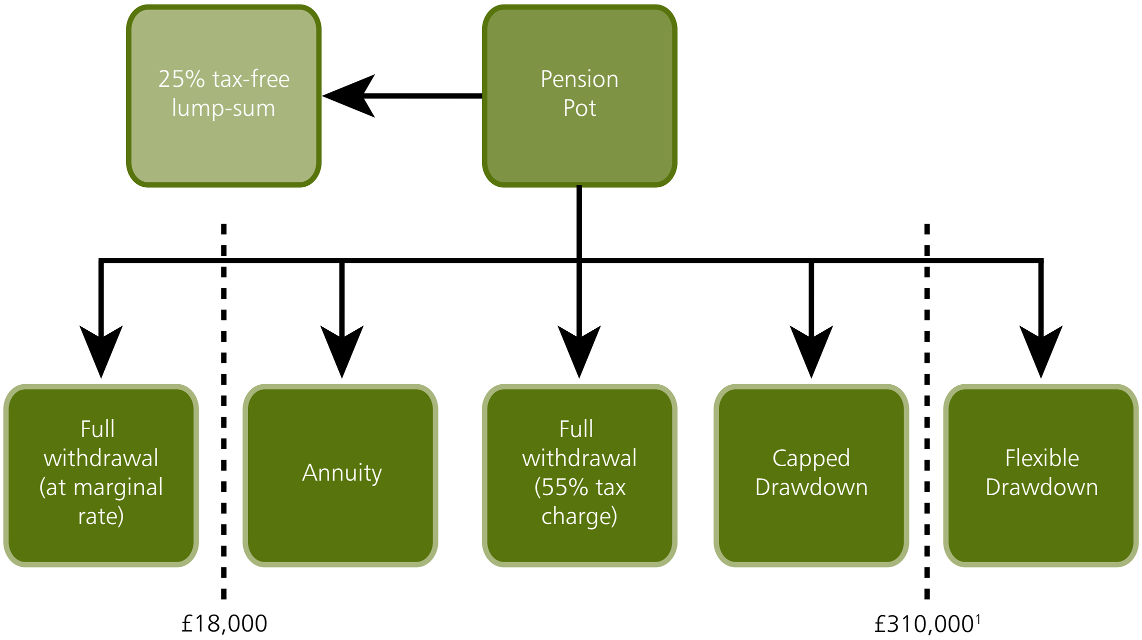
1.157 In this Parliament, the government has already removed the requirement to annuitise by age 75, and introduced flexible drawdown of pension savings for those who meet a minimum income requirement in retirement. This Budget announces further radical changes that will offer people more options in how and when they access their defined contribution pension.

1.158 From April 2015, the government will change the tax rules to allow people to access their defined contribution pension savings as they wish from the point of retirement. Drawdown of pension income under the new, more flexible arrangements will be taxed at marginal income tax rates rather than the current rate of 55% for full withdrawals. The tax-free pension lump sum will continue to be available. Those who continue to want the security of an annuity will be able to purchase one. Equally, those who want greater control over their finances in the short term will be able to extract all their pension savings in a lump sum. And those who do not want to purchase an annuity or withdraw their money in one go will be able to keep their pension invested and access it over time.

1.159 The government wants to ensure the current tax rules that apply to certain pensions on death continue to be appropriate under the new system. In particular, the government believes that a flat 55% charge will be too high in many cases in the future. The government will engage with stakeholders to review these rules.

Figure 1.3: Current system for accessing defined contribution pensions at retirement

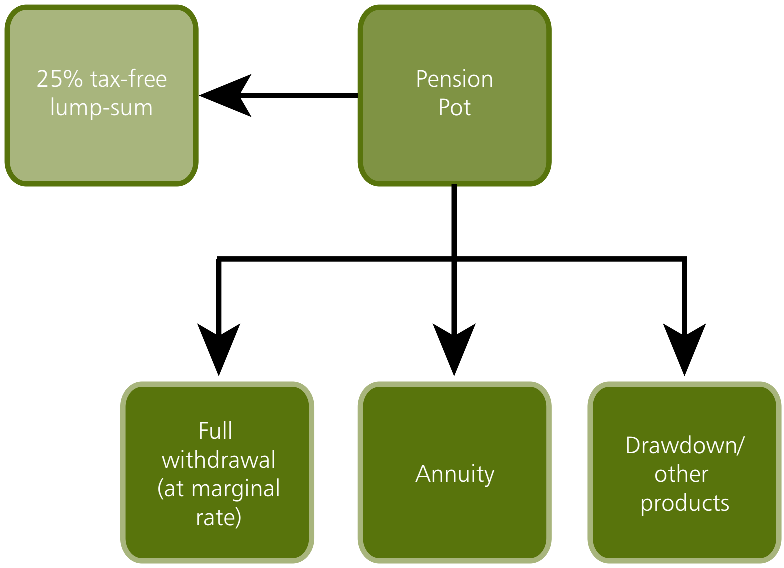
Under the current system, people's choices are constrained by the size of their defined contribution pension pot. There is some flexibility for those with small and very large pension pots, but around three-quarters of those retiring each year purchase an annuity.



[1] This is a stylised assumption based on an individual with a full basic state pension of £5,744 per year, who takes the maximum tax free lump sum (25%) from their defined contribution pension pot and purchases a single life, level, no guarantee annuity worth £14,256 per year (an annuity rate of 6.1%) at age 65. This will enable them to meet the minimum income requirement of £20,000 per year for entering flexible drawdown.

Figure 1.4: Future system for accessing defined contribution pensions at retirement

Under the new system, regardless of the size of their defined contribution pension pot, everyone will be able to choose any of the options in the below diagram. This will mean that everyone has access to full withdrawal, an annuity or drawdown, and potentially other products created by providers.



1.160 The government recognises that under the new system it will be important that people are equipped to make decisions that best suit their personal circumstances. The Budget therefore announces that **the government will introduce a new guarantee that everyone who retires with a defined contribution pension will be offered free and impartial face-to-face guidance on their choices at the point of retirement**. This will take effect from April 2015. To deliver this, the government will introduce a new duty on pension providers and trust-based pension schemes to offer this guidance guarantee. The government will make available up to £20m over the next 2 years to develop this initiative.

1.161 These changes have implications for defined benefit pensions. Defined benefit schemes will continue to offer their members a secure income in retirement, and for the vast majority of defined benefit members that will be the best approach. However, the government recognises that greater flexibility could lead to more people seeking to transfer from defined benefit to defined contribution schemes. For public service defined benefit schemes, this could represent a significant cost to the taxpayer, as these schemes are largely unfunded.

1.162 Having considered this carefully, the government intends to introduce legislation to remove the option to transfer for those in public sector schemes, except in very limited circumstances. Whilst the government would in principle welcome the opportunity to extend greater choice to members of private sector defined benefit pension schemes, it will not do so at the expense of significant damage to the wider economy. Funded defined benefit schemes play an important role in funding long-term investment in the UK economy, which the government does not want to put at risk. The government's starting point is therefore that, whilst in principle it would like to permit transfers from private sector defined benefit schemes under the new freedoms, it will only consider doing so if the risks and issues around doing so can be shown to be manageable.

1.163 The government has today published a consultation on how best to implement the changes to defined contribution pensions, and how to treat private sector defined benefit schemes. The government is keen to engage with a wide range of stakeholders and the public.[58]

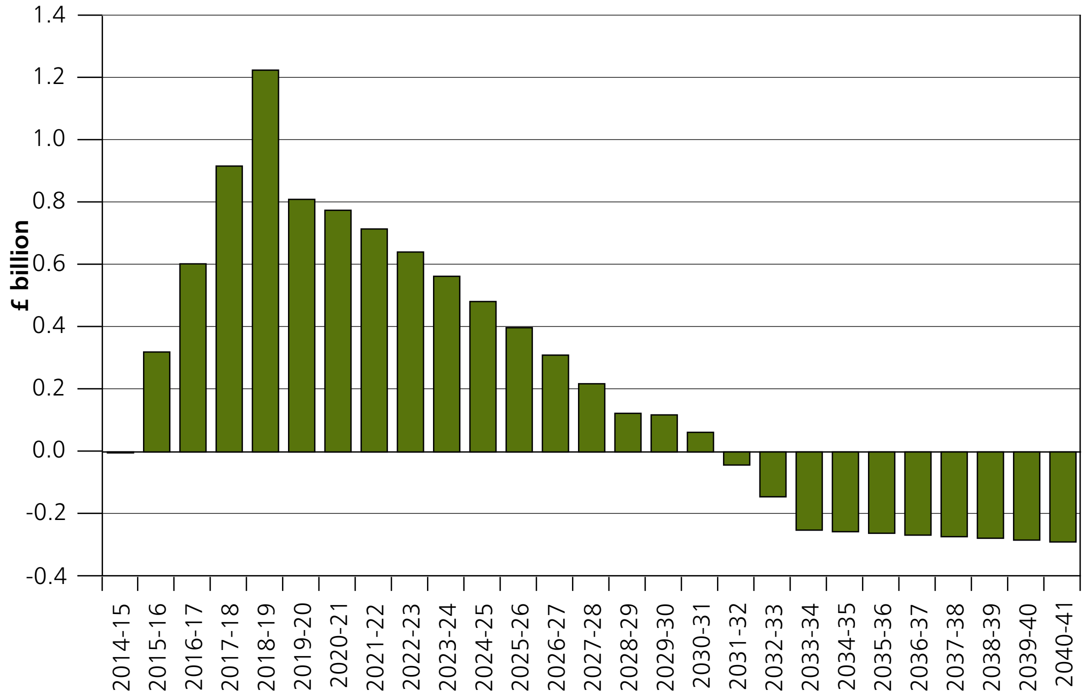
1.164 As a first step towards this reform, **the Budget introduces a number of immediate changes, to allow people greater freedom and choice now over how to access their defined contribution pension**. From 27 March 2014 the government will:

- reduce the amount of guaranteed pension income people need in retirement to access their savings flexibly, from £20,000 to £12,000
- increase the capped drawdown limit from 120% to 150% to allow more flexibility to those who would otherwise buy an annuity
- increase the size of a single pension pot that can be taken as a lump sum, from £2,000 to £10,000
- increase the number of pension pots of below £10,000 that can be taken as a lump sum, from 2 to 3
- increase the overall size of pension savings that can be taken as a lump sum, from £18,000 to £30,000

1.165 Under the current tax system, people are charged 55% if they choose to withdraw all of their defined contribution pension savings at the point of retirement. This means the majority of people instead purchase an annuity and receive taxable income over the course of their retirement. Under the new system, an individual will be able to withdraw their savings at a time of their choosing subject to their marginal rate of income tax. The government anticipates that under these circumstances some people will choose to draw down their pension sooner in order

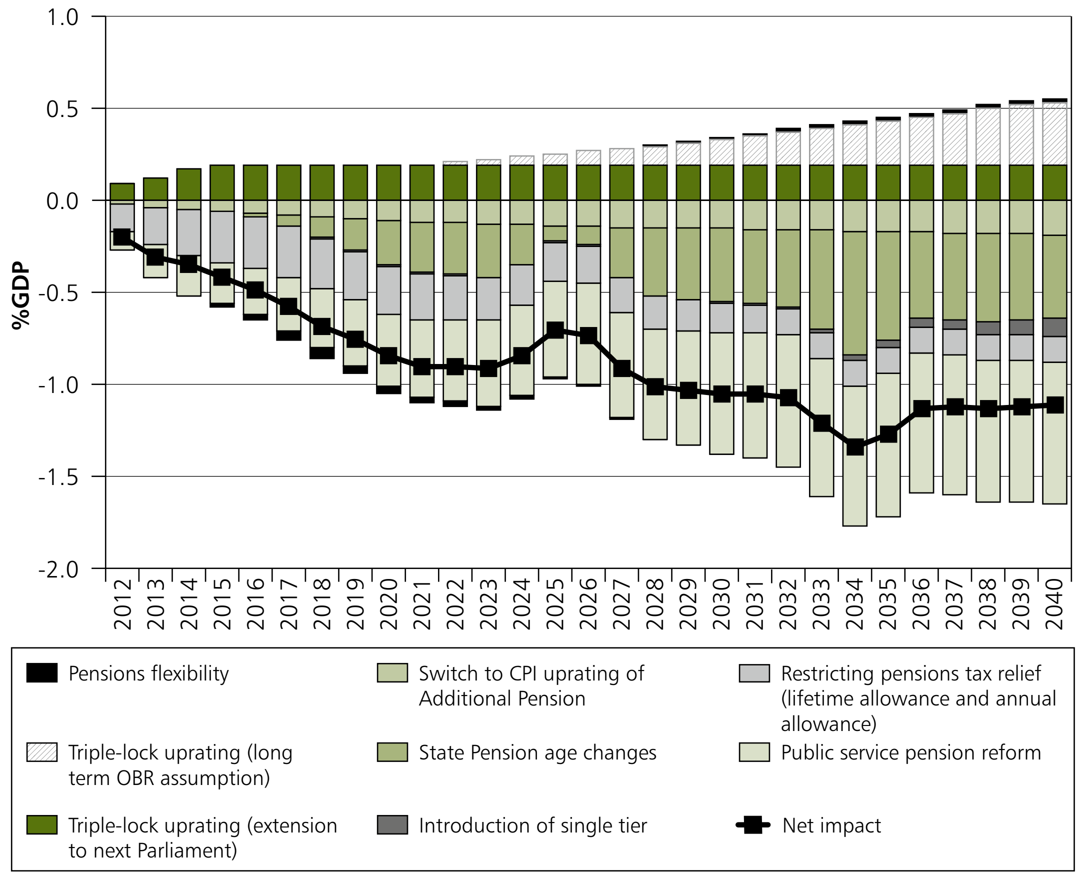
[58] 'Freedom and choice in pensions', HM Treasury, March 2014.

Chart 1.11: Projected tax impacts of pensions flexibility measures



Source: HMRC analysis.

Chart 1.12: Pension provision sustainability and longevity: net fiscal impact projections of changes announced in this Parliament



Note: The chart includes both tax and spending impacts. The State Pension age changes line includes both the bringing forward of the rise to age 66 and 67, and the announcement at Autumn Statement 2013 of the core principle which will underpin future SPA reviews, which implies a further increase to 68 within this timescale. It does not include the impact of single tier reform on NICs revenue. The net impact line includes the introduction of a new class of voluntary NICs (Class 3a) but the fiscal impact is not significant enough to be visible on the chart.

Source: DWP, HM Treasury and HMRC analysis, based on OBR projections to suit their personal situation. This will increase income tax revenue in the short to medium term.

1.166 Chart 1.11 shows the projected impact on tax revenues of the measures to introduce greater flexibility and choice to defined contribution pensions. Chart 1.12 shows this impact in the context of wider pensions policies introduced by this government. This shows that the net impact is a saving to the Exchequer of around 1.1% of GDP in 2030, or around £17 billion in today's terms, putting pensions provision on a more sustainable basis for the long term.

New ISAs

1.167 Budget 2014 announces a radical reform of the ISA system. Around half of all UK adults have an ISA, and in order to give these savers greater choice in how they decide to save, **the Budget announces that the ISA will be reformed into a New ISA (NISA), which will be a simpler product with equal limits for cash and stocks and shares**. This will mean that for the first time ever, savers will be able to transfer previous years' funds from stocks and shares ISAs into cash ISAs. From now on, savers will have complete flexibility over how they choose to save and invest, within the overall limit.

1.168 The government also wishes to allow people to save more tax-free, so they can see their savings grow year on year. **The Budget announces that the annual investment limit for the NISA will be £15,000 a year**. This nearly trebles the current limit of £5,760 a year for saving in cash ISAs, and will benefit more than 5 million people who currently reach their cash ISA limit, three-quarters of whom are basic rate taxpayers. It will also increase the stocks and shares limit by nearly a third, from £11,520, and means in total over 6 million people will benefit from the higher overall limit.[59] **The government will also raise the limits for Junior ISAs and Child Trust Funds from £3,720 to £4,000**. These changes will be introduced from 1 July 2014.

1.169 To further increase the choice that ISA savers have about how they invest, **ISA eligibility will be extended to peer-to-peer loans, and all restrictions around the maturity dates of securities held within ISAs will be removed**. The government will also explore extending the ISA regime to include debt securities offered by crowdfunding platforms.

Abolishing the 10% starting rate for savings

1.170 Currently, the first £2,790 of savings income above the tax-free personal allowance is taxed at a starting rate of 10%. In order to provide further support for the lowest income savers, **the Budget announces that from April 2015 the 10% savings rate will be reduced to 0%. The government will also increase the band of savings income that is subject to the 0% rate to £5,000**. As a result of these measures, the government expects 1.5 million people to benefit, with an average gain of over £150 per year. This means that anyone with total income of less than £15,500 per annum will no longer pay any tax on their savings income.

1.171 This will simplify the tax system for over 1 million savers who will no longer be liable for any tax on their savings. These savers can benefit from a simpler system by registering for their interest to be paid gross via their bank or building society, rather than having to reclaim overpaid tax from HMRC.

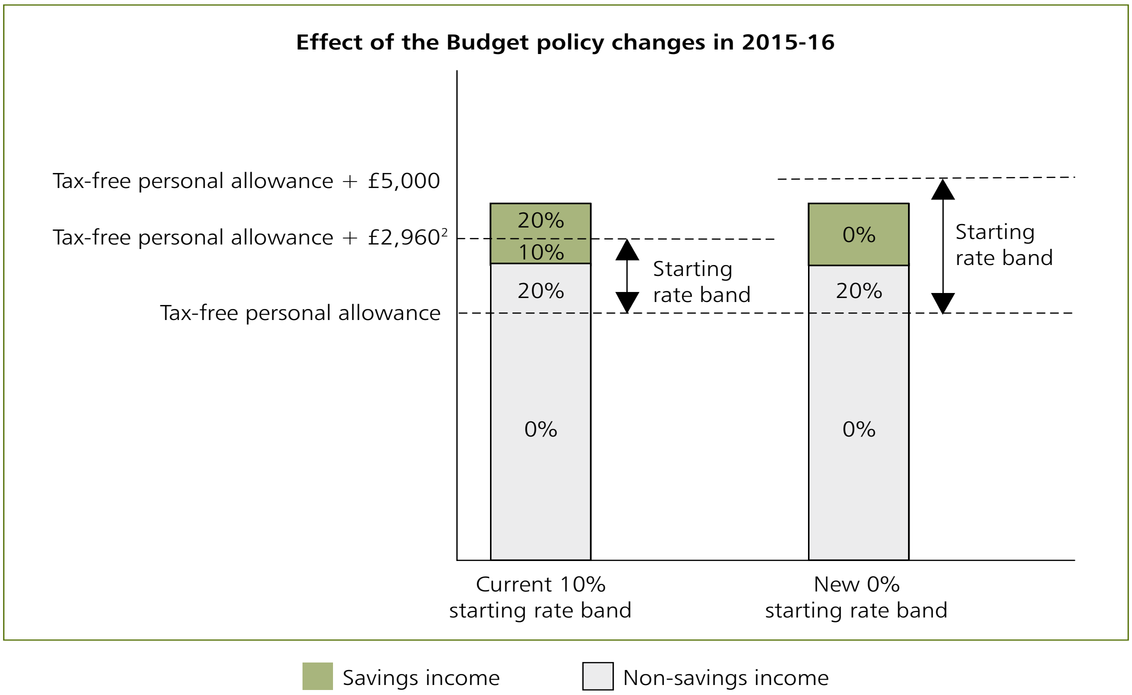
1.172 Increasing the ISA limit and reducing the 10% tax rate to 0% mean that the effective rate of taxation on savings for many people will be zero. This moves the tax system for savings closer to the approaches outlined by the Meade and Mirrlees reviews, which considered the appropriate principles on which a tax system should be based.[60, 61]

[59] Individual Savings Account (ISA) Statistics, HM Revenue and Customs, September 2013.
[60] 'The structure of reform of direct taxation', Report of a Committee chaired by Professor J.E. Meade, 1978.
[61] 'The Mirrlees Review', IFS, 2011.

Figure 1.5: Changes to the starting rate of savings income tax

Currently, the low income saver below is liable for the 10% tax rate on some of their savings income and 20% tax on the rest of their savings income.

From April 2015, all their savings income will be taxed at 0%. As the starting rate band for savings is only available for savings income, a saver with other income (for example income from employment) above £15,500 (personal allowance of £10,500 plus £5,000 savings band) would not benefit from this policy.[1]



[1] Note that in 2015-16 the tax-free personal allowance will be £10,500 for everyone born on or after 6 April 1938. For everyone born before that date, it will be £10,660.
[2] It has also been estimated that were these policy changes not going ahead, the starting rate band would have been uprated to £2,960 in 2015-16.

Pensioner savings bonds and Voluntary National Insurance contributions

1.173 The Budget announces that National Savings and Investments (NS&I) will launch a choice of fixed-rate, market-leading savings bonds for people aged 65 or over, available from January 2015 and allowing inflows of up to £10 billion. These will provide certainty and a good return for those who have saved all their lives and now mostly rely on their savings for income. Interest on the bonds will be taxed in line with all other savings income, at the individual's marginal rate, meaning that pensioners who do not pay savings tax will be eligible to receive the interest tax-free. For the purposes of costing this measure, the central assumption made at this Budget is that NS&I will launch a 1-year bond paying 2.8% gross/annual equivalent rate (AER) and a 3-year bond paying 4.0% gross/AER, with an investment limit of £10,000 per bond. Precise details will be confirmed at Autumn Statement 2014, to take account of prevailing market conditions at that time.

1.174 The Budget also announces further details of a new scheme of Voluntary National Insurance contributions (VNICs) to allow pensioners to top up their Additional State Pension. The scheme will be open for 18 months from October 2015 and available to everyone reaching State Pension age before 6 April 2016. This will help pensioners with savings who want to boost their State Pension income in a way that protects them from price inflation and provides them with an income for life. It could particularly benefit those with gaps in their Additional State Pension record, such as the self-employed and women who have taken time out from work to raise children.

Increasing the incentives to invest in Premium Bonds

1.175 Premium Bonds, offered by NS&I, are one of the oldest and best known savings products, held by over 21 million people. The Budget announces that **the cap on investments in Premium Bonds will be lifted for the first time since 2003, from £30,000 to £40,000, from 1 June 2014. It will then be lifted again to £50,000 in 2015-16.** NS&I will also now offer 2 £1 million prizes per month, rather than 1, starting from the prize draw in August this year. This will increase savers' chances of winning the largest prize and allow people who want to save more through Premium Bonds to do so.

Supporting households

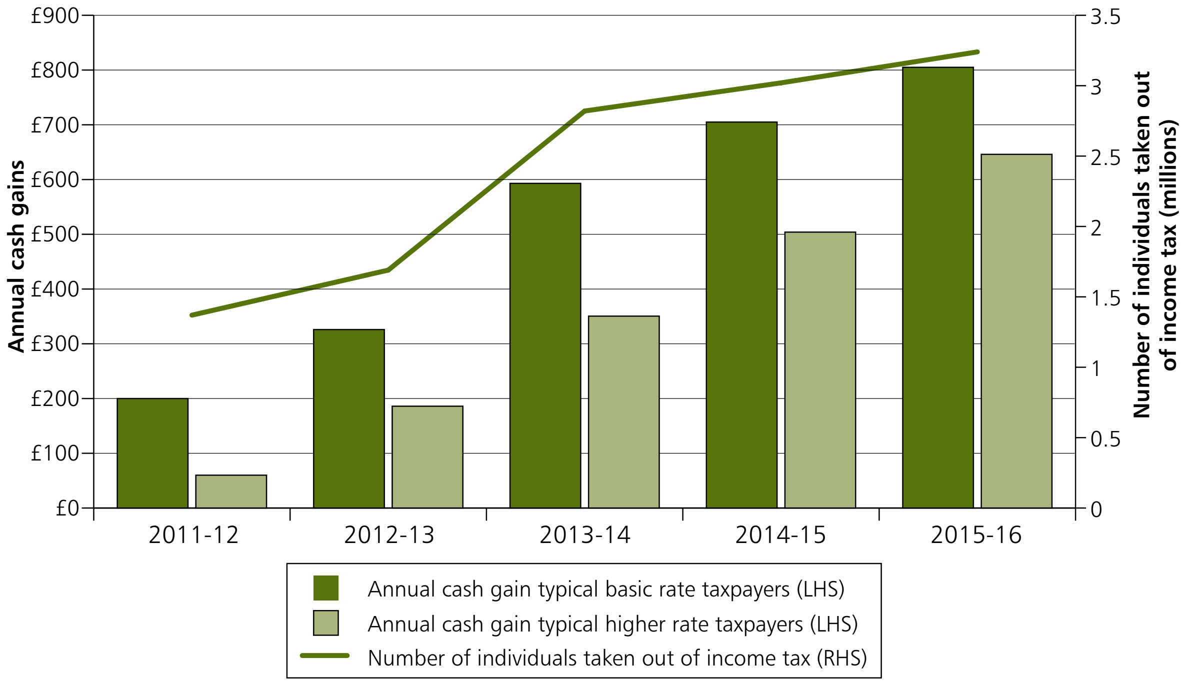
Personal allowance

1.176 As announced at Budget 2013, from April 2014 the tax-free personal allowance will be increased to £10,000 a year. **Budget 2014 goes even further, and announces that the personal allowance will be increased to £10,500 from April 2015**. This will be worth £100 to a typical basic or higher rate taxpayer (£62 in real terms), and will lead to a further 288,000 individuals no longer paying income tax. 25.4 million individuals will benefit. Overall, over 3.2 million people will have been lifted out of income tax by April 2015.

1.177 This increase in the personal allowance will benefit most higher rate taxpayers equally, as well as those paying only the basic rate. The government's increases to the personal allowance since 2010 have been worth £646 to a typical higher rate taxpayer in cash terms, and £805 to a typical basic rate taxpayer.[62]

1.178 The Budget also announces that the transferable tax allowance for married couples and civil partners announced at Autumn Statement 2013 will be set at 10% of the personal allowance from 2015-16. This means it will be £1,050 in 2015-16.

Chart 1.13: Personal allowance: Cash gains and individuals taken out of income tax since 2010



Source: HM Treasury analysis based on 2010-11 to 2015-16 personal tax parameters, HMRC analysis based on Survey of Personal Incomes 2011-12 data and Budget 2014 OBR forecasts.
Note: The cash gain for higher rate taxpayers shown is the result of changes to income tax thresholds (the personal allowance and higher rate threshold) and the NICs upper earnings limit.

[62] HMRC analysis based on Survey of Personal Incomes (SPI) 2011-12 data and Budget 2014 OBR forecasts.

Table 1.7: Illustrative income tax and National Insurance contributions paid per year, by income level

Gross income (£)	2010-11 (£)	2011-12 (£)	2012-13 (£)	2013-14 (£)	2014-15 (£)	2015-16 pre-Budget 2014 (£)	2015-16 post-Budget 2014 (£)
10,000	1,180	840	670	380	250	190	130
20,000	4,280	4,040	3,870	3,580	3,450	3,390	3,330
30,000	7,380	7,240	7,070	6,780	6,650	6,590	6,530
40,000	10,480	10,440	10,270	9,980	9,850	9,790	9,730
50,000	14,190	14,390	14,220	14,040	13,860	13,760	13,700
60,000	18,290	18,590	18,420	18,240	18,060	17,960	17,900
70,000	22,390	22,790	22,620	22,440	22,260	22,160	22,100
80,000	26,490	26,990	26,820	26,640	26,460	26,360	26,300

Source: HM Revenue and Customs calculations.

Note: Calculations are based on all changes to rates and thresholds in both the income tax and National Insurance system implemented or announced up to and including Budget 2014. The table is also based on an individual born after 5th April 1948. 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.

National Minimum Wage

1.179 The Low Pay Commission's (LPC) recommendations for increases in the National Minimum Wage (NMW) rates have been accepted by the government. **The adult NMW rate will increase by 3% to £6.50 from October 2014**, representing the largest cash increase since 2008 and the first real terms increase since 2007. **There will also be increases of 2% for the youth and apprentice NMW rates from October 2014**. As a result, over a million people will see a pay increase.[63] Beyond 2014, the LPC has made clear that it shares the government's aim for further real terms increases beyond this, with the real value of the minimum wage restored and exceeded in time, provided economic conditions continue to improve.

Universal Credit

1.180 Universal Credit will provide the right incentives for people to work, target support at those who need it most, reduce fraud and error, and streamline the administration of the welfare system. Up to 300,000 more people will be in work, worklessness and inactivity will fall, and in-work earnings and hours will rise over time.[64]

1.181 The roll out of Universal Credit continues, with the live service expanding to couples in the summer. The government continues to roll out the service in a controlled manner in order to assess how claimants are responding, and to inform development of the enhanced digital solution. Based on current plans, Universal Credit will be fully available in each part of Great Britain during 2016.

Childcare and early years education

1.182 At Budget 2013 the government announced an additional £200 million support for childcare in Universal Credit, equivalent to providing 85% support for families where both parents, or a single parent, pay income tax. **The government has consulted on this proposal and has now announced that all families eligible for Universal Credit will benefit from additional support at this level**. In line with the principles of the welfare cap, offsetting savings to fund this expansion will be found from within the Universal Credit programme. Further details will be set out at Autumn Statement.

1.183 Budget 2014 confirms that the Tax-Free Childcare costs cap, against which parents can claim 20% support, will be increased to £10,000 per year for each child. This will mean that eligible parents can now benefit from greater support, worth up to £2,000 per child each year. At the same time the government is rolling out Tax-Free Childcare more

[63] 'National Minimum Wage 2014 Report', LPC, March 2014.
[64] 'Universal Credit Impact Assessment', DWP, December 2012.

quickly than previously announced. From autumn 2015, **the scheme will be rolled out to all eligible families with children under 12 within the first year of the scheme's operation**.

1.184 High quality early education has a significant impact on children's life chances. Since 2010 the government has extended free early education for all three- and four-year-olds to 15 hours, and has rolled out this offer to 20% of two-year-olds. This offer is also being extended further, to around 40% of two-year-olds from September 2014. **Budget 2014 announces £50 million for an early years pupil premium, to help improve outcomes for the most disadvantaged three- and four-year-olds in government-funded early education.** The government will allocate £350 million to increase the per-pupil school budgets of the least fairly funded local areas in 2015-16.

Tackling fuel poverty

1.185 The government is committed to helping households with their energy bills and reducing fuel poverty. The government will shortly be publishing its proposals for a new fuel poverty target and strategy and as part of this will consider the particular challenges faced by those households that are not connected to the gas grid.

Support for Mortgage Interest

1.186 The Support for Mortgage Interest (SMI) scheme provides support for homeowners receiving certain income-related benefits. During the recession, the SMI scheme was temporarily set at a higher capital limit of £200,000 with a shorter waiting period of 13 weeks. The scheme has helped over 200,000 people a year remain in their homes.[65] To continue support for homeowners facing difficulties during the recovery, **the SMI scheme will remain at its current, higher level until 31 March 2016**.

Alcohol and gambling duties

1.187 Budget 2014 announces that the **tax on a typical pint of beer will be cut by 1 penny from 24 March 2014.** This will support jobs in the pub industry, and means that a pint of beer will be 8p cheaper than under the previous government's duty plans. In addition, **the duty on ordinary cider will be frozen this year, and the duty escalator for wine will end, keeping the duty on wine and beer broadly similar.**

1.188 To support the domestic market for the thriving Scotch whisky industry and jobs in Scotland, **the Budget announces that the duty on spirits will be frozen for 2014-15.** This means that a bottle of Scotch whisky will be 42p lower than under the previous government's duty plans.

1.189 The number of bingo halls has fallen by three-quarters over the last 30 years. The government recognises the important role that bingo clubs play in bringing local communities together, supporting employment and contributing to British culture. To support bingo and encourage investment, **the government announces that the rate of bingo duty will be reduced to 10%**.

1.190 The Department of Culture, Media and Sport has a review underway to consider the regulation of Category B2 gaming machines (also known as fixed-odds betting terminals), which will report before Easter. These machines are one of the most profitable forms of high street gambling. Alongside the review, **the government will create a new higher rate of machine games duty at 25% for B2 machines to bring their profitability more into line with other gaming machines on the high street**.

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[65] DWP expenditure tables, Autumn Statement 2013.

Ensuring individuals and businesses pay their share

A fair contribution from all

1.191 The government remains committed to a fair tax system where everyone contributes to reducing the deficit, and those with the most make the largest contributions. An estimated 28.3% of all income tax receipts come from the top 1% of taxpayers.[66] This Budget announces a number of policies to enhance the fairness of the tax system further.

1.192 As announced at Budget 2012, the government has introduced a number of new measures to discourage placing property in corporate envelopes to avoid stamp duty land tax (SDLT). These apply to residential properties valued over £2 million, and include a new higher rate of SDLT when the property is first 'enveloped'; a new Annual Tax on Enveloped Dwellings (ATED); and a capital gains tax charge on any gains on disposal of enveloped properties from April 2013.

1.193 ATED has raised 5 times the amount forecast for 2013-14, with significantly more properties above £2 million in envelopes than expected. As well as discouraging SDLT avoidance, ATED incentivises commercial activities by providing relief where, for example, a property is rented out.

1.194 The government believes that ATED and the associated measures can discourage the use of corporate envelopes to invest in high value UK housing which is left empty or under-used while avoiding paying tax. **The Budget therefore announces 2 new bands for ATED, to bring properties worth £500,000 to £1 million and £1 million to £2 million into the charge. The ATED-related capital gains tax charge will apply to properties in the new ATED bands. The 15% rate of SDLT that applies to acquisitions of properties by corporate envelopes will also be applied to properties valued above £500,000 with effect from 20 March 2014.**

1.195 The government recognises that the structure of ATED can create some administrative burdens for genuine property rental, trading and development companies. **The government will therefore stagger the introduction of the new ATED bands, with the £1 million to £2 million band coming into effect from April 2015, and the £500,000 to £1 million band coming into effect from April 2016. The government will also consult on possible simplifications to ATED administration to reduce compliance burdens for genuine businesses.**

1.196 As highlighted by the OTS review of employee benefits and expenses, working practices have changed. The current rules for benefits and expenses are complex and can lead to unfair outcomes. **The government will undertake a call for evidence on remuneration practices in the 21st century to inform future changes**.

1.197 The Budget confirms recent announcements on migrants' access to benefits and tax credits. In addition, **the Budget announces that the government will increase compliance checks on European Economic Area (EEA) migrants to establish whether they meet the entitlement conditions to receive Child Benefit or Child Tax Credit**. The checks will be applied to both new claims and existing awards to prevent EEA migrants claiming benefits they are not entitled to.

Tackling tax avoidance

1.198 Most individuals and businesses throughout the UK pay the tax they owe upfront. However, a persistent minority seek to avoid their responsibilities, preventing the tax system

[66] 'Survey of Personal Income Statistics', table 2.4, HMRC, February 2014. These figures are based on the 2011-12 Survey of Personal Incomes using economic assumptions consistent with the OBR's December 2013 Economic and Fiscal Outlook.

from raising revenue fairly and imposing costs on all taxpayers. The government intends to fundamentally reduce the incentives for avoidance to address this problem.

1.199 At Autumn Statement 2013, the government announced that it would, following consultation, introduce a new requirement for taxpayers to pay disputed tax upfront where the avoidance scheme being used has been defeated in another party's litigation through the courts.

1.200 Tax avoidance scheme promoters must give HMRC information about schemes they promote under the Disclosure of Tax Avoidance Scheme (DOTAS) rules. Anyone using such a scheme must declare to HMRC they are using a notified tax avoidance scheme. Following consultation, **this Budget announces that the government intends to extend the new requirement for taxpayers to pay upfront any disputed tax associated with schemes covered by the DOTAS rules or counteracted under the General Anti Abuse Rule (GAAR).**

1.201 This new power will remove the cashflow advantage for the taxpayer of holding onto the disputed tax during an avoidance dispute. It will also provide HMRC with additional tools to address a legacy stock of an estimated 65,000 avoidance cases. The new power will only apply to tax avoidance schemes that are disputed by HMRC. The legislation will make it clear that HMRC will only be able to issue an accelerated payment notice where they have first sent the taxpayer an enquiry notice or issued them with a notice of assessment. It is not a new tax demand and does not make any changes to tax liabilities. If the taxpayer subsequently wins their case in the courts, they will be reimbursed with interest.

1.202 Following consultation, the Budget confirms the introduction of new rules to allow HMRC to identify and place new obligations and penalties on "high-risk promoters" of tax avoidance schemes. To reflect the extra revenue anticipated from the measures in this Budget, **the government will increase HMRC's compliance yield target by a total of £1.6 billion over the coming 2 financial years.**

International action on tax avoidance

1.203 The government is committed to working with G20 and OECD partners to prevent multinational companies engaging in aggressive tax planning, by taking forward the 15 point Action Plan to counter Base Erosion and Profit Shifting.[67] It is today publishing a position paper which sets out the UK's priorities for the ongoing work on this global initiative.[68] The first outputs are expected this year, including a proposal initiated under the UK's G8 presidency in 2013 for a country-by-country reporting template to give tax authorities worldwide a clear picture of where multinationals generate profits and pay tax.

1.204 The government is committed to completing work on all the actions to the agreed deadlines in 2014 and 2015, and will ensure that changes to the tax rules are implemented in the UK as soon as possible to make sure a fair amount of tax is paid by these businesses.

1.205 Alongside working with G20 and OECD partners, **Budget 2014 announces action to block arrangements involving payments between companies within a group which transfer profits to avoid tax**. These payments will be disregarded for tax purposes, and companies will pay tax on profits generated in the UK.

1.206 The OECD is due to consult on a new rule to address hybrid mismatches, which occur when the tax treatment of a financial instrument or entity differs between countries, allowing for exploitation by multinational groups looking to lower their effective tax rates. The government believes that banks and insurers should not be unfairly advantaged under this rule, and does not see a strong case for a full carve out of their intra-group hybrid capital

[67] 'Action plan on Base Erosion and Profit Shifting', OECD, July 2013.
[68] 'Tackling aggressive tax planning in the global economy: UK priorities for the G20/OECD project for countering Base Erosion and Profit Shifting', HM Treasury, March 2014.

instruments. However, as part of the consultation, **the government will consider whether there should be special rules when these instruments are a direct consequence of regulatory requirements.**

Debt recovery

1.207 The Budget announces that tax credit debt recovery rates for the highest earners in the tax credit system will be increased. This means that households with higher incomes and smaller tax credit awards will repay their debts earlier.

1.208 The government will modernise and strengthen HMRC's debt collection powers to recover financial assets from the bank accounts of debtors who owe over £1,000 of tax or tax credit debts, have the financial means to pay, and have been contacted multiple times by HMRC to pay. A minimum of £5,000 will be left across debtors' accounts. This brings the UK in line with many other tax authorities which already have the power to recover debts directly from an individual's account, such as France and the US.

Distributional Analysis

1.209 Information on the estimated distributional impact of this Budget is available in 'Impact on households: distributional analysis to accompany Budget 2014'.[69] Distributional analysis confirms that the richest are continuing to contribute the most to reducing the deficit, both in cash terms and as a percentage of income and benefits in kind from public services. ONS data show that income inequality is at its lowest level since 1986.[70]

[69] 'Impact on households: distributional analysis to accompany Budget 2014', HM Treasury, March 2014.
[70] 'The effects of taxes and benefits on household income, 2011/12', ONS, June 2013.

2 Budget policy decisions

2.1 Chapter 1 explains how the measures announced in this Budget advance the government's long-term economic plan. This chapter provides a brief description of all Budget policy decisions. There 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 Budget. The tables in this chapter set out the cost or yield of all Budget policy decisions with a fiscal impact in the years up to 2018-19.

Fiscal impacts of Budget policy decisions

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

2.3 Table 2.1 shows the cost or yield of all new Budget 2014 decisions with a direct effect on public sector net borrowing. This includes tax measures, measures affecting AME and changes to allocated 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 policy decision. This is included in the supplementary document 'Budget 2014 policy costings' published alongside this Budget.[1]

2.5 The supplementary document 'Overview of Tax Legislation and Rates', published alongside this Budget, provides a more detailed explanation of tax measures included in this chapter and a summary of their impacts.[2]

[1] 'Budget 2014 policy costings', HM Treasury, Department for Work and Pensions (DWP), and HM Revenue & Customs (HMRC), March 2014.
[2] 'Overview of Tax Legislation and Rates', HM Treasury and HMRC, March 2014.

Table 2.1: Budget 2014 policy decisions[1,2]

	Head	£ million				
		2014-15	2015-16	2016-17	2017-18	2018-19
Spending						
1 Public Service Pensions: revaluation	Spend	0	+725	+985	+1,015	+1,045
2 Spending adjustment: extending Autumn Statement savings	Spend	0	0	+1,040	+1,040	+1,040
Personal Tax						
3 Personal allowance: increase to £10,500 in 2015-16 with equal gains to higher rate taxpayers	Tax	0	-1,410	-1,770	-1,875	-1,895
4 Transferable marriage allowance: increase to £1,050 and set at 10% of personal allowance	Tax	0	-25	-30	-35	-40
Savings and Pensions						
5 Pensions: reduce withdrawal tax rate from 55% to marginal income tax rate	Tax	-5	+320	+600	+910	+1,220
6 Consumer advice for pensions	Spend	-10	-10	–	–	–
7 Savings tax: abolish the 10% rate and extend 0% band to £5,000	Tax	0	-135	-320	-325	-355
8 ISAs: equalise stocks and shares and cash ISA limits and increase to £15,000	Tax	-5	-80	-230	-395	-565
9 ISAs: including peer-to-peer lending and retail bonds	Tax	*	*	-10	-20	-35
10 NS&I bonds for people aged 65 and over	Spend	-45	-170	–	–	–
11 Voluntary National Insurance Contributions	Tax	0	+415	+435	0	0
Investment and Growth						
12 Annual Investment Allowance: double to £500,000 until December 2015	Tax	-85	-665	-1,270	+175	+270
13 R&D tax credits: increase payable element for SMEs	Spend	-5	-50	–	–	–
14 Alan Turing Institute for Big Data	Spend	*	-20	–	–	–
15 Centres for doctoral training	Spend	-30	-30	–	–	–
16 Catapult centres: cell therapy and graphene	Spend	-5	-20	–	–	–
17 Seed Enterprise Investment Scheme and CGT relief: make permanent	Tax	0	-5	-10	-5	-40
18 Social Investment Tax Relief	Tax	0	-10	-20	-25	-35
19 Business rates for Enterprise Zones	Tax	-5	-5	-5	-5	-5
20 Apprenticeship Grant for Employers programme: extension	Spend	-100	-100	–	–	–
21 Degree level and masters level apprenticeships	Spend	-10	-10	–	–	–
22 Cambridge City Deal	Spend	0	-25	–	–	–
23 Right to Buy	Spend	+10	+20	–	–	–
24 OTS Review: simplification of employee share schemes	Tax	0	+10	+10	0	0
Energy						
25 Carbon Price Floor: limit disparity between UK and EU to £18 from 2016-17	Tax	0	0	-340	-615	-870
26 Combined Heat and Power: relief for onsite generation	Tax	0	-65	-70	-75	-80
27 Climate Change Levy: metallurgical and mineralogical exemption	Tax	-20	-25	-25	-25	-25
28 Oil and gas: changes to offshore chartering and Wood Review implementation	Tax	-10	-15	-10	-5	-5

Duties						
29 Alcohol duty: 1p off pint of beer and freeze cider duty	Tax	-110	-110	-110	-110	-110
30 Alcohol duty: freeze spirits duty and abolish wine escalator	Tax	-175	-185	-195	-205	-215
31 Tobacco duty: continue 2% escalator from 2015-16	Tax	0	+40	+75	+110	+135
32 Bingo duty: reducing rate to 10%	Tax	-30	-40	-40	-40	-40
33 Machine games duty: increasing the rate on B2 machines to 25%	Tax	+5	+75	+80	+85	+90
Transport and Environment						
34 Flooding: maintenance and defences	Spend	-100	-70	–	–	–
35 Potholes: challenge fund	Spend	-200	0	–	–	–
36 Air Passenger Duty: abolish bands C and D	Tax	0	-215	-225	-230	-250
37 Regional Air Connectivity Fund: support for new routes	Spend	-10	-10	–	–	–
38 Company Car Tax: continuing to increase by 2ppt in 2017-18 and 2018-19	Tax	0	0	0	+240	+480
39 Motoring tax: changes to VED and capital allowances	Tax	*	*	-5	-10	-15
40 Aggregates Levy: freeze in 2014-15	Tax	-5	-5	-5	-5	-5
41 Landfill tax and Landfill Communities Fund: uprate and reform	Tax	*	+5	+5	+10	+10
42 Capital allowances: energy and water efficient technologies	Tax	*	*	+5	+10	+15
Education, Welfare and Culture						
43 Tax-free Childcare: increase cap from £6,000 to £10,000	Spend	0	-25	–	–	–
44 Early Years Pupil Premium	Spend	0	-60	–	–	–
45 Support for Mortgage Interest: 12-month extension	Spend	0	-90	–	–	–
46 Restrictions on migrants' access to benefits	Spend	+40	+80	–	–	–
47 Employment and Support Allowance: waiting days	Spend	+5	+10	–	–	–
48 Tax Credits debt: increasing recovery rate	Tax	0	0	+35	+5	0
49 Theatre productions: tax credit	Spend	-5	-15	–	–	–
50 Cathedrals grant repair scheme	Spend	-10	-10	–	–	–
51 Cultural gift scheme: extension	Tax	-10	-10	-10	-10	-10
Avoidance and Tax Planning						
52 Accelerated payments: extension to disclosed tax avoidance schemes and the GAAR	Tax	+290	+1,230	+1,300	+715	+385
53 Avoidance schemes using the transfer of corporate profits	Tax	+60	+80	+80	+85	+75
54 Direct recovery of debts	Tax	0	+65	+110	+100	+90
55 Enveloped dwellings: new bands between £500,000 and £2 million	Tax	+35	+70	+90	+80	+90
56 Venture capital schemes: restrictions on use	Tax	0	+35	+65	+55	+45
TOTAL POLICY DECISIONS		**-550**	**-560**	**+225**	**+635**	**+400**
Total spending policy decisions		-540	+80	+2,025	+2,055	+2,085
Total tax policy decisions		-10	-640	-1,800	-1,420	-1,685

** Negligible*

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

[2] Only spending numbers which directly affect borrowing in 2016-17, 2017-18 and 2018-19 are shown. All other spending measures do not affect borrowing as they fall within the Total Managed Expenditure assumption in those years.

Table 2.2: Measures announced at Autumn Statement 2013 or earlier which take effect from April 2014 or later[1]

		Head	£ million				
			2014-15	2015-16	2016-17	2017-18	2018-19
Measures announced at Autumn Statement 2013							
a	Income Tax: transferable marriage allowance	Tax	0	-490	-590	-655	-780
b	Fuel Duty: cancel 2014 increase	Tax	-370	-620	-640	-660	-680
c	VED: direct debit	Tax	-5	-20	-20	-20	-25
d	Employer NICs: abolish for under 21s basic rate earnings	Tax	0	-440	-480	-505	-520
e	Help to work: benefit savings	Spend	+130	+140	+85	+60	+40
f	New Enterprise Allowance: extension	Spend	-5	-45	-10	0	0
g	Business Rates: small business relief extension	Tax	-580	+75	+15	0	0
h	Business Rates: relaxing single property criteria	Tax	-10	-5	-5	-5	-5
i	Business Rates: cap increase at 2% in 2014-15	Tax	-285	-310	-295	-300	-300
j	Business Rates: £1,000 discount for two years for shops, pubs and restaurants up to £50,000 rateable value	Tax	-325	-430	+70	+10	0
k	Business Rates: reoccupation relief for retail premises	Tax	-15	-25	-10	*	*
l	Corporation tax: film tax relief	Spend	-10	-20	-25	-25	-25
m	Employee Ownership: further support	Tax	-10	-20	-20	-20	-25
n	Housing Revenue Account: additional flexibility	Spend	0	-155	0	+10	+20
o	OTS Review: simplification of employee share schemes	Tax	+5	+5	+5	+20	+20
p	Climate Change Levy: data centres	Tax	-5	-25	-20	-20	-20
q	Corporation tax: new pad allowance for shale gas	Tax	0	*	-5	-20	-20
r	Accelerated payments in follower cases	Tax	+15	+305	+300	+200	+100
s	Onshore employment intermediaries	Tax	+445	+425	+380	+410	+440
t	Dual Contracts	Tax	0	+75	+55	+55	+60
u	Venture Capital Trusts: share buy-backs	Tax	+50	+35	+15	+20	+25
v	Oil and gas: offshore chartering	Tax	+145	+125	+110	+95	+95
w	Partnerships: confirming extension to Alternative Investment Funds	Tax	0	+680	+430	+410	+400
x	CGT: amending final exemption period for private residences	Tax	0	+70	+100	+110	+110
y	CGT: application to non-residents	Tax	0	0	+15	+45	+70
z	Alcohol fraud wholesaler registration	Tax	0	-5	+15	+235	+215
aa	HMRC: extending online services	Tax	0	+15	+50	+45	+50
ab	Tax credits: improved collection and administration	Spend	+270	+545	+210	+155	+50
ac	Tax credits: annual entitlement	Spend	0	+70	+55	+10	0
ad	Tax debt: improved collection	Tax	+35	+5	+5	0	0
ae	Overseas life certificates: extension	Spend	+5	+10	+15	+20	+20
af	DWP fraud: sharing RTI data	Spend	+110	+20	+15	-25	0
ag	Local authority capital receipts flexibility	Spend	0	+10	-20	-10	0
ah	Pension credit passthrough	Spend	-5	-5	0	+5	+5
ai	Winter Fuel Payments: overseas eligibility	Spend	0	+20	+25	+25	+25
aj	Alcohol price floor	Tax	-5	-5	-5	-5	-5
Measures announced at Spending Round 2013							
ak	Additional interviews throughout claim	Spend	+55	+90	+100	+125	+130
al	Seven waiting days for unemployed claimants	Spend	+30	+100	+275	+255	+260
am	Three-monthly interviews	Spend	+15	+25	+30	+35	+35
an	Annual Verification	Spend	0	+5	+5	+10	+10
ao	Social rent policy	Spend	0	+45	+140	+295	+490
ap	DWP benefits: recovering debt	Spend	+95	+55	+40	+15	0

Measures announced at Budget 2013							
aq	Carbon Reduction Commitment: exclude schools	Tax	0	-65	-65	-65	-70
ar	Lorry road user levy and offsetting VED reduction	Tax	+30	+25	+25	+25	+20
as	Contracting out NICs	Tax	0	0	+5,145	+5,010	+4,975
at	Inheritance tax: threshold freeze for 3 years from 2015-16	Tax	0	+30	+125	+280	+390
au	National Insurance: £2,000 Employment Allowance	Tax	-1,250	-1,375	-1,605	-1,745	-1,800
av	Corporation tax: reduce main rate to 20% from 2015-16	Tax	-10	-510	-995	-1,065	-1,090
aw	Stamp duty: abolish schedule 19 charge	Tax	-160	-160	-160	-165	-170
ax	Tax relief: health interventions	Tax	-10	-15	-15	-20	-20
ay	Health interventions	Spend	-10	+10	+10	+15	+15
az	Personal allowance: increase by an additional £560 to £10,000 in 2014-15	Tax	-1,160	-1,040	-260	-115	-190
ba	Pensions tax relief: individual protection	Tax	+105	+95	+40	0	0
bb	Offshore employment intermediaries	Tax	+80	+80	+90	+95	+100
bc	Partnerships	Tax	+125	+365	+300	+285	+285
bd	Debt: improving coding out	Tax	0	+115	+50	+30	+30
be	Avoidance schemes: enhanced information powers	Tax	+5	+35	+35	+35	+35
bf	Penalties in avoidance cases	Tax	+55	+75	+30	+30	+30
bg	Capital Allowances: Ultra Low Emission Vehicles	Tax	0	-5	-15	-20	-15
bh	Company car tax: Ultra Low Emission Vehicles	Tax	0	-5	-5	-10	-15
Measures announced at Autumn Statement 2012							
bi	Corporation tax: decrease main rate to 21% from 2014-15	Tax	-495	-940	-1,040	-1,055	-1,075
bj	Child Benefit: increase by 1% for two years from 2014-15	Spend	+175	+270	+290	+290	+290
bk	Housing Benefit: increase Local Housing Allowance by 1% for two years from 2014-15 with provision to high rent areas	Spend	+25	+40	+40	+45	+50
bl	Universal Credit impact of work allowance measure and increase by 1% for two years from 2014-15	Spend	*	+55	+425	+960	+1,175
bm	Higher rate threshold: index by 1% for two years from 2014-15	Tax	+320	+785	+985	+1,040	+1,180
bn	Capital gains tax: increase annual exempt amount by 1% for two years from 2014-15	Tax	0	+5	+15	+15	+15
bo	Tax credits: error and fraud	Tax	+185	+185	+120	+35	0
bp	Pensions: restrict tax relief	Tax	+275	+505	+830	+1,085	+1,250
Measures announced at Budget 2012							
bq	Corporation tax: decrease main rate to 24% in 2012-13, 23% in 2013-14 and 22% from 2014-15	Tax	-915	-975	-1,030	-1,045	-1,065
br	Company Car Tax	Tax	+115	+360	+310	+320	+330
bs	Insurance tax: Claims Equalisation Reserves	Tax	+85	+90	+80	+80	+85
bt	Life assurance premium relief	Tax	0	+5	+5	+5	+5
Measures announced at Budget 2011							
bu	Corporation tax: decrease to 25% in 2012-13, 24% in 2013-14 and 23% in 2014-15	Tax	-905	-965	-1,020	-1,035	-1,055
Measures announced at Spending Review 2010							
bv	Child and Working Tax Credits: use real time information	Spend	+200	+245	+230	+120	0
Measures announced at June Budget 2010							
bw	Corporation tax: decrease main rate to 26% in 2012-13, 25% in 2013-14 and 24% in 2014-15	Tax	-3,105	-3,775	-4,025	-4,090	-4,170
Measures announced before June Budget 2010							
bx	Landfill tax: increase in 2014-15 (2009 Pre-Budget Report)	Tax	+65	+60	+60	+60	+60

**Negligible*

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

Public Spending

Total Managed Expenditure

2.6 Spending in the next Parliament – In line with previous policy, the government has set a fiscal assumption that Total Managed Expenditure (TME) in 2016-17 and 2017-18 will continue to fall at the same rate as over this Parliament. As set out in Autumn Statement 2013, TME will be held flat in real terms in 2018-19. Reflecting permanent reductions to spending as a result of the spending reductions announced at Autumn Statement and the reduced AME costs of public service pensions, TME will be reduced by around a further £2 billion each year from 2016-17.

2.7 The TME growth rate is now calculated on a consistent basis, comparing the 2010-11 plans inherited by this government to 2015-16 plans. By 2018-19 this is equivalent to a £4.5 billion reduction in TME. At the same time, ONS and OBR revisions to GDP deflators have the effect of increasing TME in 2018-19. The net effect is that the baseline, pre-measures, level of TME, from which further Budget savings are subtracted, is broadly in line with the Autumn Statement forecast.

2.8 The government will continue to prioritise capital investment over the medium to longer term, so within the overall TME assumption, public sector gross investment (PSGI) will be constant in real terms in 2016-17 and 2017-18 and will grow in line with GDP from 2018-19. Fiscal consolidation for 2016-17 and 2017-18 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead.

Table 2.3: Total Managed Expenditure[1]

	£ billion					
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
CURRENT EXPENDITURE						
Resource AME	326.2	341.6	356.3	373.6	391.6	407.5
Resource DEL, excluding depreciation	315.4	317.9	312.9			
Ring-fenced depreciation	26.4	20.4	22.3			
Implied Resource DEL, including depreciation[2]				*325.2*	*314.8*	*311.8*
Public sector current expenditure	**667.9**	**679.9**	**691.5**	**698.8**	**706.4**	**719.3**
CAPITAL EXPENDITURE						
Capital AME	6.5	6.3	5.1	3.4	5.5	6.0
Capital DEL	41.1	45.9	47.0			
Implied Capital DEL[2]				*50.3*	*49.2*	*51.2*
Public sector gross investment	**47.6**	**52.1**	**52.1**	**53.8**	**54.8**	**57.2**
TOTAL MANAGED EXPENDITURE[3]	**715.5**	**732.0**	**743.6**	**752.5**	**761.2**	**776.5**
Total Managed Expenditure (% GDP)	*43.5%*	*42.5%*	*41.6%*	*40.2%*	*38.9%*	*38.0%*

Memo: average annual real growth in Total Managed Expenditure (2010-11 to 2015-16): -0.7%

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

[2] Implied DELs beyond 2015-16 assume no future policy changes to AME. Departmental budgets will be set at the next Spending Review.

[3] The 2010-11 baseline for calculating the TME growth rule excludes in year spending reductions announced at June Budget 2010 and departmental underspends against 2010-11 plans. The 2015-16 baseline excludes the OBR's forecast Allowance for Shortfall and the effect of all policy measures announced at Autumn Statement 2013 and Budget 2014. Following the application of this growth rule, TME from 2016-17 onwards has been reduced to take account of Budget measures: pensions revaluations and ongoing savings from reductions set out at Autumn Statement 2013.

Departmental Expenditure Limits

2.9 Table 2.4 shows departmental expenditure limits (DEL) as announced at Spending Review 2010 and Spending Round 2013, and subsequently adjusted for measures at fiscal events including the policy decisions contained in this Budget.

Table 2.4: Departmental Expenditure Limits

	£ billion		
	Estimate	Plans	
	2013-14	2014-15	2015-16
Departmental programme and administration budgets (Resource DEL excluding depreciation)[1]			
Education	51.7	53.5	53.5
NHS (Health)[2]	105.6	108.3	110.4
Transport	3.8	4.0	3.2
CLG Communities	2.0	2.5	1.1
CLG Local Government	16.6	13.8	12.1
Business, Innovation and Skills	14.8	13.8	13.2
Home Office	10.7	10.4	9.8
Justice	7.4	6.7	6.2
Law Officers' Departments	0.6	0.5	0.5
Defence[3]	27.1	25.3	23.6
Foreign and Commonwealth Office	2.0	1.5	1.1
International Development	8.1	8.3	8.5
Energy and Climate Change	1.2	1.5	1.3
Environment, Food and Rural Affairs	1.8	1.8	1.6
Culture, Media and Sport	1.1	1.2	1.1
Work and Pensions	7.2	7.8	6.2
Scotland	25.5	25.8	25.8
Wales	13.9	13.7	13.7
Northern Ireland	9.7	9.7	9.7
Chancellor's Departments	3.2	3.6	3.3
Cabinet Office	2.2	2.3	2.0
Small and Independent Bodies	1.5	1.9	1.6
Reserve	0.0	2.4	2.5
Special Reserve	0.0	0.6	1.0
Adjustment for Budget Exchange[4]	0.0	-2.2	0.0
Spending commitments not yet in budgets	0.0	0.0	0.9
Total Resource DEL excluding depreciation plans	**317.8**	**318.7**	**313.9**
OBR allowance for shortfall	-2.4	-0.8	-1.0
OBR Resource DEL excluding depreciation forecast	***315.4***	***317.9***	***312.9***
Capital DEL			
Education	3.9	5.0	4.6
NHS (Health)[2]	4.3	4.6	4.7
Transport	8.4	9.0	9.5
CLG Communities	3.8	5.1	3.4
CLG Local Government	0.0	0.0	0.0
Business, Innovation and Skills	2.5	2.9	3.8
Home Office	0.4	0.5	0.4
Justice	0.3	0.3	0.3
Law Officers' Departments	0.0	0.0	0.0
Defence[3]	7.7	9.0	9.3
Foreign and Commonwealth Office	0.1	0.1	0.1
International Development	2.0	2.0	2.6
Energy and Climate Change	2.2	2.5	2.5
Environment, Food and Rural Affairs	0.5	0.6	0.5
Culture, Media and Sport	0.0	0.3	0.4
Work and Pensions	0.2	0.2	0.2
Scotland	2.9	2.9	3.0
Wales	1.3	1.4	1.5
Northern Ireland	1.0	1.0	1.1
Chancellor's Departments	0.2	0.2	0.1
Cabinet Office	0.4	0.4	0.4
Small and Independent Bodies	0.1	0.1	0.1
Reserve	0.0	1.1	0.5
Special Reserve	0.0	0.2	0.1
Adjustment for Budget Exchange[4]	0.0	-2.0	-0.7
Adjustment for Devolved Administration borrowing	0.0	0.0	0.3
Spending commitments not yet in budgets	0.0	0.0	0.4
Total Capital DEL plans	**42.2**	**47.6**	**49.0**
OBR allowance for shortfall	-1.1	-1.8	-2.0
OBR Capital DEL forecast	***41.1***	***45.9***	***47.0***

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

[2] The health budget remains projected to grow in real terms every year from 2013-14 to 2015-16.

[3] The defence budget for 2014-15 reflects the likely initial drawdown of funding from the Special Reserve for the net additional cost of military operations at Main Estimates. No such allocation has yet been made for 2015-16; the funding in this year remains in the Special Reserve. It does not reflect the planned switch between Single Use Military Expenditure and RDEL for 2014-15 and 2015-16 to be voted at Main Estimates

[4] Departmental budgets in 2014-15 and 2015-16 include amounts carried forward through Budget Exchange. These increases will be offset at Supplementary Estimates in future years so are excluded from spending totals.

2.10 Departments remain ahead of their consolidation targets and are forecast to underspend by £7 billion in 2013-14. Underspends are forecast to continue to the end of this Parliament.

Financial transactions and contingent liabilities

2.11 A number of policy measures announced in the Budget do not directly affect Public Sector Net Borrowing (PSNB) in the same way as conventional spending or taxation. This includes financial transactions that only affect the central government net cash requirement (CGNCR) and public sector net debt (PSND), and transactions likely to be recorded as contingent liabilities. Table 2.5 shows the effect of financial transactions on CGNCR.

Table 2.5: Financial transactions: impact on Central Government Net Cash Requirement[1]

		£ million				
	Financial transactions	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
i	Help to Buy: Equity Loan	0	0	-1,700	-1,750	-1,800
ii	Builders Finance Fund	0	-150	-425	0	0
iii	Estate Regeneration	0	-25	-35	-60	-60
iv	Custom Build	-5	-10	-20	-35	-105
v	Low carbon innovation spend	-60	0	0	0	0
vi	UK Export Finance Direct Lending	-200	-350	-450	-500	-500
TOTAL POLICY DECISIONS		**-265**	**-535**	**-2,630**	**-2,345**	**-2,465**

[1] *Costings reflect the OBR's latest economic and fiscal determinants, and are presented on a UK basis.*

International development

2.12 The government will continue to meet its commitment to spend 0.7% of the UK's Gross National Income (GNI) on Official Development Assistance (ODA) in 2014.

Public service pensions and efficiency

2.13 Public service pensions – The government will introduce new employer contribution rates for the Principal Civil Service Pension Scheme, the NHS Pension Scheme (E&W), the Police Pension Scheme (E&W) applying from 1 April 2015 and for the Teachers Pension Scheme (E&W) applying from 1 September 2015. (1)

2.14 New efficiency programme – The Chief Secretary to the Treasury has asked the Minister for the Cabinet Office to set out an ambitious new efficiency programme to deliver savings from 2016-17 and across the next Parliament, in time for Autumn Statement 2014.

Housing and local growth

2.15 Help to Buy: equity loan scheme – The Help to Buy: equity loan scheme will be extended to March 2020 to help a further 120,000 households to buy a new-build home.

2.16 Ebbsfleet Garden City – The government will form an Urban Development Corporation, in consultation with local MPs, councils and residents, to deliver a new garden city at Ebbsfleet.

2.17 Barking Riverside – The government will work with the Greater London Authority (GLA) to develop proposals for extending the Gospel Oak to Barking line to Barking Riverside to unlock up to 11,000 new homes.

2.18 Brent Cross regeneration scheme – The government will work with the London Borough of Barnet and the GLA to look at proposals for the Brent Cross regeneration scheme, subject to value for money and affordability.

2.19 Estate regeneration – The government will introduce a £150 million fund to kick start regeneration of social housing estates.

2.20 Builders' Finance Fund – To support SME access to finance, the government will create a £500 million Builders' Finance Fund, which will provide loans to developers to unlock 15,000 housing units stalled due to difficulty in accessing finance.

2.21 Custom build – The government will consult on a new Right to Build giving custom builders a right to a plot from councils and test the operation of this approach with vanguard local authorities. The government will also create a £150 million repayable loan scheme to provide up to 10,000 serviced plots, and will look to extend the Help to Buy: equity loan scheme to cover custom build.

2.22 Strategic Land and Property Review – The Government Property Unit has recently concluded its Strategic Land and Property Review which has identified scope to release £5 billion from government land and property, creating opportunities for housing and economic development.

2.23 Zero carbon homes – At Budget 2013 the government committed to implement 'zero carbon homes' from 2016. The government will shortly publish its response to last year's consultation.

2.24 Right to Move – The government will shortly consult on the design of a priority 'Right to Move' for social tenants to increase their mobility for work-related reasons. Options will include giving such tenants priority when a new social home becomes available, and setting aside a pool of vacant lets to enable them to move across local authority boundaries.

2.25 Development benefits – The government will launch a government-funded staged pilot for passing a share of the benefits of development directly to individual households, including further research and evaluation of the approach.

2.26 Garden City prospectus – The government will publish a prospectus by Easter 2014 setting out how interested local authorities could develop their own, locally-led proposals for bringing forward new garden cities.

Energy and environment

2.27 Flood defences – The government will increase funding by £140 million over 2014-15 and 2015-16 to repair and maintain flood defences. (34)

2.28 Potholes challenge fund – The government will provide an additional £200 million in 2014-15 to set up a potholes challenge fund to increase further the amount local authorities spend on maintaining the local road network. This includes an allocation to devolved administrations. (35)

2.29 Extend Energy Intensive Industries (EII) compensation for the Carbon Price Floor (CPF) and EU Emissions Trading System to 2019-20 – The government will continue to compensate energy intensive industries for higher electricity prices resulting from the CPF and EU Emissions Trading System through to 2019-20.

2.30 Compensation for Energy Intensive Industries for the Renewables Obligation and small-scale Feed-in Tariffs – The government intends to compensate energy intensive industries for higher electricity prices resulting from the Renewables Obligation and small scale Feed-in Tariffs. The scheme will begin in 2016-17, subject to state aid clearance.

2.31 Auto-rollovers – The government recognises that some small businesses are concerned about the practice by energy suppliers of automatically continuing contracts after the end of the contract term. The government welcomes announcements by the vast majority of suppliers to end auto-rollovers in their current form.

2.32 Smart meters – The government has agreed with the smart meter Central Delivery Body that they will set out plans for how they will help microbusinesses make full use of smart meters.

2.33 Transparency of tariffs and regulation of brokers – The government welcomes the proposals from the Office of Gas and Electricity Markets (Ofgem) that energy suppliers be required to include more information on current tariffs, new tariffs and consumption details when notifying customers of their contract end dates, and to improve the regulation of energy brokers. The government and Ofgem will work on further ways to make energy markets work better for microbusinesses. The SME Energy Working Group will discuss publication of tariffs.

Other spending measures

2.34 Magna Carta anniversary – The government will contribute £1 million towards next year's commemoration events for the 800th anniversary of the Magna Carta.

2.35 Repair grants for cathedrals – The government will provide £20 million for a grant scheme for repairs to cathedrals. (50)

2.36 £1 coin – The government will introduce a new and highly secure £1 coin. The government expects the new coin to be bi-metallic with 12 sides, and to adopt new Royal Mint technology to protect against counterfeiting. A public consultation will be held over the summer focusing on how to manage any impacts to industry. A final decision on the precise specification of the new coin, including the metal composition will be taken following the consultation.

2.37 Blanefield: support for remediation of contaminated land – The government will provide ring-fenced support of up to £255,000 to support residents in Blanefield, Stirling, to deal with the remediation of contaminated land.

2.38 Horserace Totaliser Board – In 2014-15, the government will pay the horseracing industry its remaining share of receipts from the sale of the Horserace Totaliser Board.

2.39 Troubled Families programme – The government will roll-out Phase 2 of the Troubled Families programme in 2014-15, providing support for up to 40,000 families with multiple and costly problems.

2.40 Lockerbie-Syracuse Trust – The government will provide the Lockerbie-Syracuse Trust charity with a grant of £100,000 to contribute to the scholarship programme which sees students from Lockerbie attend Syracuse University in the USA.

2.41 Survivors for Peace – The government will provide £150,000 for the Survivors for Peace programme in 2014-15, to support UK victims of terrorism, and commits to finding a permanent funding solution.

2.42 Regional Air Connectivity Fund – The government will extend the scope of the existing Regional Air Connectivity Fund to include start-up aid for new routes from regional airports, and will increase the funding to £20 million per annum. (37)

Savings

2.43 Changing the starting rate of savings income tax – The starting rate for savings income tax will be set to 0% and the band to which it applies will be extended from £2,880 in 2014-15 to £5,000 as of 6 April 2015. (Finance Bill 2014) (7)

2.44 Individual Savings Accounts (ISAs) to be reformed into a simpler product: the New ISA – The overall annual subscription limit will be increased to £15,000 from 1 July 2014, and this full amount will be permitted to be held in either cash, stocks and shares, or any combination of the two. Individuals will be permitted to transfer any funds previously invested in stocks and shares into cash outside of annual subscription limits. (8)

2.45 Removing restrictions on securities brought into an ISA – The government will remove all restrictions on the maturity dates of securities permitted to be brought into an ISA from 1 July 2014. (9)

2.46 Increasing the annual subscription limits for a Child Trust Fund and a Junior ISA – The annual subscription limits for Child Trust Funds and Junior ISAs will be increased to £4,000 from 1 July 2014.

2.47 Extending ISA eligibility to peer-to-peer loans – The list of qualifying investments for ISAs will be extended to include peer-to-peer loans. The government will continue to explore further extending the list to include debt securities offered via crowdfunding platforms. (9)

2.48 Extending ISA eligibility to core capital deferred shares – The list of qualifying investments for ISAs will be extended to include core capital deferred shares from 1 July 2014.

2.49 National Savings and Investments (NS&I) measures to support savers – The government will support savers through NS&I, including by:

- increasing the Premium Bond investment limit from £30,000 to £40,000 and offering two £1 million monthly prizes instead of one from 1 August 2014, and then further increasing the limit to £50,000 in 2015-16
- launching in January 2015 a range of fixed-rate, market-leading savings bonds for people aged 65 and over, taxable in line with all other savings income. Interest rates and individual investment limits will be confirmed at Autumn Statement 2014 to take account of prevailing market conditions but the central assumption made at Budget 2014 is that NS&I will launch a 1-year bond paying 2.8% gross/AER and a 3-year bond paying 4.0% gross/AER, with an investment limit of £10,000 per bond. (10)

2.50 Simple Products – The government has reviewed the progress the industry has made on the development of simple financial products and welcomes the trade bodies' commitment to having an accreditation framework in place by the end of 2014.

Pensions

2.51 Increased Pension Flexibility – The government will legislate to allow those with a defined contribution pension to draw down from it after age 55 from April 2015, subject to their marginal rate of income tax. (5)

2.52 Pensions flexibility: financial guidance – The government will ensure that, from April 2015, all individuals with defined contribution pension pots are offered free and impartial face-to-face guidance at the point of retirement and will make available up to £20 million in the next 2 years to develop this initiative. (6)

2.53 Pensions flexibility: capped drawdown – From 27 March 2014, the government will allow people with defined contribution pension wealth more flexibility to access their savings by increasing the capped drawdown limit to 150% of an equivalent annuity. (Finance Bill 2014) (5)

2.54 Pensions flexibility: minimum income requirement change – From 27 March 2014, the government will allow people with defined contribution pension wealth more flexibility to access their savings by reducing the minimum income requirement for accessing flexible drawdown to £12,000, subject to their pension scheme rules. (Finance Bill 2014) (5)

2.55 Pensions flexibility: small pension pots – From 27 March 2014, the government will increase the amount for small individual pension pots that can be taken as a lump sum regardless of total pension wealth from £2,000 to £10,000. (Finance Bill 2014) (5)

2.56 Pensions flexibility: increase the number of small pots that can be taken as lump sums – The government will increase the number of small pension pots that can be taken as lump sums from 2 to 3. (5)

2.57 Pensions flexibility: trivial commutation (small pension wealth) – From 27 March 2014, the government will allow people with defined contribution pension wealth more flexibility to access their savings by increasing the total pension wealth that people can have before they are no longer entitled to receive lump sums under trivial commutation rules to £30,000, subject to their pension scheme rules. (Finance Bill 2014) (5)

2.58 Pensions liberation – The government will legislate to give HMRC broader powers to prevent pension liberation with greater control over the registration and de-registration of pension schemes. The changes will begin to take effect from 20 March 2014. (Finance Bill 2014) (5)

2.59 Individual Protection – The government will introduce individual protection 2014 (IP14) as a consequence of the reduction in the lifetime allowance to £1.25 million from 6 April 2014. Individuals with IP14 will have a lifetime allowance of the value of their pension savings on 5 April 2014 subject to an overall maximum of £1.5 million. (Finance Bill 2014)

2.60 Dependants' pension scheme – The government will consult on options to simplify the Dependants' pension scheme rules to ensure the rules apply fairly, and reduce administrative burdens. Any legislative changes will be in a future Finance Bill.

2.61 Pensions tax: abolish the age 75 rule – The government will explore with interested parties whether those tax rules that prevent individuals aged 75 and over from claiming tax relief on their pension contributions should be amended or abolished.

2.62 Voluntary National Insurance contributions (VNICs) Class 3a – The Budget confirms further details about the new class of VNICs, which will enable those who reach State Pension age before the 6 April 2016 to top up their Additional State Pension record. The scheme will be open from October 2015 for 18 months. The pricing will be set at an actuarially fair rate and the maximum additional amount available will be £25 a week. The Department for Work and Pensions (DWP) will set out full details shortly. (11)

2.63 Qualifying non-UK pension schemes (QNUPS) – The government will consult on ways to give equivalent treatment to QNUPS and to UK registered pension schemes to remove opportunities to avoid Inheritance Tax (IHT). (Finance Bill 2015)

Personal tax and welfare

Income tax and National Insurance contributions

2.64 Income tax: personal allowance in 2014-15 – As announced at Budget 2013, the income tax personal allowance will be increased to £10,000 from April 2014. The higher rate threshold will be increased to £41,865 and the basic rate limit will be set at £31,865, in line with the Autumn Statement 2012 decision to increase the higher rate threshold by 1% in 2014-15 and 2015-16. The National Insurance upper earnings and upper profits limits will be increased in line with the higher rate threshold. The basic, higher and additional rates of income tax for 2014-15 will remain at their 2013-14 levels. (Finance Bill 2014) (az)

2.65 Income tax: personal allowance in 2015-16 – The government will increase the income tax personal allowance to £10,500 in 2015-16. The higher rate threshold will be increased to £42,285 and the basic rate limit will be set at £31,785 in line with the Autumn Statement 2012 decision to increase the higher rate threshold by 1% in 2014-15 and 2015-16. The personal allowance will be increased by CPI from 2016-17. (Finance Bill 2014) (3)

2.66 Transferable tax allowances for married couples – From 2015-16 married couples and civil partners will be able to transfer £1,050 of their income tax personal allowance to their spouse or civil partner. Couples where neither partner is a higher or additional rate tax payer will be eligible to transfer. The transferable amount will be set at 10% of the personal allowance in each tax year. (Finance Bill 2014) (4) (a)

2.67 The UK personal allowance and people who are not resident in the UK – The UK now has one of the most generous personal allowances in the world. To ensure this remains well targeted, the government intends to consult on whether and how the allowance could be restricted to UK residents and those living overseas who have strong economic connections in the UK, as is the case in many other countries, including most of the EU.

2.68 Tax exemption for employer-funded occupational health treatments – As announced at Budget 2013 the government will introduce a tax exemption for amounts up to £500 paid by employers for medical treatments for employees. The tax exemption is expected to become available with the rollout of the Health and Work Service in October 2014. (Finance Bill 2014) (ax, ay)

2.69 Employer provided benefits in kind: beneficial loans – As announced at Budget 2013, the threshold for the small loans exemption limit will be increased from £5,000 to £10,000 from April 2014. (Finance Bill 2014)

2.70 Income tax relief for qualifying loan interest – As announced at Autumn Statement 2013, from April 2014, the income tax relief for interest paid on loans to invest in close companies and employee-controlled companies will be extended to investments in such companies resident throughout the European Economic Area (EEA). (Finance Bill 2014)

2.71 Employee ownership – As announced at Budget 2013, the government will introduce a package of tax reliefs to support the employee ownership sector. (Finance Bill 2014) (m)

2.72 Taxation of sporting events – The government will legislate to enable income and corporation tax relief to be given in relation to major sporting events by secondary legislation. (Finance Bill 2014)

2.73 Glasgow Athletics Grand Prix – As announced on 12 February 2014, the government will exempt from tax the relevant income of non-UK resident competitors at the Glasgow Athletics Grand Prix. (Finance Bill 2014)

2.74 Scottish rate of income tax – As announced at Budget 2013, the government will legislate to require the National Audit Office (NAO) to report annually to the Scottish Parliament on HMRC's administration of the Scottish rate of income tax. (Finance Bill 2014)

2.75 Scottish rate of income tax and secondary legislation – The government will introduce legislation to amend the provisions setting out how the Scottish rate of income tax is structured to allow for further technical changes to be introduced in a more straightforward manner in subsequent secondary legislation. (Finance Bill 2014)

2.76 Social investment tax relief – The government will set the rate of income tax relief for the social investment tax relief at 30% from 6 April 2014. Eligible organisations will be able to receive up to €344,827 of tax-advantaged investment over 3 years under the scheme. (Finance Bill 2014) (18)

2.77 Share Incentive Plans and Save As You Earn – As announced at Autumn Statement 2013, the government will increase the Share Incentive Plans annual limits to £3,600 per year for free shares and to £1,800 per year for partnership shares. The maximum monthly amount that an employee can contribute to Save As You Earn (SAYE) savings arrangements will increase from £250 to £500. These changes will take effect from April 2014. (Finance Bill 2014) (m)

2.78 Seed enterprise investment scheme (SEIS) – The government will make the SEIS permanent. The government will also make the associated capital gains tax reinvestment relief a permanent feature of SEIS, providing relief on half the qualifying gains that individuals reinvest in SEIS qualifying companies in 2014-15 or subsequent years. (Finance Bill 2014) (17)

2.79 Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs): changes to scheme rules – The government will:

- exclude companies benefiting from Renewables Obligation Certificates and/or the Renewable Heat Incentive scheme with effect from Royal Assent of Finance Bill 2014. This will also apply to SEIS (Finance Bill 2014) (56)
- allow investors to subscribe for VCT shares via nominees with effect from Royal Assent (Finance Bill 2014)
- exclude investments in VCTs that are conditionally linked in any way to a share buy-back, or that have been made within 6 months of a disposal of shares in the same VCT, from qualifying for new tax relief with effect from 6 April 2014 (Finance Bill 2014) (u)
- prevent VCTs from returning capital that does not relate to profits on investments within 3 years of the end of the accounting period in which shares were issued to investors. This will take effect in respect of shares issued on or after 6 April 2014 (Finance Bill 2014) (56)
- amend the VCT legislation to ensure that from 6 April 2014, notwithstanding the general time limits for making assessments to recover tax, HMRC can withdraw tax relief if VCT shares are disposed of within 5 years of acquisition (Finance Bill 2014)

2.80 EIS and VCTs: consultation – The government is concerned about the growing use of contrived structures to allow investment in low-risk activities that benefit from income guarantees via government subsidies and will therefore explore a more general change to exclude investment into these activities, consulting with stakeholders. The government is also interested in exploring options for venture capital reliefs to apply where investments are in the form of convertible loans, and will be considering this as part of a wider consultation and evidence gathering exercise over summer 2014.

Capital gains tax, Inheritance Tax and trusts

2.81 Capital gains tax (CGT): non-residents – As announced at Autumn Statement 2013, the government will introduce CGT on future gains made by non-residents disposing of UK residential property from April 2015. A consultation on how best to introduce the charge will be published shortly. (Finance Bill 2015) (y)

2.82 CGT: private residence relief – As announced at Autumn Statement 2013, the government will legislate to reduce the final period exemption from 36 months to 18 months in most cases from 6 April 2014. (Finance Bill 2014) (x)

2.83 CGT: annual exempt amount – As announced at Autumn Statement 2012, the government will increase the annual exempt amount by 1% for 2 years to £11,000 in 2014-15 and £11,100 in 2015-16. (Finance Bill 2014) (bn)

2.84 CGT: business asset roll-over relief – The government will include payment entitlements under the new agricultural subsidy Basic Payment Scheme within the business asset roll-over relief classes of qualifying assets. (Finance Bill 2014)

2.85 Capital gains remittances and split years – The government will correct an oversight in the split year rules that were introduced as part of the Statutory Residence Test legislated in Finance Act 2013. This will ensure that capital gains made by a remittance basis user in the overseas part of a split year of residence are not charged to tax. (Finance Bill 2014)

2.86 Trusts simplification – As announced at Autumn Statement 2013, the government will simplify filing and payment dates for Inheritance Tax (IHT) relevant property trust charges. It will also treat income arising in such trusts which remains undistributed for more than 5 years as part of the trust capital when calculating the 10-year anniversary charge. Budget 2014 announces that the government will consult further on the proposal to split the IHT nil-rate band available to trusts and simplify the trust charges. (Finance Bill 2014 and Finance Bill 2015)

2.87 Trusts with vulnerable beneficiaries – As announced at Autumn Statement 2013, the government will extend from 5 December 2013 the CGT uplift provisions that apply on the death of a vulnerable beneficiary. From 2014-15 the range of trusts that qualify for special income tax, CGT and IHT treatment will also be extended. (Finance Bill 2014)

2.88 IHT: liabilities and foreign currency accounts – The government will treat funds held in foreign currency accounts in UK banks in a similar way to excluded property for the purposes of provisions which restrict how liabilities are deducted from the value of an estate for IHT purposes. (Finance Bill 2014)

2.89 IHT exemption for emergency service personnel – The government will consult on extending the existing IHT exemption for members of the armed forces whose death is caused or hastened by injury while on active service to members of the emergency services. (Finance Bill 2015)

2.90 IHT freeze – As announced at Budget 2013, the government will extend the freeze of the IHT threshold at £325,000 until 2017-18. (Finance Bill 2014) (at)

Charities and Gift Aid

2.91 Gift Aid digital – As announced at Autumn Statement 2013, the government will legislate to allow non-charity intermediaries a greater role in operating Gift Aid with further detail to be set out in regulations. (Finance Bill 2015) (aa)

2.92 Small charities – The government will encourage more donors to use Gift Aid on eligible donations and encourage smaller charities to register for the reliefs they are entitled to. This will include targeted outreach work, a simpler joint HMRC/Charity Commission application process and improving understanding of donor behaviour.

2.93 Increase Cultural Gifts Scheme limits – The combined annual limit for the Cultural Gifts Scheme and Inheritance Tax Acceptance in Lieu scheme will be increased from £30 million to £40 million a year from 2014-15. (51)

2.94 Cultural Gifts Scheme amendments to legislation – As announced at Autumn Statement 2013, the government will legislate to ensure the Cultural Gifts Scheme (CGS) works as intended in relation to Estate Duty. The amendment will ensure that donors of objects, on which there is potentially a charge to Estate Duty, are not financially better off by donating the object under the CGS, than selling the object on the open market. (Finance Bill 2014)

2.95 Grant for air ambulance and inland safety boat charities – Following HM Treasury's review of the VAT air ambulance charities incur on fuel, the government will introduce a 5-year grant of £65,000 per year for air ambulance charities across the UK. Following a consultation, the government will also introduce a further 5-year grant of £1 million per year for inland safety boat charities across the UK.

2.96 Charity donor benefits – The government will review benefits allowed to donors with a view to simplifying existing rules.

2.97 Community Amateur Sports Clubs – As announced at Autumn Statement 2013 the government will legislate to allow tax relief on gifts of cash from companies to Community Amateur Sports Clubs. (Finance Bill 2014)

Welfare

2.98 Welfare cap – Budget 2014 caps welfare spending in scope for the years 2015-16 to 2018-19 at the level of the OBR forecast. The forecast margin will be 2% of the underlying cap in each year that the cap applies. More information regarding the welfare cap can be found in Chapter 1 and Annex A.

2.99 Migrants' access to benefits – Budget 2014 scores the impacts of measures to manage migrants' access to benefits announced by the government since November 2013. (46)

2.100 Carer's Allowance income disregard – Budget announces that the government will increase the earnings limit in Carer's Allowance to £102 per week from May 2014.

2.101 Support for Mortgage Interest (SMI) – Temporary measures to increase the support provided by the SMI scheme are extended for working-age claimants. The waiting period will remain at 13 weeks and the working-age capital limit will remain at £200,000 until 31 March 2016. (45)

2.102 Employment and Support Allowance – Budget 2014 confirms that a 7-day waiting period will apply to new claims for contributory and income-related Employment and Support Allowance from October 2014. (47)

2.103 Tax-Free Childcare – Budget 2014 confirms that the Tax-Free Childcare costs cap, against which eligible parents can claim 20% support, will be increased to £10,000 per year for each child. This will mean that eligible parents can now benefit from greater support, worth up to £2,000 per child from autumn 2015. Tax-Free Childcare will be rolled out to all eligible families with children under 12 within the first year of the scheme's operation. (43)

Corporate Taxes

Corporation tax

2.104 Corporation tax: rates – As announced previously, the main rate of corporation tax will be reduced to 21% from April 2014 and 20% from April 2015. (Finance Bill 2014) (av, bi)

2.105 Corporation tax: small profits rate – The small profits rate of corporation tax will remain at 20% from April 2014. (Finance Bill 2014)

2.106 Corporation tax: associated companies rules – The government will replace the associated companies rules with simpler rules based on 51% group membership in April 2015, when the main rate and small profits rate of corporation tax are unified at 20%. (Finance Bill 2014)

2.107 Capital allowances: Annual Investment Allowance (AIA) – The government will increase the AIA to £500,000 for all qualifying investment in plant and machinery made on or after 1 April 2014 until 31 December 2015. (Finance Bill 2014) (12)

2.108 Capital allowances in Enterprise Zones – The government will extend the period in which enhanced capital allowances are available in Enterprise Zones by 3 years until 31 March 2020. (Finance Bill 2014)

2.109 Enhanced Capital Allowance (ECA) for zero emission goods vehicles – The government will extend the ECA for zero emission goods vehicles to 31 March 2018. To comply with EU state aid rules the availability of the ECA will be limited to businesses that do not claim the government's Plug-in Van Grant. (Finance Bill 2015) (39)

2.110 Research and Development (R&D) tax credits – The government will increase the rate of the payable credit for loss makers under the SME R&D tax credit scheme from 11% to 14.5% from April 2014. (Finance Bill 2014) (13)

2.111 Business premises renovation allowance (BPRA) – Following a review of the BPRA, the government will make changes to simplify the scheme, make it more certain in its application and to reduce the risk of exploitation, with effect from April 2014. (Finance Bill 2014)

2.112 Corporation tax: theatre tax relief – The government will introduce a new theatre tax relief at 25% for qualifying touring productions and 20% for other qualifying productions, with effect from 1 September 2014. (Finance Bill 2014) (49)

2.113 Corporation tax: film tax relief – As announced at Autumn Statement 2013, the government will make relief available at 25% on the first £20 million of qualifying production expenditure, and 20% thereafter, for small and large budget films from April 2014. The government will also reduce the minimum UK expenditure requirement from 25% to 10% and will modernise the cultural test. (Finance Bill 2014) (l)

2.114 Corporation tax: video games tax relief and high-end television tax relief – The government will extend video games tax relief to goods and services provided from within the European Economic Area and apply a cap on subcontracting of £1 million per game, subject to state aid clearance. The legislation will also be clarified so that only those games and television programmes qualifying for relief will be treated as separate trades. (Finance Bill 2014)

2.115 Mineral extraction allowances (MEAs): planning and permitting costs – The government will extend the scope of qualifying expenditure on mineral exploration and access to include expenditure on seeking planning permission and permits where permission and permits are granted. These changes will apply to qualifying expenditure a company incurs on or after Royal Assent of Finance Bill 2014. (Finance Bill 2014)

2.116 Capital allowances: MEAs – As announced at Budget 2013, the government will align the treatment of assets eligible for Mineral Extraction Allowances (MEAs) with that for assets eligible for Plant and Machinery Allowances. In addition, it will confirm that for the purposes of MEAs, a mineral extraction trade consists of an activity within the charge to UK tax. The changes will have effect on or after 1 April 2014 for businesses within the charge to corporation tax and on or after 6 April 2014 for businesses within the charge to income tax. (Finance Bill 2014)

2.117 Debt Cap Provisions – The government will make effective changes to the current worldwide debt cap (WWDC) legislation in cases where a worldwide group includes entities without ordinary share capital. It will also amend the regulation making power for elections to transfer WWDC liabilities for companies involved in whole business securitisations. (Finance Bill 2014)

2.118 Controlled Foreign Companies – The government will reinforce the Controlled Foreign Company (CFC) regime to prevent UK base erosion caused by the transfer of intra-group interest income offshore or by moving a foreign affiliate's bank debt into a UK company. (Finance Bill 2014)

2.119 Change of ownership rules – As announced at Autumn Statement 2013, the government will introduce legislation to ease the rules restricting the availability of relief for corporation tax trading losses when companies change ownership. The changes will take effect for any changes of company ownership which occur on or after 1 April 2014. (Finance Bill 2014)

2.120 Chargeable gains rollover relief reinvestment in intangible fixed assets – The government will introduce legislation to prevent claims for capital gains roll-over relief where the proceeds are reinvested in an intangible asset. (Finance Bill 2014)

2.121 Corporate loss buying – The government will exclude Research and Development Allowances (RDAs) from the anti-loss buying rules announced at Budget 2013. The change will have effect for qualifying changes occurring on or after 1 April 2014. (Finance Bill 2014)

Taxation of financial services sector

2.122 Bank levy review – Following a 2013 review into the operational efficiency of the bank levy, the government will:

- limit the protected deposit exclusion to amounts insured under a deposit protection scheme
- treat all derivative contracts as short term
- restrict relief for a bank's High Quality Liquid Assets to the rate applicable to long-term liabilities
- align the bank levy definition of Tier One capital with the new Capital Requirements Directive from January 2014
- exclude liabilities in respect of collateral that has been passed on to a central counterparty from January 2014
- widen legislation-making powers within the bank levy from January 2014 to ensure it can be kept in line with regulation

These changes will take effect from January 2015, unless otherwise stated. (Finance Bill 2014)

2.123 Code of Practice on Taxation for Banks – The government has published an updated list of those banks that have unconditionally adopted the strengthened Code of Practice on Taxation for Banks. Finance Bill 2014 will then provide for HMRC to publish an annual report from 2015 on the operation of the Code. (Finance Bill 2014)

2.124 Bank levy rate – The government will set the full rate of the bank levy at 0.156% from 1 January 2014. (Finance Bill 2014)

2.125 Bank levy re-design – The government will consult on the merits of a new charging mechanism for the bank levy, where banks are allocated into different bands according to their chargeable equity and liabilities and then charged an amount set for that band, with the overall level of revenue raised from the sector unchanged. A consultation document will be published on 27 March, with any subsequent changes to the bank levy's design legislated at the report stage of Finance Bill 2014 and applying for chargeable periods commencing on or after 1 January 2015. (Finance Bill 2104)

2.126 Extension of section 363A of the Taxation International and Other Provisions Act (TIOPA) 2010 – The government will legislate to widen the scope of section 363A of the TIOPA 2010. The current provisions treat offshore funds that are undertakings for collective investment in transferable securities as not being resident in the UK if they are resident in another Member State for the purposes of any tax imposed under the law of that state on income. Following consultation, section 363A will be amended to include alternative investment funds from 5 December 2013. (Finance Bill 2014)

2.127 Schedule 19 Stamp Duty Reserve Tax (SDRT) reform – As announced at Budget 2013, the government will abolish the SDRT charge on unit trusts and open-ended investment companies in Schedule 19 to the Finance Act 1999. The legislation will retain an SDRT charge on non pro–rata in specie redemptions. These changes will have effect from 30 March 2014. (Finance Bill 2014) (aw)

2.128 Stamp tax on shares: growth markets – As announced at Budget 2013, the government will abolish stamp duty and SDRT on shares in companies quoted on recognised growth markets from 28 April 2014. (Finance Bill 2014)

2.129 Stamp Duty: House of Commons resolutions – As announced at Autumn Statement 2013, the government will introduce legislation to ensure that any resolution for stamp duty will remain effective until replaced by an equivalent provision in the Finance Act. This is in line with the changes made to the Provisional Collection of Taxes Act by Finance Act 2011, as regards resolutions for other taxes and duties. (Finance Bill 2014)

2.130 Review of loan relationships and derivative contracts legislation – As part of the changes arising from the government's review of loan relationships and derivative contracts Finance Bill 2014 will include legislation in two areas:

- both profits and losses will be brought into account for tax purposes when a group transfers a loan or derivative contract to a company, which subsequently ceases to be a member of the group (currently losses are not normally brought into account). These changes have effect where the cessation of membership of the relevant group occurs on or after 1 April 2014 (Finance Bill 2014)
- changes will be made to the rules in Chapter 3 of Part 6 Corporation Tax Act 2009, concerned with the taxation of certain collective investment vehicles, to enhance existing anti-avoidance provisions and to clarify aspects of the operation of the rules. These changes have effect in relation to accounting periods beginning on or after 1 April 2014 (Finance Bill 2014)

Legislation, previously intended for inclusion in Finance Bill 2014, to clarify and rationalise the taxation of loan relationships and derivative contracts held by a partnership will now be deferred to 2015.

2.131 Changes to Section 221 Finance Act 2012 covering Insurers Solvency II compliant instruments – The government will amend legislation to ensure regulations can be made to set out the tax treatment of Solvency II compliant capital instruments in advance of the agreement to Solvency II. Subject to the outcome of the OECD's Base Erosion and Profit Shifting project, the government will make regulations to ensure that insurers' Solvency II instruments which are issued in the form of debt are taxed as debt instruments as the tax treatment of these instruments is uncertain. (Finance Bill 2014)

Oil and gas taxes

2.132 Ultra high pressure, high temperature cluster allowance – The government will consult on a new allowance to support investment in ultra high pressure, high temperature oil and gas projects. The allowance will exempt a portion of a company's profits from the supplementary charge. The amount of profit exempt will equal at least 62.5% of qualifying capital expenditure a company incurs on these projects. (Finance Bill 2015)

2.133 Oil and gas: Wood Review – The government announced in February 2014 that stewardship of the UK's oil and gas resources would move to a new arm's length body. The interim advisory panel has been established with key industry figures and the first meeting will be held in April 2014. The next steps will be:

- the Department of Energy and Climate Change (DECC) will shortly launch a competition for the CEO designate, with the aim of having someone in place by July 2014
- the CEO will steer the set up of the interim body over the summer, which government plans to have up and running in October 2014
- the government then plans to establish the MER UK (Maximising Economic Recovery UK) principles in legislation in the 4th session and, subject to Parliament, these could be in force from spring 2015

The government will task the new interim oil and gas body to review how best to encourage exploration and reduce decommissioning costs. It will report back at Budget 2015 with its findings and recommendations. (28)

2.134 Oil and gas fiscal regime – The government will review the fiscal regime for the UK Continental Shelf to ensure it continues to incentivise economic recovery as the basin matures, working with the new oil and gas arm's length body. Initial conclusions will be set out at Autumn Statement 2014.

2.135 Onshore oil and gas allowance – As announced at Autumn Statement 2013, the government will introduce an allowance to support onshore oil and gas exploration and development. The allowance will exempt a portion of a company's profits from the supplementary charge. The amount of profit exempt will equal 75% of the qualifying capital expenditure a company incurs on onshore oil and gas projects on or after 5 December 2013. (Finance Bill 2014) (q)

2.136 Oil and gas tax regime: rates – As announced at Autumn Statement 2013, the main ring fence rate of corporation tax will remain at 30% from April 2014, the small profits rate will remain at 19% and the marginal rate fraction will remain at 11/400ths. From 2015 onwards, the ring fence tax rates will be fixed in the Corporation Tax Act 2010 to prevent having to reconfirm them every year in the Finance Bill. (Finance Bill 2014)

2.137 Oil and gas exploration – As announced at Autumn Statement 2013, the government will introduce a package of measures to support oil and gas exploration in the UK and UK Continental Shelf. The government will extend the Ring Fence Expenditure Supplement from 6 to 10 accounting periods for all onshore ring fence oil and gas losses and qualifying pre-commencement expenditure incurred on or after 5 December 2013. The government will also make the following changes, which will have effect from 1 April 2014:

- extend reinvestment relief to prevent a chargeable gain being subject to a corporation tax charge where a company sells an asset in the course of exploration and appraisal activities and reinvests the proceeds in the UK or UK Continental Shelf (Finance Bill 2014)
- extend the scope of the Substantial Shareholding Exemption to treat a company as having held a substantial shareholding in a subsidiary being disposed of for the 12 month period before the disposal, where that subsidiary is using assets for oil and gas exploration and appraisal that have been transferred from other group companies (Finance Bill 2014)

2.138 Oil and gas bareboat chartering – As announced at Autumn Statement 2013, the government is concerned about the use of specialised lease payments, known as bareboat charters, to move significant taxable profit outside the UK tax net, and has been holding informal discussions with industry. The government will cap the amount deductible for these intra-group lease payments by companies that provide drilling services or accommodation vessels on the UK Continental Shelf. The cap will be 7.5% of the historical cost of the asset subject to the lease, increased from the 6.5% cap previously announced at Autumn Statement. The government will also introduce a new ring fence to protect the resulting revenue. The changes will apply from 1 April 2014. The government will review the impact of the measure following its first year of operation. (Finance Bill 2014) (28) (v)

Indirect Taxes

Alcohol duties

2.139 Alcohol duty rates – From 24 March 2014, the duty rate on general beer will be reduced by 2%. The duty rate on low strength beer will be reduced by 6% and the total duty rate on high strength beer will be reduced by 0.75%. The duty rates on spirits and most ciders will be frozen in cash terms this year. The duty rates on wine and high strength sparkling cider will increase by RPI. (Finance Bill 2014) (29, 30)

2.140 Alcohol fraud – As announced at Autumn Statement 2013, the government will introduce new measures to reduce the illicit trade in alcohol products, including a registration scheme for alcohol wholesalers that will start to take effect in 2016 and a requirement for traders to take reasonable steps to ensure their customers are legitimate to take effect later in 2014. (z)

Tobacco duties

2.141 Tobacco duty rates – As announced at the March Budget 2010, duty rates on tobacco products will increase by 2% above RPI. These changes will come into effect from 6pm on 19 March 2014. (Finance Bill 2014)

2.142 Tobacco duty rates beyond 2014-15 – Annual duty increases of 2% above RPI will continue until the end of the next Parliament to help improve public health. (31)

2.143 Minimum excise tax – The government will consult during summer 2014 on whether a minimum excise tax for tobacco could help improve public health.

2.144 Tobacco smuggling and revenue protection – The government will consult during summer 2014 on a range of measures to strengthen its response to tobacco smuggling and improve anti-forestalling controls, with a view to legislating in 2015. (Finance Bill 2015)

Gambling duties

2.145 Gaming duty revalorisation – The government will increase gaming duty bands in line with RPI for accounting periods starting on or after 1 April 2014. (Finance Bill 2014)

2.146 Bingo duty rates – The rate of bingo duty will reduce to 10% for accounting periods starting on or after 30 June 2014. (Finance Bill 2014) (32)

2.147 Machine games duty – Alongside the work already underway by the Department of Culture, Media and Sport to consider the regulatory treatment of B2 gaming machines which will report before Easter, the government will create a higher rate of machine games duty at 25% for gaming machines where the charge payable for playing can exceed £5. This change will take effect from 1 March 2015. (Finance Bill 2014) (33)

2.148 Remote gambling taxation – As announced at Budget 2012, the taxation of remote gambling will move to a place of consumption basis. This will take effect from 1 December 2014. (Finance Bill 2014)

Horserace betting levy

2.149 The horserace betting levy – The government will consult shortly on extending the horserace betting levy to offshore bookmakers. Later in 2014 the government will go further and consult on wider levy reforms. This consultation will seek views on a range of options which are likely to include developing commercial arrangements, modernising the existing levy and a horserace betting right.

Transport taxes

2.150 Rural Fuel Rebate Scheme extension – The government has submitted an application to the European Commission for 17 of the most rural areas in mainland UK to receive a 5 pence per litre (ppl) fuel duty discount.

2.151 Fuel duty incentives for methanol – From April 2015, the government will apply a reduced rate of fuel duty to methanol. The rate will be set at 9.32 pence per litre. The size of the duty differential between the main rate and methanol will be maintained until March 2024. The government will review the impact of this incentive alongside the duty incentives for road fuel gases at Budget 2018. (Finance Bill 2015)

2.152 Vehicle Excise Duty (VED) rates and bands – VED rates for cars, motorcycles and the main rates for vans will increase by RPI from 1 April 2014. (Finance Bill 2014)

2.153 VED: classic vehicle exemption – The government will introduce a rolling 40 year VED exemption for classic vehicles from 1 April 2014. (Finance Bill 2014 and future Finance Bills) (39)

2.154 VED administrative simplification – As announced at Autumn Statement 2013, the government will introduce legislation to reduce tax administration costs and burdens by making the following changes with effect from 1 October 2014:

- motorists will be able to pay their VED by direct debit annually, biannually or monthly, should they wish to do so. A 5% surcharge will apply to biannual and monthly payments (Finance Bill 2014) (c)
- a paper tax disc will no longer be issued and required to be displayed on a vehicle windscreen (Finance Bill 2014)

2.155 VED: Heavy Goods Vehicles (HGVs) – As announced at Budget 2013, from 1 April 2014 the government will reduce and re-structure VED rates for HGVs within the HGV Road User Levy scheme, as set out in 'Overview of Tax Legislation and Rates 2014'. Information on UK bound HGVs will be drawn from the Freight Targeting System to support enforcement of the Levy scheme. (Finance Bill 2014) (ar)

2.156 Company Car Tax (CCT) rates for 2016-17 – Budget 2012 and Budget 2013 set out CCT rates and bands for 2016-17, including the removal of the diesel supplement. The appropriate percentage of the list price subject to tax will be 7% for the 0-50 gCO_2/km band and 11% for the 51-75 gCO_2/km band in 2016-17. (Finance Bill 2014) (bh, br)

2.157 CCT rates for 2017-18 and 2018-19 – The appropriate percentage of list price subject to tax will increase by 2 percentage points for cars emitting more than 75 grammes of carbon dioxide per kilometre (gCO_2/km), to a maximum of 37%, in both 2017-18 and 2018-19. In 2017-18 there will be a 4 percentage point differential between the 0-50 and 51-75 gCO_2/km bands and between the 51-75 and 76-94 gCO_2/km bands. In 2018-19 this differential will reduce to 3 percentage points. The differential will reduce further to 2 percentage points in 2019-20 in line with the Budget 2013 announcement. (Finance Bill 2015) (38)

2.158 Fuel Benefit Charge (FBC) – From 6 April 2015 the FBC multiplier for both cars and vans will increase by RPI.

2.159 Van Benefit Charge (VBC) – From 6 April 2015 the main VBC rate will increase by RPI. The government will extend VBC support for zero emission vans to 5 April 2020 on a tapered basis. In 2015-16 the VBC rate paid by zero emission vans will be 20% of the rate paid by conventionally fuelled vans, followed by 40% in 2016-17, 60% in 2017-18, 80% in 2018-19 and 90% in 2019-20, with the rates equalised in 2020-21. The government will review VBC support for zero emission vans in light of market developments at Budget 2016. (Finance Bill 2015)

2.160 Air Passenger Duty (APD) rates for 2014-15 – As announced at Budget 2013, APD rates for 2014-15 will rise in line with RPI from 1 April 2014. (Finance Bill 2014)

2.161 APD structure and rates – Budget 2014 announces that from 1 April 2015, the government will reform APD by merging bands B, C and D, and uprating bands A and B by the RPI. The government will also set the higher rates that apply to private business jets offering an enhanced level of comfort to 6 times the reduced rate, as set out in the 'Overview of Tax Legislation and Rates 2014'. The government will also consult on making greater tax transparency in ticket sales. (Finance Bill 2014) (36)

Energy and carbon taxes

2.162 Carbon price floor (CPF) reform – The government will limit the difference between the carbon price implied by the CPF and the EU allowance price to £18/tCO_2 from 2016-17 to 2019-20. The CPF trajectory will remain unchanged. However, where this leads to a UK-only Carbon Price Support (CPS) rate of more than £18/tCO_2, the CPS rate will be capped at £18/tCO_2. The CPS rate for 2016-17 will therefore be set at £18/tCO_2. The government will review the CPF trajectory for the 2020s, including whether a continued cap on the CPS rate might be necessary, once the direction of reform of the EU Emissions Trading System is clearer. (Finance Bill 2014) (25)

2.163 CPF: exemption for Combined Heat and Power (CHP) – The government will exempt fuels used to generate good quality electricity by CHP plants for onsite purposes from the CPF, from 1 April 2015. (Finance Bill 2015) (26)

2.164 CPF: technical changes – As announced in December 2013, the government will amend the rate for coal and other fossil fuels for 2014-15 and 2015-16. The government will also make kerosene used in electricity generation liable to tax from 1 May 2014. (Finance Bill 2014)

2.165 Climate change agreements: sawmilling – The government will admit the sawmilling sector into the climate change agreement scheme by the end of 2014.

2.166 Climate Change Levy (CCL) main rates – CCL main rates will increase in line with RPI from 1 April 2015. (Finance Bill 2014)

2.167 CCL: exemption for metallurgical and mineralogical processes – The government will introduce exemptions from the CCL for energy used in metallurgical and mineralogical processes from 1 April 2014. (Finance Bill 2014) (27)

Waste and other environmental taxes

2.168 Aggregates levy rates – The aggregates levy rate will remain at £2 per tonne in 2014-15. (40)

2.169 Aggregates levy exemption suspensions – As confirmed at Autumn Statement 2013, legislation will be introduced to suspend elements of the aggregates levy that are subject to a formal state aid investigation by the European Commission, from 1 April 2014. The legislation will make provision for the suspended elements to be reinstated should the Commission decision allow, and to enable revenue received as a result of the suspensions to be repaid where practicable. (Finance Bill 2014)

2.170 Landfill tax rates – The standard and lower rates of landfill tax will increase in line with the RPI, rounded to the nearest 5 pence, from 1 April 2015. Following industry engagement to address compliance, the government will introduce a loss on ignition testing regime on fines (residual waste from waste processing) from waste transfer stations by April 2015. Only fines below a 10% threshold would be considered eligible for the lower rate. Full proposals will be set out in a consultation document later in 2014. The government intends to provide further longer term certainty about the future level of landfill tax rates once the consultation process on testing regime has concluded, but in the mean time is committed to ensuring that the rates are not eroded in real terms. (Finance Bill 2014) (41)

2.171 Landfill communities fund – The value of the landfill communities fund for 2014-15 will be reduced to £71 million. As a result, the cap on contributions by landfill operators will be amended to 5.1%. This reduction takes account of progress that environmental bodies have made to address the government's challenge to reduce unspent funds. The saving will be used to fund an equivalent one-off increase to address waste crime. The government intends that environmental bodies' performance against the challenge is published once the final information is available later this year. (41)

2.172 Enhanced Capital Allowances (ECA): energy-saving and water-efficient technologies – The list of designated energy-saving and water-efficient technologies qualifying for ECA will be updated during summer 2014, subject to state aid approval. (42)

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

VAT

2.174 VAT: changes to the place of supply rules and introduction of a Mini One Stop Shop (MOSS) – As announced at Budget 2013, the government will legislate to change the rules for the taxation of intra-EU business to consumer supplies of telecommunications, broadcasting and e-services. From 1 January 2015 these services will be taxed in the Member State in which the consumer is located, ensuring these are taxed fairly and helping to protect revenue. To support these changes, the government will also legislate for the introduction of a Mini One Stop Shop from 1 January 2015. This will give businesses accounting for VAT due on these types of supplies in other Member States the option of only registering in the UK, using a single return. (Finance Bill 2014)

2.175 VAT: revalorisation of the VAT registration and deregistration thresholds – From 1 April 2014 the VAT registration threshold will be increased from £79,000 to £81,000 and the deregistration threshold from £77,000 to £79,000.

2.176 VAT: prompt payment discounts – The government will legislate to ensure that VAT is accounted for on the actual price paid for goods and services where prompt payment discounts are offered. The change will come into effect on 1 May 2014 for supplies of telecommunication and broadcasting services to consumers and 1 April 2015 for other goods and services. (Finance Bill 2014)

2.177 VAT: reverse charge for gas and power – The government will introduce a reverse charge for gas and power to prevent missing trader intra-community fraud in relation to those commodities. The change will be introduced through secondary legislation and the government will discuss the timing of introduction with the relevant industry bodies.

2.178 VAT: refunds for the Health Research Authority and Health Education England – As announced at Budget 2013, once they have been established by the passage of the Care Bill 2014, the government will legislate to include the following bodies within the Section 41 VAT Refund Scheme:

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

2.179 VAT: refunds for public bodies – The government will bring forward legislation to include Combined Authorities established under existing legislation within the Section 33 VAT Refund Scheme, and commits to include the London Legacy Development Corporation from 2015-16.

2.180 VAT: zero rate for adapted motor vehicles for wheelchair users – The government will consult on reform of the VAT zero rate relief on the supply of motor vehicles adapted for the use of wheelchair users, to seek to better target the relief and reduce fraud, and to ensure that users of lower limb prosthetics can benefit from the relief.

2.181 Insurance Premium Tax (IPT): exemption for space satellites – The government will legislate to exempt space satellite insurance from IPT.

Property taxes

2.182 Stamp duty land tax (SDLT): charities relief – As announced at Autumn Statement 2013, the government will legislate to make it clear that partial relief from SDLT is available where a charity purchases property jointly with a non-charity. The charity will be able to claim relief from SDLT on the proportion of the purchase attributable to it. The changes will take effect from the date on which Finance Bill 2014 receives Royal Assent. (Finance Bill 2014)

2.183 Enveloping of residential property – The government will introduce two new bands for the Annual Tax on Enveloped Dwellings (ATED). Residential properties worth over £1 million and up to £2 million will be brought into the charge with effect from 1 April 2015. The charge for these properties in 2015-16 will be £7,000. Properties worth over £500,000 and up to £1 million will be brought into the charge with effect from 1 April 2016. The charge for these properties in 2016-17 will be £3,500. These charges will be increased by CPI each year. (Finance Bill 2014) (55)

2.184 The government will also extend the 15% SDLT rate applied to residential properties purchased by certain non-natural persons to properties purchased for over £500,000 with effect from 20 March 2014. The government will extend the related CGT charge on disposals of properties liable to ATED for residential properties worth over £1 million and up to £2 million with effect from 6 April 2015 and for residential properties worth over £500,000 and up to

£1 million with effect from 6 April 2016. The government will consult over summer 2014 on possible options to simplify the administration of ATED. (Finance Bill 2014 for SDLT; Finance Bill 2015 for CGT) (55)

2.185 Application of SDLT on certain authorised property funds – As part of the Investment Management Strategy, the government will consult on the SDLT treatment of the seeding of property authorised investment funds and the wider SDLT treatment of co-ownership authorised contractual schemes.

2.186 Business rates in Enterprise Zones – The government will extend the deadline by which businesses need to have located in an Enterprise Zone in order to claim business rates discounts by 3 years until 31 March 2018. (19)

Tax avoidance, planning and fairness

2.187 High risk promoters – The government will provide HMRC with new powers to tackle non-cooperative promoters of tax avoidance schemes. These powers will include the ability to issue conduct notices, breaches of which will trigger enhanced information powers with large financial penalties for non-compliance. (Finance Bill 2014)

2.188 Marketed tax avoidance schemes – Following a consultation that closed in February 2014, the government will legislate to provide that HMRC may issue a notice to the user of a tax avoidance scheme that they should settle their dispute with HMRC when the claimed tax effect has been defeated in other litigation. If the taxpayer does not settle they risk a penalty and must make upfront payment of the tax in dispute. Budget 2014 announces that the requirement to pay upfront will also apply to the disputed tax associated with any scheme that falls within the disclosure of tax avoidance scheme rules (DOTAS) and with schemes that HMRC counteracts under the general anti-abuse rule (GAAR). (Finance Bill 2014) (52) (r)

2.189 Disclosure of Tax Avoidance Schemes regime (DOTAS) improvements – The government will consult on improving the current DOTAS regime, including through refining the existing avoidance scheme hallmarks, introducing new hallmarks, and strengthening the penalties for non-disclosure. (Finance Bill 2015)

2.190 VAT Avoidance Disclosure Regime (VADR) improvements – The government will consult on proposed changes to the VADR in order to bring it more in line with the DOTAS regime, including shifting the primary responsibility for disclosure from the users to the promoters of VAT avoidance schemes. (Future Finance Bill)

2.191 Avoidance schemes using charities – Following announcement at Autumn Statement 2013, the government is consulting further on measures to help deter the use of charities established for the purpose of tax avoidance, with any legislation to follow at an appropriate time.

2.192 Company Car Tax – As announced at Autumn Statement 2013, to protect tax revenues, and taking effect from 6 April 2014, the government will introduce legislation to:

- ensure individuals make payments for private use of a company car or van in the relevant tax year (Finance Bill 2014)
- ensure that where an employer leases a car to an employee, the benefit is taxed as a car benefit rather than as employment earnings (Finance Bill 2014)

2.193 Compensating adjustments – As announced on 25 October 2013, the government will introduce legislation, with effect from 25 October 2013, to prevent abuse of the rules relating to compensating adjustments in the transfer pricing code. (Finance Bill 2014)

2.194 Employment intermediaries facilitating false self-employment – As announced at Autumn Statement 2013, the government will amend existing legislation to prevent employment intermediaries being used to avoid employment taxes by disguising employment as self-employment, with effect from April 2014. (Finance Bill 2014) (s)

2.195 Offshore intermediaries – As announced at Budget 2013 the government will amend and strengthen existing legislation to ensure the correct income tax and NICs are paid by offshore employment intermediaries with effect from April 2014. (Finance Bill 2014) (bb)

2.196 Dual contracts – As announced at Autumn Statement 2013, the government will legislate to prevent a small number of high earning non-domiciled individuals from avoiding tax by artificially dividing the duties of one employment between the UK and overseas. (Finance Bill 2014) (t)

2.197 Partnerships review – The government will introduce legislation that will take effect from April 2014 to counter the disguising of employment relationships in limited liability partnerships and prevent the tax motivated allocation of business profits to corporate partners which are generally taxed at lower rates than individuals. (Finance Bill 2014) (w) (bc)

2.198 Avoidance scheme using total return swaps – As announced at Autumn Statement 2013, the government will legislate to close down a tax avoidance scheme using derivative contracts which has enabled companies to pay their profits to a company in the same group located overseas, thus escaping a corporation tax liability. This will have effect from 5 December 2013. (Finance Bill 2014)

2.199 Avoidance schemes involving the transfer of corporate profits – The government will close down tax avoidance schemes, with immediate effect, involving other arrangements to transfer profits to a related company where the arrangements have a main purpose of securing a tax advantage. (Finance Bill 2014) (53)

2.200 Base Erosion and Profit Shifting publication – The government published a position paper which sets out the UK's ongoing work with G20 and OECD partners in taking forward the 15 point Action Plan to counter Base Erosion and Profit Shifting on 19 March 2014.

2.201 Avoidance involving capital losses – The government will amend the operation of a Targeted Anti-Avoidance Rule relating to chargeable gains, confirming that it applies generally to counter the contrived use of capital losses to reduce income profits by whatever means. (Finance Bill 2014)

2.202 Double taxation relief: revenue protection – The government will close 2 loopholes to reinforce the UK's double taxation relief policy that relief for foreign tax should only be given where income has been doubly taxed, once in the UK and once in the foreign territory. (Finance Bill 2014)

Fraud, error and debt

2.203 Direct Recovery of Debts – The government will modernise and strengthen HMRC's powers to recover tax and tax credit debts directly from debtors' bank and building society accounts, including ISAs. The Direct Recovery of Debts will focus on debtors who owe at least £1,000 and have been contacted multiple times by HMRC to pay. A minimum aggregate balance of £5,000 will be left across all accounts, including ISAs, after the debt is recovered. The government will consult on the implementation of this measure shortly after Budget 2014. (54)

2.204 Strengthening compliance checks for EEA migrants – The government will increase compliance checks on EEA migrants' claims for Child Benefit or Child Tax Credits to establish whether they meet the entitlement conditions to receive them. The checks will be applied to both new claims and to existing awards to EEA migrants, to prevent them from claiming, and continuing to claim, benefits they are not entitled to. (46)

2.205 Increasing maximum recovery rates from ongoing tax credit awards – From April 2016, the rate of tax credits debt recovery from ongoing awards will increase from 25% to 50% for households with an income of over £20,000 a year. (48)

2.206 Self service time to pay – The government will introduce a new online system to enable people in financial difficulty to set up a payment plan for self-assessed income tax.

Tax compliance and administration

2.207 HMRC compliance yield target – The government will increase HMRC's compliance yield target by £1.6 billion over the coming 2 financial years to £24.5 billion in 2014-15 and £26.3 billion in 2015-16 respectively in line with the compliance yield expected to be generated by measures announced in Budget 2014.

2.208 Customs civil penalties – Having consulted, the government will modernise customs civil penalties to create a fairer, consistent, more transparent and effective system, whilst securing the UK's borders and protecting revenue. The changes will bring the customs civil penalty regime in line with other HMRC penalties. (Finance Bill 2014)

2.209 Ships stores' – Having consulted, the government will update tax legislation relating to ship and aircraft stores to provide flexibility to accommodate trade practices and to increase controls on areas of revenue risk. (Finance Bill 2014)

2.210 Data sharing – The government will legislate to provide for a controlled release of non-financial VAT registration data for specific purposes (principally credit scoring) and to a small number of qualified parties (like credit reference agencies) and will continue to explore options for the public release of a limited subset of VAT registration data as open data.

2.211 Recovery of direct tax – removal of limitation period restriction for EU cases – The government will modify the limitation period for recovery of direct tax to accord with the Supreme Court ruling in FII GLO. (Finance Bill 14)

Tax simplification

2.212 Simplifying self-employed National Insurance contributions (NICs) – Following a consultation announced at Budget 2013, from April 2016 Class 2 NICs for the self-employed will be collected through Self Assessment.

2.213 Government response to the Office of Tax Simplification (OTS) review of employee benefits and expenses – In response to the OTS review of employee benefits and expenses, the government will consult on 4 simplifications including abolishing the £8,500 threshold, voluntary payrolling of benefits, a trivial benefits exemption and a general exemption for non-taxable expenses. The government also intends to review the rules underlying the tax treatment of travel and subsistence expenses, and will call for evidence on remuneration practices to inform any future reforms. (Future Finance Bill)

2.214 Government response to the OTS review of employee share schemes – As announced at Budget 2013, the government will implement 9 OTS recommendations to simplify the taxation of employment-related securities. Following consultation, the government has decided to delay introducing new rules for employment-related securities held by internationally mobile employees until April 2015, after which time all employment-related securities will be subject to these rules. The government will additionally consult on the OTS recommendation to introduce a 'marketable security' into rules for taxing employment-related securities and on the proposal to introduce an employee shareholding vehicle. (24)

2.215 Construction Industry Scheme (CIS) – The government will consult in summer 2014 on options to improve the operation of the CIS for smaller businesses and to introduce mandatory on-line filing for contractors. The government will also hold discussions with industry on revisions to reporting obligations and improvements in registration for joint ventures.

2.216 Government response to the OTS review of partnerships – The government will publish a draft partnership manual for comment in April 2014 linking all HMRC partnership guidance. The government will implement 6 additional short term fixes identified in the OTS's interim review and examine the feasibility of 3 further OTS recommendations by the end of 2014.

2.217 OTS review of competiveness of UK tax administration – The government welcomes the publication of the OTS's initial report and call for evidence, and will respond at the Autumn Statement 2014 to the final report, to be published in summer 2014.

Supply side reform of the economy

Exports

2.218 UK Export Finance (UKEF) – To make UKEF more competitive the government will:

- double the size of UKEF's direct lending scheme to £3 billion, remove the scheme end date, relax conditions on loan sizes, and lend at the minimum interest rates allowed by international agreements
- work in partnership with the banks to deliver the enhanced lending scheme, ensuring that smaller companies can benefit from the scheme as well as mid-sized and large businesses
- consult on changes to the legislation governing UKEF to allow the organisation to support individual export supply chains and intangible exports
- undertake a marketing and communications campaign to raise awareness of UKEF's products and services and wider export finance
- commence the operation of UKEF's Export Refinancing Facility by the end of April 2014

2.219 Financial Services Trade and Investment Board – The government will increase the resources available to promote financial services trade and investment by £2.8 million in 2014-15 and £2.8 million in 2015-16. The government will shortly publish the Financial Services Trade and Investment Board's first annual progress report and forward look.

2.220 Expansion of the Global Entrepreneur Programme – UKTI will be given £1.2 million in 2014-15 and £1.2 million in 2015-16 to expand the Global Entrepreneur Programme to the UK regions and double the numbers of overseas entrepreneurs that it targets.

2.221 Chevening Scholarships – The number of Chevening Scholarships for students from developing countries will be tripled in the 2015-16 academic year.

2.222 Increased funding for the 'Education is GREAT' campaign – Funding for 'Education is GREAT' will be increased to £3 million in 2014-15 to attract more international students to the UK.

Education and skills

2.223 Barriers to postgraduate study – The government will investigate options to support increasing postgraduate participation to ensure that the UK can meet the demand for higher skills in the economy.

2.224 Centres for Doctoral Training – £106 million will be provided over 5 years to fund around 20 additional Centres for Doctoral Training. (15)

2.225 Extension of Apprenticeship Grant for Employers (AGE) – The government will provide funding of £85 million in both 2014-15 and 2015-16 to extend the AGE scheme. This will provide over 100,000 grants to employers. The government will ensure that grants are targeted where they are most effective. (20)

2.226 Degree and masters level apprenticeships – The government will provide £20 million over 2 years to support apprenticeships up to postgraduate level. (21)

2.227 Early years pupil premium – Budget 2014 announces £50 million for an early years pupil premium, to help improve outcomes for the most disadvantaged three and four year-olds in government-funded early education. (44)

Supporting access to finance and competition in banking

2.228 Payment Systems Regulator – The government has today announced that it will switch on the Market Investigation Reference powers of the Payment Systems Regulator a year ahead of schedule. This will give the new payments regulator the power to take competition action over payment systems, including undertaking a market study over issues relating to their ownership by the big banks, as soon as it is equipped to do so.

2.229 Banking technology – The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) will publish a review of their work on removing barriers to entry and expansion in retail banking later this year, including setting out publicly for the first time how they will treat the relationships between potential new banks and third party service providers of off-the-shelf banking solutions. These offer the potential to reduce radically the barriers to becoming a new bank.

2.230 'Midata' for personal current accounts – To improve switching, the government announces a new commitment from the major providers of current accounts. This means that personal current account customers will be able to access transactional level data on their account, in a standardised and downloadable format, which can be used in comparison tools. The data will be available by the end of 2014.

2.231 Full Account Number Portability – The FCA will launch a review in September 2014 into the effectiveness of the Current Account Switching Service. Alongside this they will commence a study of the costs and benefits of account number portability as a way of increasing competition in banking.

2.232 SME banking survey – The first results of a major new survey commissioned by the Chancellor of the Exchequer into the way banks perform for small businesses will be published in May 2014. The survey (Business Banking Insight) is independent, is being delivered by business groups for small businesses, and will provide detailed information on what SMEs think about every aspect of their bank, including a ranking order of banks against key indicators.

2.233 Legislating for cheque imaging – The government has announced a consultation on speeding up cheque processing. The government will legislate this year to facilitate cheque imaging, allowing people to pay in cheques by mobile phone.

2.234 SME finance: help to match SMEs rejected for finance with alternative lenders – The government will launch a consultation shortly after Budget 2014 on whether, and if so, how, to legislate to help match SMEs rejected for finance with alternative lenders.

2.235 SME credit data – The government will shortly announce further details of its proposal to require banks to share information on their SME customers with other lenders through Credit Reference Agencies. The government will legislate in the next session of Parliament.

2.236 Deeds of priority – The government has today (19 March 2014) announced a new agreement by the major banks to process most claims for a 'deed of priority' or 'waiver' within 7 working days, and for each bank to provide standardised documentation to simplify the process. This will speed up the process for SMEs seeking finance from challenger banks or other alternative finance providers.

2.237 Business Bank – Alongside the Budget, the Business Bank will issue a request for proposals to pilot its wholesale guarantees programme, which was announced at Autumn Statement 2013.

2.238 Release of debts: financial institutions in resolution – As announced on 26 November 2013 and taking effect from that date, the government will introduce legislation to amend a corporation tax rule on loan relationships to include cases where a debt is released as a result of the application of any of the stabilisation powers under Part 1 of the Banking Act 2009. (Finance Bill 2014)

Science and innovation

2.239 Alan Turing Institute – The government will provide £42 million over 5 years for the Alan Turing Institute – a national institute which will enable the UK to lead the way in, and reap the benefits from, Big Data science. (14)

2.240 Expansion to Catapult centres – £74 million over 5 years will be provided for a Cell Therapy Manufacturing Centre and Graphene Innovation Centre. (16)

Infrastructure and planning

2.241 Economic Regulators Study – In concluding the Economic Regulators Study, the government welcomes the creation of the UK Regulators' Network (UKRN). The government intends to consult on whether further measures would support and embed the work of the UKRN.

2.242 Public Works Loan Board (PWLB) limit – The government will take the legal powers needed to increase the current PWLB lending limit of £70 billion to up to £95 billion in future to enable local authorities to continue to borrow from the PWLB. (Finance Bill 2014)

2.243 Government Property Unit working with local areas on better use of assets – The Government Property Unit will increase its work with local areas on better use of public sector assets, linking in with Growth Deals and building on the Strategic Land and Property Review. As with the One Public Estate pilots already taking place, this work will focus on opportunities for cross public sector working, efficiency and growth.

2.244 Greater Cambridge – The government has confirmed a Gain Share deal with Greater Cambridge, providing £100 million over 5 years (2015-16 to 2019-20) to fund local infrastructure. This agreement could be worth up to £500 million over 15-20 years, dependent on the economic impact of their investments. (22)

2.245 Glasgow City Deal – The government is now engaged in detailed discussion with Glasgow to develop a City Deal that will drive employment and economic development across the city region.

2.246 A1 Newcastle to Edinburgh – The government is offering to extend the feasibility study on possible improvements to the A1 north of Newcastle further north into Scotland, if the Scottish government will match fund the costs of this study.

2.247 Pilot Northern Ireland Enterprise Zone – The Northern Ireland Executive has set out its plans for a pilot Enterprise Zone near Coleraine, which the government will support by offering enhanced capital allowances to investors within that Zone. This is the first new Enterprise Zone in Northern Ireland, and is in line with the commitment the government and the Executive gave in the joint economic pact in 2013.

2.248 UK Guarantee for Mersey Gateway Bridge – The government has approved a UK Guarantee for up to £270 million to support the raising of debt finance for the Mersey Gateway Bridge.

2.249 Commercial permitted development and retail – In order to support businesses, the government's review of the General Permitted Development Order will include consultation on creating a much wider 'retail' use class, excluding betting shops and payday loan shops. The government will also consult on introducing greater flexibilities for businesses seeking to expand, including allowing changes to car parks, loading bays and non-retail facilities within existing boundaries, where there is little impact on the environment and local communities.

2.250 Change of use (planning) – The government has made changes to the General Permitted Development Order to allow more flexibility between use classes. The government will consult on further changes to allow more commercial uses, such as warehouses, light industrial or certain sui generis buildings, to become homes.

2.251 Judicial Review reform – The government, working closely with the judiciary, will launch a new Planning Court on 6 April 2014 to fast-track disputes, including big construction projects.

2.252 Nationally Significant Infrastructure Planning Regime Review – The government is committed to making the planning system work for major infrastructure projects and will shortly publish the outcomes of its consultation on the Nationally Significant Infrastructure Planning Regime, including a series of measures to streamline and improve the process.

2.253 National Infrastructure Plan: finance update – Building on the success of the National Infrastructure Plan, the government today (19 March 2014) publishes further analysis of the extent and nature of the potential financing opportunities in UK infrastructure, providing greater clarity and transparency for investors.

2.254 Oil refineries – Oil refineries are part of the infrastructure that supports the UK economy. The government recognises the importance of the UK's energy resilience, and will consider this as part of its review of the domestic refining sector.

A Welfare cap

A.1 Budget 2014 caps welfare spending in scope for the years 2015-16 to 2018-19 at the level of the OBR's forecast, as published in the OBR's March 2014 'Economic and fiscal outlook'. The level of the welfare cap is set out in Table A.1.

Table A.1: The level of the welfare cap and the forecast margin

	£ billion			
	2015-16	**2016-17**	**2017-18**	**2018-19**
Welfare cap	119.5	122.0	124.6	126.7
Forecast margin (2%)	2.4	2.4	2.5	2.5

Source: Office for Budget Responsibility and HM Treasury.

A.2 Table A.2 sets out a full list of expenditure items within the scope of the welfare cap. The Treasury will seek the approval of the House of Commons for any subsequent changes to the list of items of expenditure which fall within the scope of the welfare cap, including where a new welfare cap level and/or margin are being set.

Table A.2: Benefits and tax credits in scope of the welfare cap

In scope of the cap	Not in scope
Attendance Allowance	Jobseeker's Allowance and its passported Housing Benefit
Bereavement benefits	Universal Credit payments to claimants subject to full conditionality and on zero income
Carer's Allowance	State Pension (basic and additional)
Christmas Bonus	Transfers within government (e.g. Over-75s TV licences)
Disability Living Allowance	Benefits paid from DEL[1]
Employment and Support Allowance	
Financial Assistance Scheme	
Housing Benefit (except HB passported from JSA)	
Incapacity Benefit	
Income Support	
Industrial injuries benefits	
In Work Credit	
Maternity Allowance	
Pension Credit	
Personal Independence Payment	
Return to Work Credit	
Severe Disablement Allowance	
Social Fund – Cold Weather Payments	
Statutory Adoption Pay	
Statutory Maternity Pay	
Statutory Paternity Pay	
Universal Credit (except payments to jobseekers)	
Winter Fuel Payments	
Personal Tax Credits[2]	
Child Benefit	
Tax-Free Childcare	

[1.] These payments are subject to firm spending control through the usual DEL process. Sure Start Maternity Grants, Funeral Expense Payments, New Deal and employment programme allowances, New Enterprise Allowance, Specialised Vehicles Fund and Vaccine Damage Payments have been moved into DEL. War Pensions have been excluded from the scope of the welfare cap as the government will move them out of AME for future years.

[2] The negative tax element of personal Tax Credits is included within the scope of the welfare cap.

B The UK's long-term debt challenge

B.1 The government inherited the largest deficit in post-war history due to the financial crisis of 2008 and 2009 and unsustainable pre-crisis increases in public spending. Over the 5 years from 2007-08 to 2012-13, public sector net debt increased by 37% of GDP.[1] The only time the UK has experienced a larger 5 year rise in debt in peacetime since 1830 was following the depression of the early 1920s.[2]

B.2 In 2010 the government set out clear, credible and specific medium-term fiscal consolidation plans to return the public finances to a sustainable path. Public sector net borrowing is forecast to have fallen by a half by 2014-15, from 11.0% of GDP in 2009-10 to 5.5% of GDP in 2014-15 – and to reach a small surplus by the end of the forecast period.[3]

B.3 As a result, debt is forecast to be falling as a percentage of GDP from 2016-17.[4,5] Despite this, at the end of the OBR's forecast horizon, although the government's budget will have a small surplus, net debt will still be around 75% of GDP. This is the highest level of debt since the end of the 1960s, when the rise in debt from the two World Wars was still being repaid.

B.4 As discussed in more detail below, high levels of debt increase vulnerability to future shocks and cost pressures. Identifying a specific numerical level of debt above which there are sustainability risks is difficult, and every country's situation is different. However, for example, the International Monetary Fund (IMF) guidance suggest that where gross government debt levels are above 60% of GDP, detailed analysis of risks should be undertaken.[6] In 2018-19, UK gross government debt is forecast to be around 85% of GDP. Reducing debt to sustainable levels represents a long-term challenge for the UK.

B.5 However, international experience illustrates how, in the face of severe economic shocks, commitment to fiscal consolidation can support sustained debt reduction over the medium term.

B.6 After a severe financial crisis in the early 1990s, Sweden faced large-scale bank failures and currency depreciation as well as a sharp interest rate shock. With a budget deficit peaking at 11.4% of GDP in 1993 and central government debt peaking at over 70% of GDP in 1995, the Swedish government committed to restoring the public finances to a long-term sustainable position, including in 2000 introducing a target for the public finances to show a surplus on average over the cycle.[7] By 2011 Swedish central government debt had been reduced by over half as a percentage of GDP from its peak level.[8]

[1] OBR, 2014a.
[2] Hills et al. 2010b.
[3] OBR, 2014a; OBR, 2014b.
[4] OBR, 2014b.
[5] Public debt can be defined in a number of ways. The government's main measure for debt is Public Sector Net Debt (PSND). However, data on this basis is not available back to 1830. For historical data see Hills et al (2010). In addition, different countries produce debt statistics on different bases. Therefore for the international comparisons below, general government gross debt is used, which includes all government liabilities but, unlike public sector net debt, does not net off the value of the government's liquid assets.
[6] IMF, 2013e.
[7] Budina et al, 2012.
[8] Swedish National Debt Office, 2012. Swedish general gross government debt also peaked in 1996, and is forecast to have fallen by a half by 2018 (IMF, 2013c).

B.7 Similarly in New Zealand, with debt levels spiralling and projections of unsustainable increases over the next decade, the government passed the Fiscal Responsibility Act into legislation in 1994. The framework formed the basis of New Zealand's fiscal policy for almost 2 decades. According to the IMF gross debt levels were reduced by a half as a percentage of GDP over the decade following their peak of 61.5% in 1992.[9]

B.8 Canada also faced rising debt levels in the early 1990s, with increased risk premia on Canadian bonds fuelling rises in interest rates. This experience established a public consensus on the importance of restoring debt levels to a sustainable position in the long term. The government introduced a policy of running a balanced budget or better which, assisted by the improved macroeconomic outlook, contributed to a reduction in Canadian debt levels by around a third from their peak of 102% of GDP by the end of the subsequent decade.[10]

B.9 Both parties in the coalition are committed to ensuring that, after the supplementary debt target has been met, debt continues to fall as a percentage of GDP. Reducing government debt will reduce debt servicing costs now and in the future. It will also make the UK less vulnerable to future shocks and better prepared to deal with the pressure of ageing.

B.10 The evidence set out in this annex will support the government's review of the fiscal framework, announced at Autumn Statement 2013. The review will inform a revised 'Charter for Budget Responsibility', which will be presented to Parliament alongside Autumn Statement 2014.

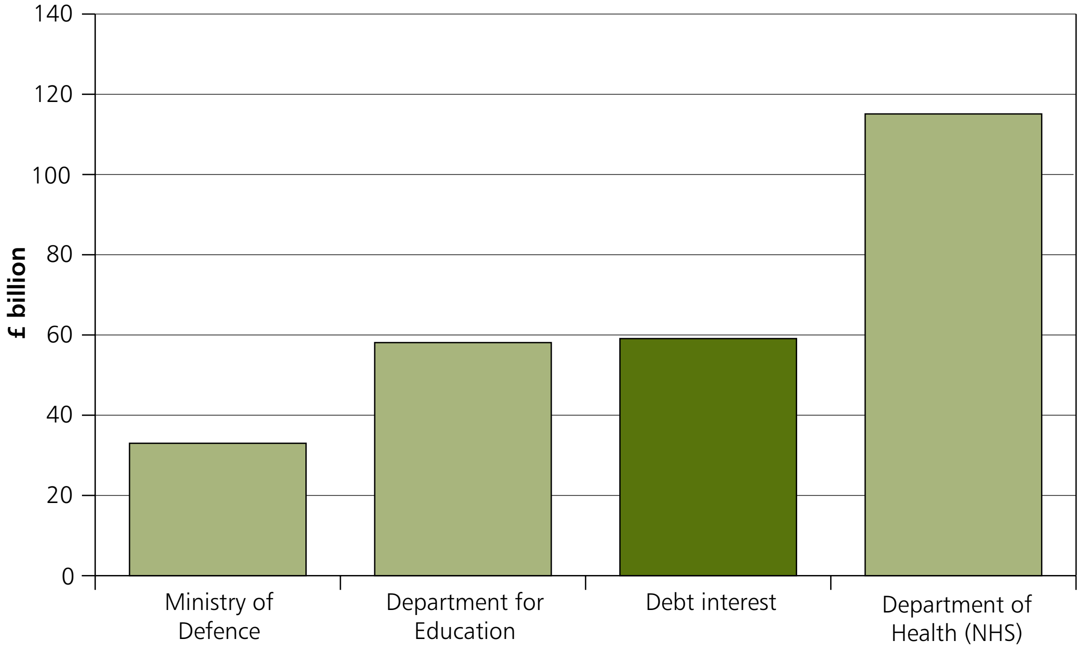
Cost of servicing debt

B.11 The UK's high stock of debt means significant ongoing direct costs from interest payments. If debt remains high, these costs will be borne not only by the current generation but also future generations.

B.12 The government's consolidation plans over this Parliament are estimated to result in debt interest savings of around £10 billion per year by 2015-16.[11] Nevertheless, interest payments on UK debt are forecast to be around £59 billion in 2015-16, more than the budget of the Department for Education.[12] Reducing debt in furture will help control these costs. For every 10% of GDP that debt was lower, debt interest payments would be reduced by £8 billion a year.[13]

[9] IMF, 2013c. Examples based on a general government gross debt basis.
[10] IMF, 2013c. Examples based on a general government gross debt basis.
[11] Table 1.2 sets out the government's consolidation plans over this Parliament. These figures include the estimated debt interest savings at 2015-16 borrowing costs resulting from the tax rises, reductions to departmental expenditure and measures to reduce AME spending that will take place over this Parliament, but not changes to financial transactions.
[12] OBR, 2014b; Table 2.4.
[13] HM Treasury calculation, consistent with the ready-reckoner published by the OBR in 2012, based on 2018-19 GDP and borrowing costs forecasts.

Chart B.1: Debt interest compared to Departmental Expenditure Limits in 2015-16[1]



[1] Departmental Expenditure Limits are calculated from settlements in Spending Round 2013, adjusted for policy decisions in Autumn Statement 2013 and Budget 2014.
Source: Office for Budget Responsibility and HM Treasury.

Vulnerability to future shocks

B.13 High levels of public debt leave the UK vulnerable to future shocks:

- a higher starting level of debt increases the risk of a new shock to the public finances increasing debt to levels the markets would view as potentially unsustainable – increasing interest rates.[14] This risk is exacerbated by large potential contingent liabilities, such as from the UK's large financial centre.[15] Higher debt levels may also increase the risk of multiple equilibria and self-fulfilling debt crises.[16]
- a high stock of debt also means the UK is more exposed to future interest rate rises.[17] For illustration, a 1 percentage point increase in government bond yields would add around £8 billion to annual debt interest payments by 2018-19.[18]

B.14 As a result, starting from a higher debt level means that following a future shock the government's ability to respond is likely to be constrained.[19] This government's fiscal strategy has allowed the automatic stabilisers to operate, supporting the economy.

[14] IMF, 2011; see also Bank of International Settlements, 2013 and Fitch, 2012.
[15] OECD, 2012; IMF, 2013e.
[16] In a self-fulfilling crisis, an increase in the market's beliefs about the risk of default causes interest rates to rise due to a higher risk premium. This increase in the burden of debt interest causes the risk of default to rise – so the beliefs are self-fulfilling. Self-fulfilling crises can occur at any level of debt, but are more likely at higher debt levels as a smaller rise in interest rates can tip the balance between sustainability and unsustainability. The risk of self-fulfilling crises may be higher for countries in a monetary union (De Grauwe and Ji, 2013) – but independent monetary policy does not guarantee protection from crises. See Blanchard et al (2013) for a general discussion, and Corsetti and Dedola, 2013 for a discussion specifically related to countries outside monetary union.
[17] Crawford et al, 2014.
[18] OBR debt interest ready-reckoner.
[19] Blanchard and Cottarelli, 2010; IMF, 2013d.

B.15 In addition, government interest rates are more likely to rise, which tend to feed through to borrowing costs for firms and households.[20] For example, a 1 percentage point increase in mortgage interest rates would increase average mortgage bills by around £1,000 a year. Even outside of crises, government interest rates may be somewhat higher at high levels of debt due to an increased risk premium.[21]

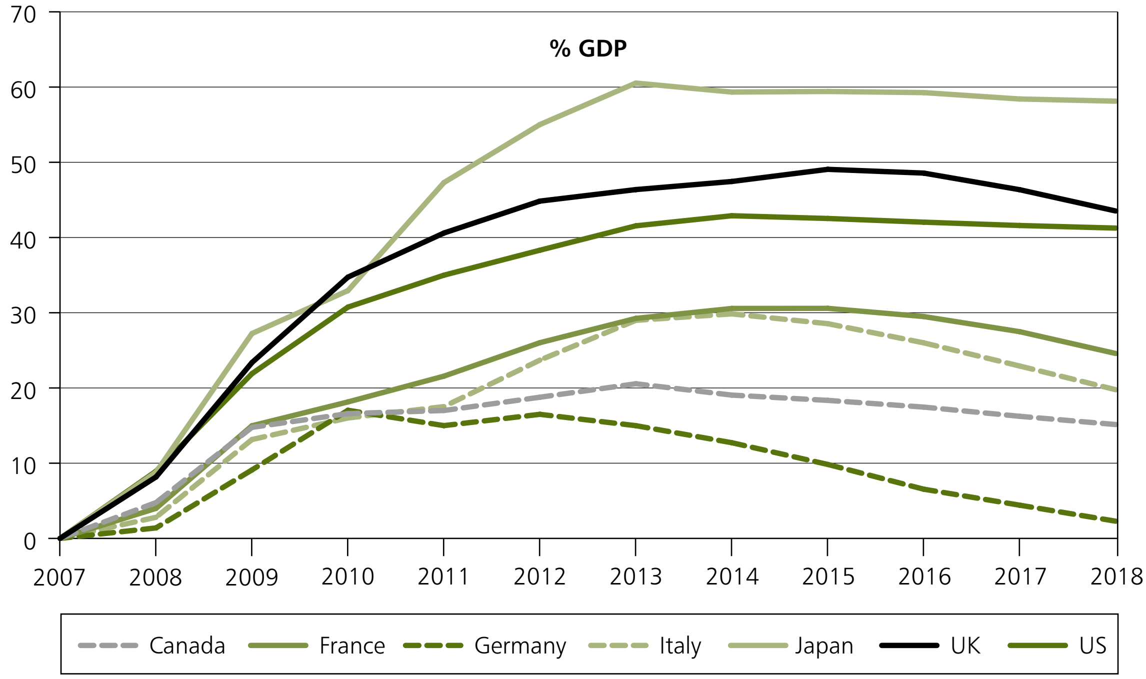
B.16 Identifying a specific numerical level of debt above which there are sustainability risks is difficult, and every country's situation is different. However, the IMF's guidance on debt sustainability analysis suggests that where gross government debt is projected to remain above 60% of GDP, detailed analysis of risk should be undertaken, including the debt profile and macro-fiscal risks and contingent liabilities. The relevance of different risks varies across countries. For example, the UK benefits from having an independent monetary policy, but the financial sector, which in the UK is one of the largest in the world relative to GDP, is a potential source of contingent liabilities.[22] The Organisation for Economic Co-ordination and Development (OECD) also notes that different targets will be appropriate for different countries but suggests that, incorporating a safety margin, a gross debt target of around 50% of GDP is a useful benchmark for prudent debt levels.[23] This compares to a UK gross debt to GDP ratio of around 85% at the end of the current forecast horizon.

B.17 Another, very simple way to assess the resilience of the debt position is to consider the impact of a large shock. Starting from 85% debt, another shock of the magnitude of the financial crisis could leave gross debt over 120% of GDP – in 2018 only 3 countries in the world are expected to have gross government debt at or above this level.[24] There are no fixed thresholds at which market risks can be confidently predicted to increase rapidly. However, rating agencies have previously suggested that gross debt of more than 100% of GDP would be a cause for concern in the UK.[25] The IMF note that previous research has suggested a wide range of median estimates for the maximum sustainable level of gross public debt for advanced economies, ranging from 80% to 192% of GDP – and also note that "financial markets do not however wait until the maximum sustainable debt level is breached and start charging higher interest rates at lower debt levels".[26]

B.18 Because of the record peacetime deficit inherited by this government, the increase in the UK's debt following the crisis has been large compared to other advanced economies, and UK debt is forecast to peak later. Market risks to the public finances, particularly in times of uncertainty, can be affected by perceptions of relative risk with investors shifting toward relatively safer countries.[27] The UK's gross debt was the lowest in the G7 before the financial crisis, but (as shown in Chart B.2) since then has risen by more than in other G7 countries apart from Japan and by 2018-19 is forecast to be higher than in Germany and Canada, and at a similar level to France.

[20] Blanchard and Leigh, 2013; Corsetti et al, 2012; Zoli, 2013.
[21] OECD, 2013.
[22] IMF, 2011; IMF, 2013e.
[23] OECD, 2012.
[24] IMF 2013c (the 3 countries are Japan, Greece and Italy).
[25] FitchRatings, 2012.
[26] IMF, 2011.
[27] Vause and von Peter, 2011; ECB, 2013; see also Horioka et al, 2013.

Chart B.2: Increase in general government gross debt from 2007 to 2018



Source: International Monetary Fund; UK: Office for National Statistics and Office for Budget Responsibility.

B.19 The financial crisis of 2008 was a major shock to the UK economy, and to the public finances – but over time the UK economy has been hit by shocks of different sizes and from different sources. Though their timing and nature are inherently uncertain, the UK economy will be hit by further shocks in the future. Prudent fiscal policy design should take account of this.

Empirical relationship between debt and growth

B.20 There is an active academic debate on the relationship between high levels of public debt and economic growth. Most of the literature finds a negative correlation between debt and growth at high levels of debt, with many estimates for the level of debt at which the relationship becomes negative falling in the region of debt to GDP ratios of 70% to 90%.[28] However, there remains significant uncertainty over the nature of the relationship between debt and economic growth, including the issue of causality.[29]

B.21 There are reasons to expect high public debt to affect growth. As discussed above, high debt may increase vulnerability to future crises, potentially posing threats to future growth. In addition, over the long term higher public sector borrowing and debt may raise interest rates, reducing private sector investment relative to a scenario with lower government borrowing and debt.[30]

B.22 However, there is likely also to be reverse causality. Periods of low growth can be expected to increase public debt due to higher spending and lower tax revenues. Empirical techniques can go some way to mitigating this, but precisely quantifying the impact of debt on growth is likely to be very challenging.[31]

[28] IMF, 2013a; IMF, 2013d, and references in IMF, 2013d (including Cottarelli, 2013; Kumar and Woo, 2010; Cecchetti, Mohanty and Zampolli, 2011)
[29] Panizza and Presbitero, 2012.
[30] OBR 2011; OBR, 2012;Barrell et al, 2012.
[31] See Panizza and Presbitero, 2012 and also, e.g., Kumar and Woo, 2010 and Cecherita and Rother, 2010, for discussions of empirical challenges and techniques.

B.23 Both theory and the available evidence also suggest the relationship between debt and growth will vary across countries and over time, so there is not a single threshold level of debt at which the relationship may become negative.[32] Moreover, recent research suggests that the trajectory of debt (whether it is falling or rising) as well as its level may matter.[33] All this suggests that in response to these uncertainties the UK should take a cautious approach to fiscal policy, aiming to reduce debt substantially from its current levels.

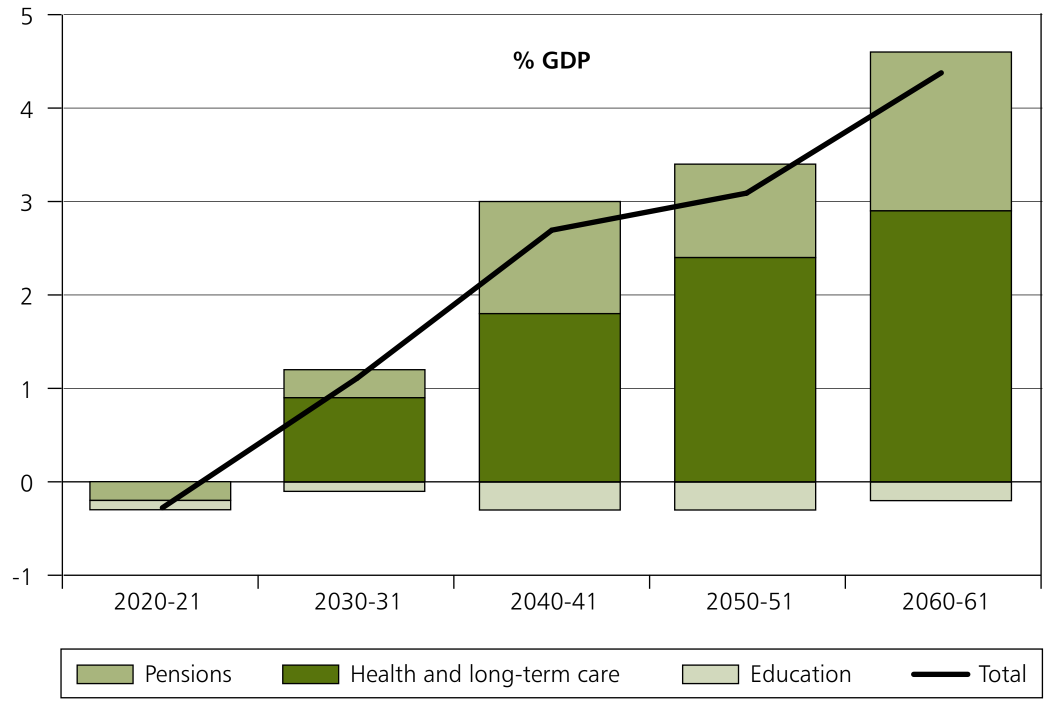
B.24 The OECD and IMF have suggested that target debt levels should allow for a safety margin to reduce the risk of countries reaching high levels of debt following a future negative shock. The available evidence does not fix the size of this margin, but it is also likely to vary between countries depending on, for example, the scale of their potential contingent liabilities and the profile of their investor base.[34]

Debt and demographic pressures

B.25 Rising life expectancies are to be welcomed. However, in common with other countries, the UK faces future cost pressures as the population ages due to a relatively smaller working age population and increased costs from pension payments and higher health and social care costs.

B.26 Projections in the OBR's 2013 'Fiscal sustainability report' suggest that, without additional policy change, an ageing population will increase age-related spending by 4.4% of GDP between 2017-18 and 2062-63.[35] Projections over these timescales are of course subject to large uncertainties. However, prudent fiscal policy to bring debt down from its current high levels will help prepare the UK to deal with these pressures in future, alongside reforms to the State Pension age and public service pensions, and measures to deliver improved productivity in the NHS.[36]

Chart B.3: Projected change in age-related government expenditure from 2017-18[1]



[1] 2017-18 marks the end of the government's fiscal assumption and the beginning of the OBR's spending projections in the Fiscal sustainability report 2013.
Source: Office for Budget Responsibility.

[32] Egert, 2013.
[33] Pescatori et al, 2014.
[34] OECD, 2012; IMF, 2013d; IMF, 2013b.
[35] OBR, 2013; These projections do not reflect changes in policy since the latest Fiscal Sustainability Report, including the announcement of a state pension age guiding principle, which may limit projected increases in age-related expenditure.
[36] OECD, 2012; Bank of International Settlements, 2013.

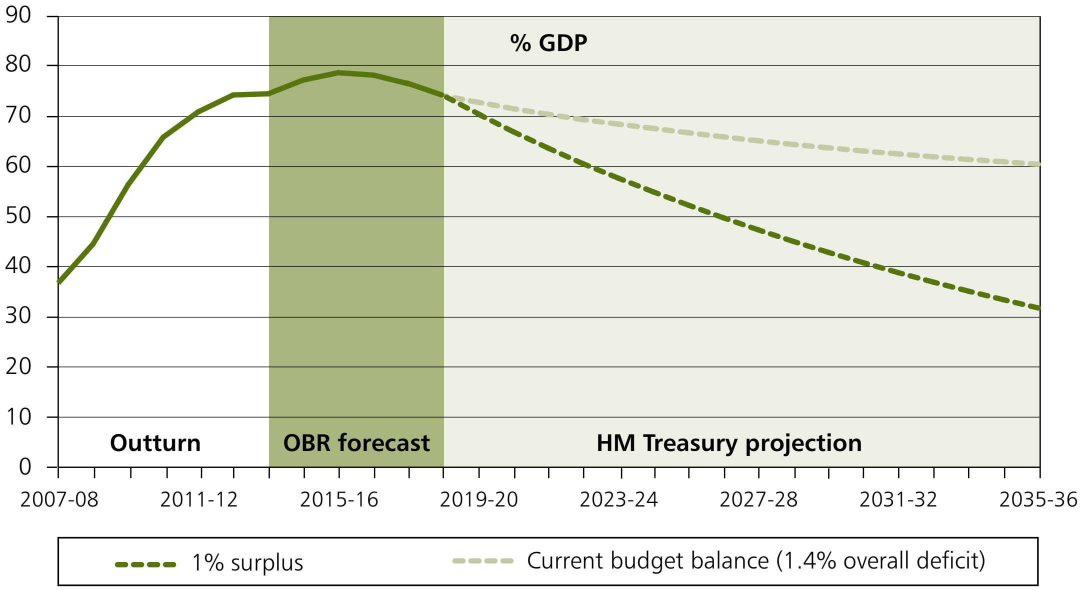
The challenge of debt reduction

B.27 A number of factors that have helped reduce debt from high levels in the past are not available now. Previous high debt levels have tended to occur as a result of major wars, with the result that demands on public spending have fallen in the post-war periods as the country has demobilised. Financial repression, whereby investors were induced to hold government debt at artificially low interest rates, and inflation (which erodes the real value of debt stocks) also both contributed to the rapid reduction in debt following Wold War II. These tools are neither available nor desirable now. Reducing debt from its post-crisis peak over the medium term will need to be delivered through responsible management of the public finances and high and sustainable economic growth.

B.28 This section illustrates the impact of different levels of public sector borrowing on the path of debt from 2018-19 to 2035-36 for selected illustrative scenarios.

B.29 Chart B.4 shows a simple scenario in which there are no shocks to the economy. The 2 lines show the path of debt under different assumptions for public borrowing: a 1% surplus, and a balanced current budget. Modelling the impact of a balanced current budget requires an assumption about the level of investment spending. The assumption used here is that public sector net investment is equal to 1.4% of GDP throughout the period – the level forecast for 2018-19.[37] If investment was higher, debt would fall more slowly (and vice versa).

Chart B.4: Path for public sector net debt under different policy assumptions (assuming no future shocks)



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

B.30 However, the UK economy will be hit by shocks in the future. Prudent fiscal policy design should take account of this.

B.31 Over the period since 1955 the UK had 7 recessions. The size of past recessions and their impact on public sector borrowing have varied over time. The consequences of borrowing for

[37] OBR, 2014.

public debt have also varied. Differences in inflation have been one of the main factors behind these variations.[38]

B.32 In a benign economic environment, economic fluctuations in the 1950s and 1960s were relatively mild, and the recessions of 1956-57 and 1961-62 had little effect on the public finances, with deficits averaging around 2% from the late 1950s to the late 1960s.[39] Between 1973-74 and 1980-81, the UK experienced 3 recessions. Public sector net borrowing rose to peak at 7% of GDP in 1975-76, and averaged 5.3% over 1974-75 – 1980-81. Following the 1990-91 recession, public sector net borrowing rose again, peaking at 7.5% in 1993-94, and averaging 5.8% over 1991-92 – 1995-96.[40] The impact of the financial crisis and recession of 2008-09 has been even more severe.

B.33 Despite high levels of borrowing in the 1970s and early 1980s, very high inflation (averaging over 15% over the period 1974-75 to 1980-81, compared to around 3.5% between 1991-92 and 1995-96) eroded the real value of existing debt stocks so that public sector net debt declined by around 6% of GDP over the period.[41] In a lower inflation environment, similarly high levels of borrowing following the 1990s recession led to a lasting increase in public debt, with public sector net debt peaking in 1996-97 at around 15% above its pre-recession level.[42] With independent monetary policy and well-anchored inflation expectations delivering low and stable medium-term inflation, to the benefit of the whole economy, future deficits are likely to have a similar impact on debt.

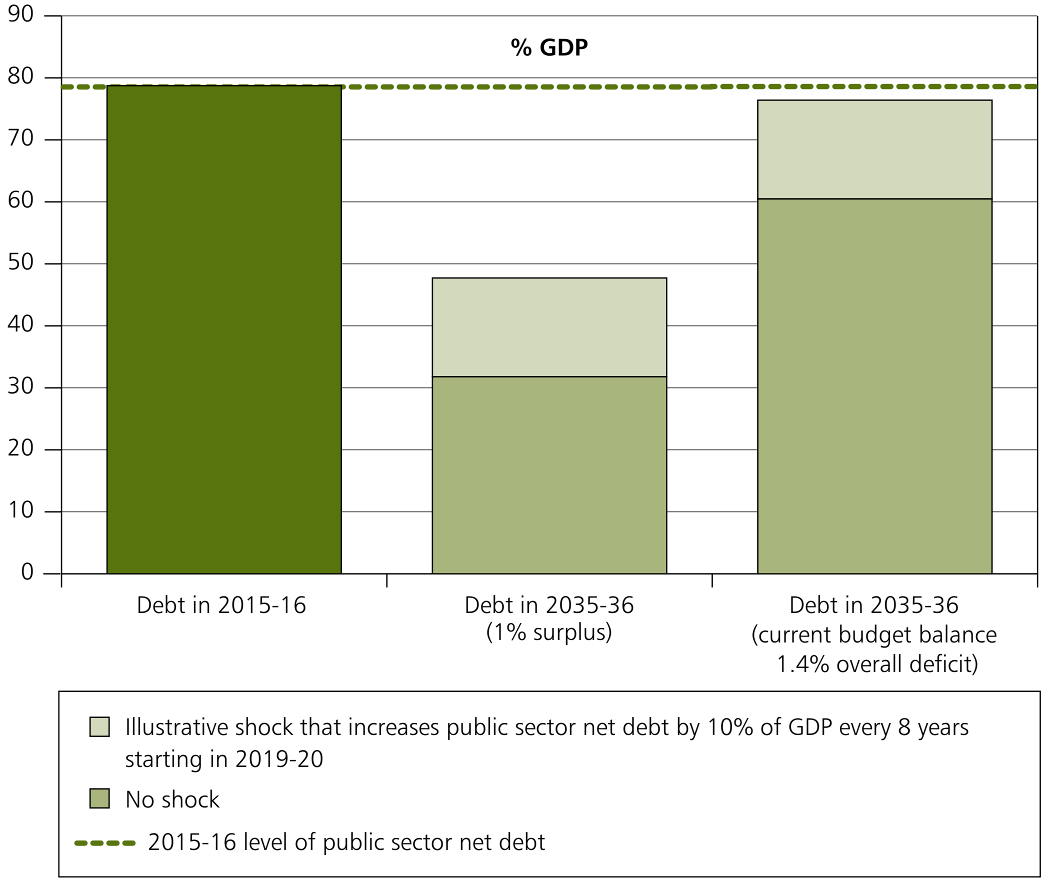
B.34 A number of other countries also experienced recessions in the early 1990s (coupled with declining inflation). In Canada, gross government debt rose from 75% of GDP in 1990 to peak at over 100% of GDP in 1996.[43] In Sweden, central government debt rose from 43% in 1990 to 77% in 1995.[44]

B.35 The scale and frequency of future shocks are inherently uncertain, so any analysis of potential future shocks can only be illustrative. However, in the face of this uncertainty, evidence from previous economic downturns may help to identify broadly plausible magnitudes for shocks. The financial crisis will have added about 40% of GDP to debt when debt peaks. However, this was a major shock, and one that would not be expected to occur very frequently. The early 1990s recession was much milder in GDP terms, and had a peak impact of 15% of GDP on debt. The 1970s recessions saw roughly comparable deficits to the 1990s – though, as set out above, due to inflation and financial repression this did not feed through to debt in the way we would expect deficits to in future. For illustration, Chart B.5 shows how the level of debt in 2035-36 would be affected by a simple scenario in which, rather than there being no shocks, the economy is hit once every 8 years by a shock that increases public sector net debt by 10%.[45] This should not be treated as a prediction. However, increases in debt of this magnitude are consistent with experience of the effect of economic downturns on public borrowing. Of course, larger or more frequent shocks in future would result in higher levels of public debt and vice versa.

[38] Looking over longer periods, Reinhart and Sbrancia (2011) note that following the Napoleonic Wars, the UK's public debt was 260% of GDP; it took over 40 years to bring it down to about 100% in an era of price stability and high capital mobility anchored by the gold standard. In comparison, following World War II the UK's public debt ratio was reduced by a comparable amount in 20 years. Reinhart and Sbrancia suggest that a combination of financial repression and inflation played an important role in the much more rapid liquidation of the debt overhang of World War II. For further discussion on the role of inflation and financial repression in the post-war period, see OBR, 2013.
[39] OBR, 2014a.
[40] OBR, 2014a.
[41] HM Treasury 2014. Inflation measured by the change in the GDP deflator. See also OBR, 2013.
[42] OBR 2014a.
[43] IMF, 2013c. Example based on a general government gross debt basis.
[44] Swedish National Debt Office, 2012. These statistics relate to central government debt as data on a general government gross debt basis is not available prior to 1993.
[45] The approximate average frequency of UK recessions since 1955 – though past recessions have not been evenly spaced. In this scenario a 1% surplus/current budget balance (1.4% deficit) is assumed in all years where there is no shock.

B.36 A policy that delivers lower levels of borrowing in the absence of shocks would mean that the economy would be starting from a lower debt level when a future shock hit. Conversely, a policy that would result in debt falling only slowly in the absence of shocks carries a greater risk that in reality debt will actually remain at, or even above, its current level. With a 1% surplus under the same scenario, by 2035-36 debt falls by around 30% of GDP from its peak. With a permanent 1.4% deficit, equivalent to a balanced current budget with investment equal to its 2018-19 forecast level, under this illustrative scenario by 2035-36 debt only falls by around 2% of GDP from its 2015-16 peak.

Chart B.5: Public sector net debt in 2015-16 and 2035-36 under different policy assumptions with and without illustrative shocks



Source: Office for Budget Responsibility (PSND in 2015-16) and HM Treasury (projections of PSND in 2035-36).

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C Financing

C.1 This annex sets out details of the government's financing plans for 2014-15. Further details can be found in the 'Debt and reserves management report 2014-15'.[1]

Financing arithmetic

C.2 The Office for Budget Responsibility's (OBR) forecast for the 2014-15 central government net cash requirement excluding Bradford and Bingley plc and Northern Rock (Asset Management) (CGNCR ex. B&B and NRAM) is £100.7 billion. The relationship between PSNB and the CGNCR ex. B&B and NRAM is set out in the OBR's March 2014 'Economic and fiscal outlook'.

C.3 The net financing requirement (NFR) comprises the CGNCR ex. B&B and NRAM, 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).

C.4 The NFR for 2014-15 is projected to be £144.9 billion, reflecting:

- the forecast for the CGNCR ex. B&B and NRAM of £100.7 billion[2]
- gross gilt redemptions of £62.2 billion
- a planned short-term financing adjustment of -£11.1 billion resulting from unanticipated overfunding in 2013-14
- £6.0 billion of financing for the Official Reserves
- a £13.0 billion net contribution to financing from NS&I

C.5 As set out in Table C.1, the NFR for 2014-15 will be met by gilt sales of £128.4 billion and an increase in the stock of Treasury bills sold via tenders of £16.5 billion relative to the level projected at end-March 2014 (£56.5 billion). Operational changes to the use of Treasury bills from 2014-15 are detailed in Chapter 3 of the 'Debt and reserves management report 2014-15'.

Gilt issuance methods

C.6 Auctions will remain the government's primary method of gilt issuance. In addition, the government has decided to continue the use of syndications and mini-tenders as supplementary methods of gilt issuance.

C.7 It is anticipated that for 2014-15:

- £106.4 billion (82.9% of total issuance) will be issued by auction

[1] Available at www.gov.uk
[2] Unlike gilt issuance, it is expected that the issuance of sovereign Sukuk will serve to directly reduce the central government net cash requirement (CGNCR). Therefore the forecast for the CGNCR in 2014-15 is £200 million lower than would otherwise be the case. However, the ONS will classify Sukuk in due course and this will determine whether in outturn the proceeds from Sukuk issuance act to reduce the CGNCR, or act to finance the CGNCR in the same way as gilts.

- £17.0 billion (13.2% of total issuance) will be issued by syndication
- £5.0 billion (3.9% of total issuance) will be issued by mini-tender

Gilt issuance by maturity and type

C.8 Decisions on the skew of issuance are set annually with reference to the government's debt management objective, as set out in the 'Debt and reserves management report 2014-15'.

C.9 It is anticipated that issuance by auctions and syndications will be split by maturity and type as follows:

- £32.4 billion of short conventional gilts (25.2% of total issuance)
- £26.9 billion of medium conventional gilts (21.0% of total issuance)
- £33.1 billion of long conventional gilts (25.8% of total issuance)
- £31.0 billion of index-linked gilts (24.1% of total issuance)

C.10 In addition, the Debt Management Office (DMO) plans to deliver sales via mini-tender of £5.0 billion (3.9% of total issuance). The mini-tender programme will continue to be used to support the syndication programme by providing flexibility to accommodate any variations in proceeds from syndicated offerings. The DMO determines the maturities and types of gilts to be issued by mini-tender, in consultation with the market during the year.

National Savings and Investments

C.11 NS&I will have a net financing target of £13.0 billion in 2014-15, within a range of £11.0 to £15.0 billion. This will allow NS&I to support savers with a choice of fixed-rate market leading savings bonds for people aged over 65 from January 2015, taxable at the marginal rate, and raise the Premium Bond limit from £30,000 to £40,000 from 1 June 2014.

Table C.1: Financing arithmetic in 2013-14 and 2014-15

£ billion	2013-14	2014-15
Central government net cash requirement excluding B&B and NRAM[1]	**87.5**	**100.7**
Gilt redemptions	51.5	62.2
Financing for the Official Reserves	6.0	6.0
Buy-backs[2]	0.0	0.0
Planned short-term financing adjustment[3]	5.8	-11.1
Gross financing requirement	**150.8**	**157.9**
less		
National Savings and Investments	3.4	13.0
Net financing requirement	**147.4**	**144.9**
Financed by:		
1. Debt issuance by the Debt Management Office (DMO)		
a) Treasury bills[4]	**5.0**	**16.5**
b) Gilts	**153.4**	**128.4**
of which:		
Conventional:		
Short	42.6	32.4
Medium	32.5	26.9
Long	34.3	33.1
Index-linked	38.4	31.0
Mini-tenders	5.6	5.0
2. Other planned changes in net short-term debt[5]		
Change in Ways and Means Advance	0.0	0.0
3. Changes in net short-term cash position[6]	**11.1**	**0.0**
Total financing	**158.4**	**144.9**
Short-term debt levels at end of financial year		
Treasury bill stock via tenders[7]	56.5	73.0
Ways and Means Advance	0.4	0.4
DMO net cash position	11.6	0.5

Figures may not sum due to rounding.

1. Reflects an expected £200 million contribution from sovereign Sukuk issuance in 2014-15.

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) revision to the previous year's CGNCR outturn; (ii) an increase in the DMO's net cash position; and/or (iii) carryover of unanticipated changes to the net cash position from the previous year.

4. The £5.0 billion shown is the difference between the Treasury bill stock issued via tenders only at end-March 2013 (£51.5 billion) and the planned Treasury bill stock issued via tenders only at end-March 2014 (£56.5 billion). The equivalent numbers published at AS 2013 included Treasury bill sales directly to counterparties that spanned the end of the financial year. Hence, at AS 2013, planned Treasury bill sales in 2013-14 were -£0.7 billion, which was the difference between a Treasury bill stock at end-March 2013 of £57.2 billion and a planned end-March 2014 stock of £56.5 billion.

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 2014-15 (and the level of the net short-term cash position at the end of the financial year) reflects changes to the public finance forecasts and any changes to financing from NS&I and Treasury bills. It will also reflect any variances between the gilt sales outturn and plans. In addition, the change will include any impact on financing arising from other activities carried out within the 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 2014-15 assumes that the DMO's planning assumption for the end-year Treasury bill stock via tenders is met. A negative (positive) number here indicates an increase in (reduction in) the financing requirement for the following financial year.

7. From 2014-15 the Treasury bill stock outstanding at year-end can be increased or decreased by a maximum of £5 billion relative to the planning assumption, to offset any anticipated net Exchequer cash surplus or deficit towards year-end.

D OBR's Economic and fiscal outlook: selected tables

D.1 The Office for Budget Responsibility (OBR) has published its March 2014 'Economic and fiscal outlook' alongside Budget 2014. This annex reproduces the OBR's key projections for the economy and public finances. Further detail and explanation can be found in the OBR's report.

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

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2012	2013	2014	2015	2016	2017	2018
UK economy							
Gross domestic product (GDP)	0.3	1.8	2.7	2.3	2.6	2.6	2.5
GDP level (2012=100)	100.0	101.8	104.5	107.0	109.7	112.6	115.4
Nominal GDP	2.0	3.4	5.0	4.0	4.4	4.6	4.5
Output gap (% potential output)	-2.8	-2.2	-1.4	-1.1	-0.7	-0.3	0.0
Expenditure components of GDP							
Domestic demand	1.2	1.9	2.9	2.2	2.5	2.6	2.5
Household consumption[1]	1.5	2.3	2.1	1.8	2.5	2.7	2.4
General government consumption	1.6	0.9	1.2	-0.5	-1.2	-1.8	-0.9
Fixed investment	0.7	-0.5	8.6	8.2	7.8	7.9	6.8
Business	3.9	-1.2	8.0	9.2	8.1	8.7	7.7
General government[2]	0.6	-6.4	10.7	1.0	2.2	0.8	-0.5
Private dwellings[2]	-3.5	4.3	9.0	10.0	10.0	9.5	8.1
Change in inventories[3]	-0.2	0.3	0.1	0.0	0.0	0.0	0.0
Exports of goods and services	1.1	0.8	2.6	4.7	5.0	5.0	4.7
Imports of goods and services	3.1	0.4	3.0	4.3	4.8	4.8	4.7
Balance of payments current account							
% GDP	-3.7	-3.6	-2.3	-1.9	-1.7	-1.5	-1.5
Inflation							
CPI	2.8	2.6	1.9	2.0	2.0	2.0	2.0
RPI	3.2	3.0	2.6	3.2	3.6	3.8	3.9
GDP deflator at market prices	1.7	1.6	2.3	1.6	1.8	1.9	2.0
Labour market							
Employment (millions)	29.5	29.9	30.4	30.6	30.9	31.2	31.4
Wages and salaries	2.8	2.9	3.8	4.1	4.6	4.7	4.5
Average earnings[4]	2.0	1.5	2.5	3.2	3.6	3.7	3.8
LFS unemployment (% rate)	7.9	7.6	6.8	6.5	6.1	5.7	5.4
Claimant count (millions)	1.59	1.42	1.20	1.13	1.06	0.98	0.94
Household sector							
Real household disposable income	2.3	-0.1	1.2	1.8	1.5	2.3	2.2
Saving ratio (level, %)	7.2	5.0	4.1	4.2	3.6	3.3	3.2
House prices	1.6	3.5	8.5	7.8	5.0	3.7	3.7
World economy							
World GDP at purchasing power parity	3.1	2.9	3.8	3.9	4.1	4.2	4.2
Euro area GDP	-0.7	-0.4	1.0	1.4	1.7	1.9	2.0
World trade in goods and services	3.0	3.2	5.2	5.8	6.0	6.1	6.1
UK export markets[5]	2.0	2.1	4.7	5.2	5.3	5.4	5.4

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

	Percentage change on previous year unless otherwise stated						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018–19
GDP and its components							
Real GDP	0.3	2.3	2.6	2.4	2.6	2.6	2.4
Nominal GDP[1]	1.4	4.7	4.6	3.9	4.6	4.5	4.4
Nominal GDP (£ billion)[1,2]	1571	1644	1721	1788	1871	1956	2042
Nominal GDP centred end-March (£ bn)[1,3]	1597	1688	1754	1827	1913	1999	2088
Wages and salaries[4]	2.4	3.9	3.5	4.2	4.7	4.6	4.4
Non-oil PNFC profits[4,5]	2.8	7.0	10.7	4.9	5.4	5.3	4.8
Non-oil PNFC net taxable income[4,5]	6.4	6.9	9.8	3.1	3.2	2.9	2.4
Consumer spending[4,5]	4.1	4.5	4.5	4.1	4.8	5.0	4.7
Prices and earnings							
GDP deflator	1.6	1.8	2.2	1.6	1.9	1.9	2.0
RPI (September)	2.6	3.2	2.5	3.3	3.7	3.8	3.9
CPI (September)	2.2	2.7	1.8	2.0	2.0	2.0	2.0
Average earnings[6]	1.0	2.6	2.4	3.3	3.7	3.7	3.8
'Triple-lock' guarantee (September)	2.5	2.7	2.5	3.3	3.6	3.7	3.8
Key fiscal determinants							
Claimant count (millions)	1.57	1.35	1.18	1.11	1.04	0.97	0.94
Employment (millions)	29.6	30.0	30.4	30.7	31.0	31.2	31.4
VAT gap (%)	10.9	10.3	9.9	9.9	9.9	9.9	9.9
Output gap (% potential output)	-2.8	-2.0	-1.3	-1.0	-0.6	-0.2	0.0
Financial and property sectors							
Equity prices (FTSE All-share index)	3066	3498	3747	3897	4074	4260	4449
HMRC financial sector profits[1,5,7]	3.4	1.4	2.3	4.0	4.7	4.6	4.4
Financial sector net taxable income[1,5]	4.2	2.6	-0.2	3.1	7.0	3.4	3.7
Residential property prices[8]	2.1	4.9	8.6	7.4	4.3	3.7	3.7
Residential property transactions ('000's)[9]	930	1146	1357	1407	1450	1493	1526
Commercial property prices[9]	2.3	11.9	2.1	2.0	3.7	3.0	2.0
Commercial property transactions[9]	1.5	9.3	3.9	3.1	3.9	4.1	3.0
Volume of stampable share transactions	-18.1	10.5	3.9	-2.6	-2.6	-2.6	-2.6
Oil and gas							
Oil prices ($ per barrel)[5]	112.0	108.8	107.5	102.0	99.3	99.3	99.3
Oil prices (£ per barrel)[5]	70.6	69.6	64.7	61.1	59.2	59.0	59.1
Gas prices (p/therm)[5]	59.1	66.9	60.2	63.2	63.2	63.2	63.2
Oil production (million tonnes)[5,10]	44.5	40.6	39.2	39.2	39.2	39.2	39.2
Gas production (billion therms)[5,10]	13.8	12.8	12.8	12.7	12.7	12.7	12.7
Interest rates and exchange rates							
Market short-term interest rates (%)[11]	0.7	0.5	0.6	1.3	2.0	2.6	3.1
Market gilt rates (%)[12]	1.6	2.6	2.9	3.3	3.6	3.9	4.0
Euro/Sterling exchange rate	1.23	1.19	1.22	1.22	1.23	1.25	1.26

[1] *Not seasonally adjusted.*
[2] *Denominator for receipts, spending and deficit forecasts as a % GDP.*
[3] *Denominator for net debt as a % GDP.*
[4] *Nominal.*
[5] *Calendar year.*
[6] *Wages and salaries divided by employees.*
[7] *HMRC Gross Case 1 trading profits.*
[8] *Outturn data from ONS House Price Index.*
[9] *Outturn data from HMRC information on stamp duty land tax.*
[10] *Department of Energy and Climate Change (DECC) forecasts available at www.gov.uk/oil-and-gas-uk-field-data*
[11] *3-month sterling interbank rate (LIBOR).*
[12] *Weighted average interest rate on conventional gilts.*

Table D.3: Current Receipts: OBR forecast

	£ billion						
	Outturn	**Forecast**					
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018–19**
Income tax (gross of tax credits)[1]	152.3	155.6	166.5	176.8	189.2	201.3	213.2
of which: Pay as you earn	*132.0*	*135.5*	*140.2*	*148.2*	*158.1*	*168.6*	*179.1*
Self assessment	*20.6*	*20.9*	*27.2*	*29.0*	*31.2*	*32.8*	*34.0*
Tax credits (negative income tax)	-3.0	-2.7	-2.7	-2.5	-1.6	-0.3	0.0
National insurance contributions	104.5	107.3	110.0	115.0	126.1	132.0	138.2
Value added tax	100.7	106.5	110.7	115.0	119.2	123.3	127.7
Corporation tax[2]	40.4	40.1	41.4	42.3	42.6	44.5	45.9
of which: Onshore	*36.0*	*36.6*	*38.9*	*39.7*	*40.5*	*42.1*	*43.3*
Offshore	*4.4*	*3.6*	*2.5*	*2.6*	*2.2*	*2.4*	*2.6*
Corporation tax credits[3]	-0.9	-1.0	-0.9	-0.8	-0.8	-0.8	-0.9
Petroleum revenue tax	1.7	1.1	1.2	1.3	1.0	1.0	0.9
Fuel duties	26.6	26.8	26.8	27.2	28.3	29.1	29.8
Business rates	26.3	26.6	26.9	28.7	30.0	30.8	32.3
Council tax	26.3	27.1	27.6	28.0	28.9	29.8	30.8
VAT refunds	13.8	13.9	14.1	13.9	13.4	13.0	12.8
Capital gains tax	3.9	3.9	5.4	6.7	7.5	8.2	9.0
Inheritance tax	3.1	3.5	3.9	4.3	4.9	5.4	5.8
Stamp duty land tax	6.9	9.5	12.7	14.4	15.7	16.8	18.1
Stamp taxes on shares	2.2	3.1	3.1	3.2	3.2	3.3	3.3
Tobacco duties	9.6	9.7	9.9	10.1	10.3	10.6	10.9
Spirits duties	3.0	3.0	3.0	3.2	3.3	3.5	3.7
Wine duties	3.5	3.7	3.9	4.2	4.5	5.0	5.4
Beer and cider duties	3.6	3.7	3.5	3.5	3.6	3.7	3.7
Air passenger duty	2.8	3.0	3.2	3.1	3.3	3.6	3.9
Insurance premium tax	3.0	3.1	3.2	3.3	3.4	3.4	3.5
Climate change levy	0.7	1.3	2.0	2.5	2.3	2.2	2.1
Other HMRC taxes[4]	5.9	6.5	6.7	7.0	7.1	7.3	7.5
Vehicle excise duties	6.0	6.1	5.9	5.8	5.7	5.6	5.4
Bank levy	1.6	2.3	2.7	2.9	2.9	2.9	2.9
Licence fee receipts	3.1	3.1	3.2	3.2	3.2	3.3	3.4
Environmental levies	2.3	4.1	4.9	5.9	6.4	7.0	7.8
Swiss capital tax	0.0	0.9	0.0	0.0	0.0	0.0	0.0
EU ETS auction receipts	0.3	0.4	0.3	0.4	0.4	0.4	0.4
Other taxes	6.6	6.8	6.9	7.0	6.7	6.7	6.5
National Accounts taxes	**556.8**	**579.1**	**606.0**	**635.4**	**670.7**	**702.4**	**734.2**
Less own resources contribution to EU	-5.3	-5.5	-5.1	-5.6	-5.2	-5.4	-5.6
Interest and dividends exc. APF	8.0	6.8	7.7	9.5	12.5	14.7	16.6
Gross operating surplus	27.6	28.3	28.9	30.0	31.3	32.6	33.8
Other receipts	-0.2	-1.0	-1.0	-1.1	-1.2	-1.2	-1.3
Current receipts exc. APF	**586.9**	**607.7**	**636.5**	**668.2**	**708.1**	**742.9**	**777.7**
APF dividend receipts	6.4	12.2	11.6	7.2	2.9	0.4	0.0
Current receipts	**593.4**	**619.8**	**648.1**	**675.4**	**711.0**	**743.4**	**777.7**
Memo: UK oil and gas revenues[5]	*6.1*	*4.7*	*3.7*	*3.8*	*3.2*	*3.4*	*3.5*

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

[2] National Accounts measure, gross of reduced liability tax credits.

[3] Includes reduced liability 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 D.4: Total Managed Expenditure: OBR forecast

	£ billion						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Public sector current expenditure (PSCE)							
PSCE in RDEL[1]	**316.5**	**315.9**	**317.8**	**312.5**	**302.5**	**292.1**	**289.1**
PSCE in AME	**339.9**	**352.0**	**362.1**	**379.0**	**396.3**	**414.3**	**430.3**
of which:							
Social security benefits	182.8	180.0	184.3	189.1	193.7	198.6	203.3
Tax credits	28.6	28.9	28.9	29.2	31.4	34.0	35.4
Net public service pension payments	10.2	10.5	10.4	11.7	12.7	13.8	14.9
National lottery current grants	1.1	1.3	1.4	1.4	1.4	1.4	1.5
BBC domestic services current expenditure	3.4	3.6	3.8	3.5	3.6	3.9	4.0
Other PSCE items in departmental AME	1.1	1.2	1.3	1.3	1.2	1.3	1.2
Expenditure transfers to EU institutions	8.3	8.9	8.1	8.1	7.9	7.1	7.9
Locally-financed current expenditure	22.8	34.0	35.1	37.0	39.5	42.0	44.1
Central government gross debt interest	47.6	48.4	52.1	59.1	65.1	71.6	75.2
Depreciation	17.3	18.1	18.8	19.6	20.3	21.2	22.0
Current VAT refunds	11.6	11.7	11.9	11.9	11.3	10.8	10.7
Single use military expenditure	4.8	4.6	4.2	4.2	4.4	4.3	4.5
Environmental levies	1.7	3.6	4.4	5.6	6.3	7.1	8.3
Other National Accounts adjustments	-1.5	-2.8	-2.6	-2.6	-2.6	-2.6	-2.7
Total public sector current expenditure	**656.3**	**667.9**	**679.9**	**691.5**	**698.8**	**706.4**	**719.3**
Public sector gross investment (PSGI)							
PSGI in CDEL[1]	**32.2**	**33.3**	**37.4**	**36.7**	**38.0**	**37.2**	**39.1**
PSGI in AME[2]	**13.2**	**14.2**	**14.7**	**15.2**	**15.8**	**15.8**	**14.4**
of which:							
National lottery capital grants	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Other PSGI items in departmental AME[2]	-1.7	0.6	0.5	0.3	0.3	0.2	0.2
Locally-financed capital expenditure	6.5	6.4	6.2	6.5	7.4	7.2	6.3
Public corporations capital expenditure	7.0	6.8	7.0	7.0	6.8	6.9	6.4
Other National Accounts adjustments	1.0	-0.1	0.5	0.9	0.8	1.0	1.0
Total public sector gross investment[2]	**45.4**	**47.6**	**52.1**	**51.9**	**53.8**	**53.0**	**53.5**
Less depreciation	-22.5	-23.4	-24.3	-25.1	-26.0	-27.0	-27.9
Public sector net investment[2]	**22.9**	**24.1**	**27.9**	**26.8**	**27.7**	**26.1**	**25.7**
Total managed expenditure[2]	**701.7**	**715.5**	**732.0**	**743.4**	**752.5**	**759.4**	**772.9**
Royal Mail and APF spending	-28.0	0.0	0.0	0.3	0.0	1.7	3.7
Total managed expenditure (headline)	**673.7**	**715.5**	**732.0**	**743.6**	**752.5**	**761.2**	**776.5**

[1] Implied DEL numbers for 2016-17, 2017-18 and 2018-19. 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] Excludes Royal Mail and APF spending.

Table D.5: OBR forecast of selected 'underlying' fiscal aggregates[1]

	% GDP						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Receipts and expenditure							
Public sector current receipts *(a)*	37.4	37.0	37.0	37.4	37.8	38.0	38.1
Total managed expenditure *(b)*	44.7	43.5	42.5	41.6	40.2	38.8	37.8
of which:							
Public sector current expenditure *(c)*	41.8	40.6	39.5	38.7	37.3	36.1	35.2
Public sector net investment *(d)*	1.5	1.5	1.6	1.5	1.5	1.3	1.3
Depreciation *(e)*	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Deficit							
Public sector net borrowing *(b-a)*	7.3	6.6	5.5	4.2	2.4	0.8	-0.2
Surplus on current budget *(a-c-e)*	-5.9	-5.1	-3.9	-2.7	-0.9	0.5	1.5
Cyclically-adjusted surplus on current budget	-3.9	-3.6	-2.9	-1.9	-0.4	0.7	1.5
Cyclically-adjusted net borrowing	5.3	5.0	4.5	3.4	1.9	0.6	-0.3
Primary balance	-4.7	-4.0	-2.9	-1.4	0.5	2.1	3.2
Cyclically-adjusted primary balance	-2.8	-2.5	-1.9	-0.6	1.0	2.3	3.2
	£ billion						
Public sector net borrowing	114.8	107.8	95.5	75.2	44.5	16.5	-4.8
Surplus on current budget	-91.9	-83.7	-67.6	-48.4	-16.7	9.6	30.5
Cyclically-adjusted surplus on current budget	-60.9	-58.4	-49.6	-34.5	-7.0	13.9	31.3
Cyclically-adjusted net borrowing	83.8	82.6	77.5	61.3	34.7	12.1	-5.6
Primary balance	-74.5	-65.6	-50.4	-24.8	9.0	41.3	64.4
Cyclically-adjusted primary balance	-43.5	-40.3	-32.4	-11.0	18.7	45.7	65.2

[1] *Excluding Royal Mail and APF transfers.*

Table D.6: OBR forecast of the headline fiscal aggregates

	% GDP						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Receipts and expenditure							
Public sector current receipts *(a)*	37.8	37.7	37.7	37.8	38.0	38.0	38.1
Total managed expenditure *(b)*	42.9	43.5	42.5	41.6	40.2	38.9	38.0
of which:							
Public sector current expenditure *(c)*	41.8	40.6	39.5	38.7	37.3	36.1	35.2
Public sector net investment *(d)*	-0.3	1.5	1.6	1.5	1.5	1.4	1.4
Depreciation *(e)*	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Deficit							
Public sector net borrowing *(b-a)*	5.1	5.8	4.9	3.8	2.2	0.9	-0.1
Surplus on current budget *(a-c-e)*	-5.4	-4.4	-3.3	-2.3	-0.7	0.5	1.5
Cyclically-adjusted net borrowing	3.1	4.3	3.8	3.0	1.7	0.7	-0.1
Primary balance	-3.0	-4.0	-2.9	-1.4	0.5	2.0	3.0
Cyclically-adjusted primary balance	-1.0	-2.5	-1.9	-0.6	1.0	2.2	3.0
Fiscal mandate and supplementary target							
Cyclically-adjusted surplus on current budget	-3.5	-2.8	-2.2	-1.5	-0.2	0.7	1.5
Public sector net debt[1]	74.2	74.5	77.3	78.7	78.3	76.5	74.2
Financing							
Central government net cash requirement	6.7	5.1	5.6	4.3	3.3	1.8	0.3
Public sector net cash requirement	6.8	4.9	5.4	4.0	3.1	1.6	0.1
Stability and Growth Pact							
Treaty deficit[2]	5.2	6.0	5.0	4.0	2.4	1.1	0.1
Cyclically-adjusted Treaty deficit	3.2	4.4	4.0	3.2	1.8	0.9	0.1
Treaty debt ratio[3]	88.3	89.6	91.8	93.1	91.9	89.4	86.6
	£ billion						
Public sector net borrowing	80.3	95.6	83.9	68.3	41.5	17.8	-1.1
Surplus on current budget	-85.5	-71.5	-56.0	-41.2	-13.8	10.0	30.5
Cyclically-adjusted net borrowing	49.3	70.4	65.9	54.4	31.8	13.5	-1.9
Cyclically-adjusted surplus on current budget	-54.5	-46.3	-38.0	-27.3	-4.1	14.4	31.3
Public sector net debt	1185	1258	1355	1439	1497	1530	1548
Memo: Output gap (% GDP)	*-2.8*	*-2.0*	*-1.3*	*-1.0*	*-0.6*	*-0.2*	*0.0*

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

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

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

Table D.7: Changes to the OBR fiscal forecast of 'underlying' deficit measures and headline net debt

	£ billion						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Surplus on current budget[1]							
June 2010 forecast	-65.1	-40.2	-16.9	0.4			
December 2013 forecast	-92.8	-86.3	-68.3	-51.4	-22.8	3.1	28.0
Change	*0.9*	*2.6*	*0.7*	*3.0*	*6.1*	*6.5*	*2.5*
March 2014 forecast	-91.9	-83.7	-67.6	-48.4	-16.7	9.6	30.5
Net investment[1]							
June 2010 forecast	24.0	19.9	20.6	20.9			
December 2013 forecast	22.2	24.9	27.7	27.3	28.3	26.5	25.7
Change	*0.7*	*-0.8*	*0.2*	*-0.5*	*-0.5*	*-0.4*	*-0.1*
March 2014 forecast	22.9	24.1	27.9	26.8	27.7	26.1	25.7
Net borrowing[1]							
June 2010 forecast	89.1	60.1	37.5	20.5			
December 2013 forecast	115.0	111.2	96.0	78.7	51.1	23.4	-2.2
Change	*-0.2*	*-3.4*	*-0.6*	*-3.5*	*-6.6*	*-6.9*	*-2.6*
March 2014 forecast	114.8	107.8	95.5	75.2	44.5	16.5	-4.8
Net debt							
June 2010 forecast	1162	1235	1284	1316			
December 2013 forecast	1182	1269	1365	1451	1515	1554	1573
Change	*3*	*-10*	*-10*	*-13*	*-18*	*-24*	*-25*
March 2014 forecast	1185	1258	1395	1439	1497	1530	1548
	% GDP						
Net borrowing[1]							
June 2010 forecast	5.5	3.5	2.1	1.1			
December 2013 forecast	7.3	6.8	5.6	4.4	2.7	1.2	-0.1
Change	*0.0*	*-0.2*	*-0.1*	*-0.2*	*-0.4*	*-0.4*	*-0.1*
March 2014 forecast	7.3	6.6	5.5	4.2	2.4	0.8	-0.2
Cyclically-adjusted surplus on current budget[1]							
June 2010 forecast	-1.9	-0.7	0.3	0.8			
December 2013 forecast	-4.1	-3.7	-2.7	-1.8	-0.4	0.7	1.6
Change	*0.2*	*0.1*	*-0.2*	*-0.2*	*0.0*	*0.0*	*0.0*
March 2014 forecast	-3.9	-3.6	-2.9	-1.9	-0.4	0.7	1.5
Cyclically-adjusted net borrowing[1]							
June 2010 forecast	3.4	1.8	0.8	0.3			
December 2013 forecast	5.5	5.2	4.3	3.3	1.9	0.7	-0.3
Change	*-0.1*	*-0.2*	*0.2*	*0.1*	*0.0*	*-0.1*	*0.0*
March 2014 forecast	5.3	5.0	4.5	3.4	1.9	0.6	-0.3
Net debt[2]							
June 2010 forecast	69.8	70.3	69.4	67.4			
December 2013 forecast	73.9	75.5	78.3	80.0	79.9	78.4	75.9
Change	*0.3*	*-1.0*	*-1.0*	*-1.2*	*-1.6*	*-1.9*	*-1.8*
March 2014 forecast	74.2	74.5	77.3	78.7	78.3	76.5	74.2

[1] *Excluding APF and Royal Mail pension fund transfers.*

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

Table D.8: Impact of PSF Review and ESA10 on the OBR forecast of public sector net debt

	£ billion						
	Implied outturn	**Implied forecast**					
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Excluding financial interventions	**1185**	**1258**	**1355**	**1439**	**1497**	**1530**	**1548**
Effects from PSF Review:							
add shares of Lloyds, RBS and compensation payments of FSCS	*58*	*55*	*55*	*55*	*55*	*55*	*55*
add effects of new APF treatment	*25*	*45*	*46*	*42*	*36*	*29*	*22*
Excluding banks (ESA95)	**1268**	**1358**	**1456**	**1536**	**1588**	**1614**	**1625**
Effects from move to ESA10:							
add Network Rail debt	*30*	*32*	*36*	*40*	*44*	*48*	*50*
Excluding banks (ESA10)	**1298**	**1390**	**1492**	**1576**	**1633**	**1662**	**1675**
	% GDP						
PSND excluding financial interventions	74.2	74.5	77.3	78.7	78.3	76.5	74.2
PSND ex banks (ESA95)	79.4	80.4	83.0	84.1	83.0	80.7	77.8
PSND ex banks (ESA10)[1]	78.3	79.4	82.0	83.1	82.3	80.1	77.3
Treaty debt ratio (ESA95)[2]	88.3	89.6	91.8	93.1	91.9	89.4	86.6
Treaty debt ratio (ESA10)[1,2]	86.9	88.3	90.5	91.9	90.9	88.6	85.8

[1] *ESA10 nominal GDP has been adjusted by the mid-point of ONS's 2.5% to 5% range.*

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

Table D.9: Impact of PSF Review and ESA10 on the OBR forecast of public sector net borrowing

	£ billion						
	Implied outturn	Implied forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Excluding financial interventions	**80.3**	**95.6**	**83.9**	**68.3**	**41.5**	**17.8**	**-1.1**
excluding Royal Mail (current treatment)	*28.0*						
excluding APF (current treatment)	*6.4*	*12.2*	*11.6*	*6.9*	*2.9*	*-1.3*	*-3.7*
Excluding financial interventions ex RM and APF	**114.8**	**107.8**	**95.5**	**75.2**	**44.5**	**16.5**	**-4.8**
Effects from PSF Review:							
add effects of new APF treatment	*-12.2*	*-12.4*	*-12.5*	*-10.4*	*-6.4*	*-3.9*	*-2.0*
add effect of consolidating out SLS	*2.3*						
Excluding Banks (ESA95) excluding RMPP	**104.9**	**95.4**	**83.0**	**64.8**	**38.0**	**12.6**	**-6.8**
Effects from move to ESA10:							
add Network Rail borrowing	*2.8*	*2.8*	*3.7*	*4.0*	*3.7*	*3.6*	*2.3*
add treatment of liabilities in LA pension schemes	*2.5*	*2.5*	*2.5*	*2.5*	*2.5*	*2.5*	*2.5*
add revised treatment of Royal Mail Pension Plan	*8.8*	*-1.2*	*-1.3*	*-1.3*	*-1.4*	*-1.5*	*-1.6*
add effect from reclassification from 3G and 4G spectrum	*1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*
Excluding banks (ESA10)	**120.1**	**98.2**	**86.6**	**68.7**	**41.6**	**16.0**	**-4.9**
Memo: excluding banks (ESA10) excluding APF	*132.3*	*110.6*	*99.1*	*79.1*	*48.1*	*19.9*	*-2.9*
Memo: excluding banks (ESA10) excluding APF and RM	*122.3*	*110.6*	*99.1*	*79.1*	*48.1*	*19.9*	*-2.9*
	% GDP						
Excluding financial interventions	5.1	5.8	4.9	3.8	2.2	0.9	-0.1
Excluding financial interventions excluding RM and APF	7.3	6.6	5.5	4.2	2.4	0.8	-0.2
Excluding Banks (ESA95) excluding RMPP	6.7	5.8	4.8	3.6	2.0	0.6	-0.3
Excluding banks (ESA10) *excluding APF*[1]	7.4	5.8	4.9	3.7	2.1	0.8	-0.2
Memo: Excluding banks (ESA10) excluding APF[1]	*8.1*	*6.5*	*5.6*	*4.3*	*2.5*	*1.0*	*-0.1*
Memo: Excluding banks (ESA10) excluding APF and RMPP[1]	*7.5*	*6.5*	*5.8*	*4.3*	*2.5*	*1.0*	*-0.1*

[1] *ESA10 nominal GDP has been adjusted by the mid-point of ONS's 2.5% to 5% range.*

Table D.10: Impact of PSF Review and ESA10 on the OBR forecast of current budget deficit

	£ billion						
	Implied outturn	**Implied forecast**					
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Excluding financial interventions	**85.5**	**71.5**	**56.0**	**41.2**	**13.8**	**-10.0**	**-30.5**
excluding APF (current treatment)	6.4	12.2	11.6	7.2	2.9	0.4	0.0
excluding financial interventions ex APF	**91.9**	**83.7**	**67.6**	**48.4**	**16.7**	**-9.6**	**-30.5**
Effects of PSF Review:							
add effects of new APF treatment	-12.2	-12.4	-12.5	-10.4	-6.4	-3.9	-2.0
effect of consolidating out SLS	*2.3*						
Excluding banks (ESA95)	**82.0**	**71.3**	**55.1**	**38.0**	**10.3**	**-13.5**	**-32.5**
Effects from move to ESA10:							
add Network Rail borrowing	2.4	1.7	2.4	2.6	2.7	3.0	2.5
add treatment of liabilities in LA pension schemes	2.5	2.5	2.5	2.5	2.5	2.5	2.5
add revised treatment of Royal Mail	-1.2	-1.2	-1.3	-1.3	-1.4	-1.5	-1.6
add effect from reclassification from 3G and 4G	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
add capitalisation of R&D and SUME	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
add treatment of tax write-offs	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Excluding banks (ESA10)	**84.2**	**72.7**	**57.2**	**40.2**	**12.6**	**-11.0**	**-30.6**
	% GDP						
ex financial interventions	5.4	4.4	3.3	2.3	0.7	-0.5	-1.5
ex financial interventions ex RM and APF	5.9	5.1	3.9	2.7	0.9	-0.5	-1.5
ex banks (ESA95)	5.2	4.3	3.2	2.1	0.6	-0.7	-1.6
ex banks (ESA10)[1]	5.2	4.3	3.2	2.2	0.6	-0.5	-1.4
Cyclically-adjusted current balance ex financial interventions	3.5	2.8	2.2	1.5	0.2	-0.7	-1.5
Cyclically-adjusted current balance ex banks (ESA95)	3.2	2.8	2.2	1.3	0.0	-0.9	-1.6
Cyclically-adjusted current balance ex banks (ESA10)[1]	3.2	2.7	2.2	1.4	0.1	-0.8	-1.5

[1] *ESA10 nominal GDP has been adjusted by mid-point of ONS's 2.5% to 5% range.*

List of abbreviations

AGE	Apprenticeship Grants for Employers
AIA	Annual investment allowance
AME	Annually Managed Expenditure
APD	Air Passenger Duty
APF	Asset Purchase Facility
ATED	Annual Tax on Enveloped Dwellings
B&B	Bradford and Bingley plc
BIS	Department for Business, Innovation and Skills
BPRA	Business premises renovation allowance
CASC	Community Amateur Sports Club
CBI	Confederation of British Industry
CCL	Climate Change Levy
CCS	Carbon Capture and Storage
CCT	Company Car Tax
CDEL	Capital Departmental Expenditure Limit
CFC	Controlled Foreign Company
CGNCR	Central government net cash requirement
CGT	Capital gains tax
CHP	Combined heat and power
CIS	Construction Industry Scheme
CMA	Competition and Markets Authority
CPF	Carbon Price Floor
CPI	Consumer Prices Index
CPS	Carbon Price Support
CTA2009	Corporation Tax Act 2009
CTA2010	Corporation Tax Act 2010
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limit
DfE	Department for Education
DH	Department of Health
DMO	Debt Management Office
DOTAS	Disclosure of Tax Avoidance Scheme
DWP	Department for Work and Pensions
ECA	Enhanced Capital Allowance
EEA	European Economic Area
EII	Energy Intensive Industry

EIS	Enterprise Investment Scheme
ESA10	European System of Accounts 2010
EUETS	European Union Emission Trading Scheme
FBC	Fuel Benefit Charge
FCA	Financial Conduct Authority
FII GLO	Franked Investment Income Group Litigation Order
FLS	Funding for Lending Scheme
FPC	Financial Policy Committee
FSTIB	Financial Services Trade and Investment Board
G7	A group of 7 major industrial nations (comprising: Canada, France, Germany, Italy, Japan, UK and US)
G8	A group of 8 major industrial nations (comprising: Canada, France, Germany, Italy, Japan, Russia, 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
GEMMS	Gilt-edged Market Maker
GLA	Greater London Authority
GNI	Gross National Income
HGV	Heavy Goods Vehicle
HMRC	Her Majesty's Revenue & Customs
HMT	Her Majesty's Treasury
HPHT	High pressure, high temperature
HS2	High Speed 2
IEA	International Energy Agency
IFS	Institute for Fiscal Studies
IHT	Inheritance Tax
IMF	International Monetary Fund
IP14	Individual Protection 2014
IPT	Insurance Premium Tax
ISA	Individual savings account
LPC	Low Pay Commission
MEA	Mineral Extraction Allowance
MER UK	Maximising Economic Recovery UK
MOSS	Mini One Stop Shop
MPC	Monetary Policy Committee
NFR	Net Financing Requirement
NICs	National Insurance contributions
NIESR	National Institute of Economic and Social Research
NISA	New individual savings account
NMW	National minimum wage
NRAM	Northern Rock Asset Management
NS&I	National Savings and Investments

OBR	Office for Budget Responsibility
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OFGEM	Office of Gas and Electricity Markets
OFT	Office of Fair Trading
ONS	Office for National Statistics
OTS	Office of Tax Simplification
PRA	Prudential Regulation Authority
PSCE	Public Sector Current Expenditure
PSF	Public Sector Finances
PSNB	Public Sector Net Borrowing
PSND	Public Sector Net Debt
PPL	Pence per litre
PSGI	Public Sector Gross Investment
PWLB	Public Works Loan Board
QNUPS	Qualifying non-UK Pension Scheme
R&D	Research and development
RBS	Royal Bank of Scotland
RMPP	Royal Mail Pension Plan
RPI	Retail Prices Index
SDLT	Stamp Duty Land Tax
SDRT	Stamp Duty Reserve Tax
SEIS	Seed Enterprise Investment Scheme
SGP	Stability and Growth Pact
SME	Small and medium-sized enterprise
SMI	Support for mortgage interest
SPA	State Pension age
SPI	Survey of Personal Incomes
TIOPA2010	Taxation (International and other provisions)
TME	Total Managed Expenditure
UKEF	UK Export Finance
UKRN	UK Regulators Network
UKTI	UK Trade and Investment
UTC	University Technology College
VADR	VAT Avoidance Disclosure Regime
VAT	Value Added Tax
VBC	Van Benefit Charge
VCT	Venture Capital Trust
VED	Vehicle Excise Duty
VNICs	Voluntary National Insurance contributions
WWDC	Worldwide debt cap

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