SPRING BUDGET 2023

Return to an order of the House of Commons
dated 15 March 2023
Copy of the Budget Report – March 2023
as Laid before the House of Commons by the
Chancellor of the Exchequer when opening
the Budget.

Victoria Atkins
His Majesty's Treasury
15 March 2023

Ordered by the House of Commons to be
printed 15 March 2023

HC 1183

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CORRECTION SLIP

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The document provides a comprehensive summary of the policy measures in the Chancellor of the Exchequer's Spring Budget 2023.

This correction slip rectifies two errors: one on the preliminary text on the title page, of the hard copies of the document. The other a small factual error on a policy measure. These will be resolved in the online version.

Correction 1

The title page currently reads:

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

March 2023

HC 1183

The title page should read:

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Correction 2

Paragraph 4.169 currently reads:

4.169 Extending Train and Progress – Train and Progress increases the length of time that UC claimants in the Intensive Work Search regime can spend on full-time training from 8 weeks to 12 weeks (and to 16 weeks in certain subject areas which have Skills Bootcamps), while still remaining eligible for UC. The government will extend this flexibility to April 2025. The extension will also allow claimants to benefit from opportunities funded and delivered by the Devolved Administrations in Scotland and Wales, where skills and education is devolved.

<u>We are removing the reference to 12 weeks and Skills Bootcamps, so the paragraph now reads:</u>

4.169 Extending Train and Progress – Train and Progress increases the length of time that UC claimants in the Intensive Work Search regime can spend on full-time training, including Skills Bootcamps in England, from 8 weeks to 16 weeks, while still remaining eligible for UC. The government will extend this flexibility to April 2025. The extension will also allow claimants to benefit from opportunities funded and delivered by the Devolved Administrations in Scotland and Wales, where skills and education is devolved.

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Executive summary

At Autumn Statement 2022 the government took the difficult decisions needed on tax and spending to restore economic stability, support public services, and lay the foundation for long-term growth. At Spring Budget 2023 the government is building on this foundation, with a plan to deliver on three of the five key priorities set out by the Prime Minister in January: to halve inflation, grow the economy and get debt falling.

Halving inflation

Putin's illegal invasion of Ukraine and global supply chain pressures have pushed wholesale energy prices to record highs and saw inflation peak at 11.1% in October 2022, the highest level in 40 years. High inflation erodes the value of wages and hurts economic growth.

The Bank of England has taken steps to control inflation by raising interest rates, and the government's Energy Price Guarantee (EPG) has reduced energy bills for millions, keeping inflation lower than it otherwise would be. The Office for Budget Responsibility (OBR) is now forecasting that Consumer Price Index (CPI) inflation will fall to 2.9% by the end of 2023.

To further support households with the cost of living, the government is maintaining the EPG at £2,500 for a further three months from April 2023. The government will also align charges for comparable direct debit and Pre-Payment Meter (PPMs) customers, ensuring that those on PPMs no longer pay a premium for their energy costs.

To increase resilience to future energy price shocks, the government is supporting investment in the energy system by launching Great British Nuclear to support new nuclear builds, making up to £20 billion available for Carbon Capture, Utilisation and Storage (CCUS), and extending the Climate Change Agreement scheme for a further two years to encourage energy efficiency.

Households are facing price rises beyond energy costs. The government will spend over £5 billion maintaining fuel duty at current levels for the next 12 months, including keeping the 5p cut in place. The government is also increasing Draught Relief from 1 August to freeze the duty charged on a typical pint of beer in the pub and ensure this will always be lower than in the supermarket. Reforms to childcare will also help families with children with one of the most significant costs they face.

Overall, the government is providing a total of £94 billion, equivalent to £3,300 per household on average, across this financial year and next, to support households with higher costs.

Growing the economy

Economic growth increases living standards, supports higher paid jobs, and strengthens the public finances. Spring Budget begins to implement the Chancellor's strategy to deliver long term sustainable growth, focusing on four key priorities: Employment, Education, Enterprise and Everywhere. The OBR is now forecasting the UK economy will avoid a recession and, supported by action taken at the Spring Budget, GDP is higher in the medium term.

Increasing **employment** raises living standards and helps businesses grow. While unemployment is at a near 50-year low, since the COVID-19 pandemic there has been a significant increase in the number of people neither in nor looking for work, with 6.7 million of the working age population economically inactive, excluding students. Spring Budget announces a comprehensive employment package focused on four groups: the long-term sick and disabled, welfare recipients and the unemployed, older workers, and parents. The OBR expects this package to result in 110,000 more individuals in the labour market by the end of the forecast period.

There are more than 2.5 million people reporting that they are inactive due to long-term sickness. To help remove the barriers to employment this group faces, the government is introducing a Universal Support programme in England and Wales to match people with disabilities and long-term sickness with jobs and provide support and training to help them succeed. Spring Budget also introduces a suite of measures to address the leading causes of ill health related inactivity, including tailored employment support in mental health and musculoskeletal health services, and expanding access to digital resources and health checks.

There are currently 5.9 million Universal Credit claimants. Many are out of work or on low earnings and could be contributing more to the economy and earning higher wages. The government is therefore providing additional support to help Universal Credit claimants find employment or increase their hours, by increasing Work Coach support and work search requirements, and strengthening support for claimants that are carers of children.

Workers aged over 50 left the labour market in the greatest numbers during the COVID-19 pandemic. To encourage this group to extend their working lives, the government is increasing tax relief on pensions. The Lifetime Allowance charge will be removed from April 2023 before the Allowance is abolished entirely from April 2024, and the Annual Allowance will be raised to £60,000. These reforms will help ensure that high skilled individuals such as NHS clinicians are not disincentivised from remaining in the workforce.

There are around 435,000 people in England with a child under 3 who are inactive due to their caring responsibilities; many of these people report that they would like to work but cannot afford childcare. The government is significantly expanding the support on offer by providing 30 hours a week of free childcare for 38 weeks a year, for eligible working parents of children aged 9 months to 3 years. This will be rolled out in phases from April 2024 and is in addition to the 30 hours a week already provided for eligible working parents of 3 to 4-year-olds. The government will also provide £204 million in 2023-24, increasing to £288 million in 2024-25, to substantially uplift the hourly funding rate paid to providers to deliver the existing free hours offers in England.

As a result of these reforms, the government is providing free childcare for eligible working parents of children from 9 months until they start school. This will help with the cost of living, support education for the youngest children, and remove one of the biggest barriers to parents working.

The government is also launching a new wraparound pathfinder scheme to support the expansion of school-based childcare provision either side of the school day. Support for childcare costs in Universal Credit will be made available upfront and the maximum potential benefit for parents will be increased.

The government will ensure that the UK labour market has access to skills and talent from abroad where needed. To help ease immediate labour supply pressures, the government will accept the Migration Advisory Committee's (MAC) interim recommendations to add five construction occupations to the Shortage Occupation List (SOL) initially, ahead of its wider SOL review concluding in autumn 2023.

Education gives people the knowledge and skills they need to get the jobs they want, helping turn the UK into a high skill, high wage economy. The government has already committed to maths to 18 and is rolling out T Levels, Skills Bootcamps and the Lifelong Loan Entitlement, which will have a transformative impact on post-18 education, giving people the opportunity to study, retrain and upskill throughout their working lives. Spring Budget introduces Returnerships: a new offer targeted at the over-50s, which brings together existing skills programmes, supported by £63 million of additional funding.

An **enterprise**-focused economy is one that attracts and supports the most dynamic and productive companies. The UK has one of the most competitive business tax regimes in the world, with the headline rate of Corporation Tax continuing to be the lowest among G7 economies. Spring Budget goes further by introducing full expensing for 3 years from 1 April 2023. During this period, companies across the UK will be able to write off the full cost of qualifying plant and machinery investment in the year they invest, supporting businesses to invest and grow. The government intends to make this measure permanent when fiscal conditions allow.

To help encourage innovation in the economy, Spring Budget announces further support for R&D intensive Small and Medium Sized Enterprises (SMEs), via an enhanced rate of tax relief for loss making companies; and for the UK's world leading creative industries, through increased audio-visual tax reliefs.

At Autumn Statement 2022 the government asked Sir Patrick Vallance to lead the Pro-innovation Regulation of Technologies Review. The government is taking forward all Sir Patrick's recommendations on the regulation of emerging digital technologies, published alongside Spring Budget. Based on Sir Patrick's interim findings on life sciences, the government is providing extra funding for the Medicines and Healthcare products Regulatory Agency (MHRA) to help it maximise use of its Brexit freedoms and accelerate patient access to treatments. The government has now asked Sir Patrick to report on how regulators can better support innovation, and the government's new Chief Scientific Adviser, Professor Dame Angela McLean, will oversee future reviews into creative industries, advanced manufacturing, and the regulator growth duty.

Stability is key to providing an environment for economic growth. As recent events concerning Silicon Valley Bank have demonstrated, clear economic and financial stability frameworks are vital to deal with macroeconomic volatility and potential shocks effectively.

Levelling up means spreading opportunity **everywhere**. The UK's spatial disparities in productivity are large compared to other advanced economies, and there is significant untapped growth potential outside of London. Spring Budget introduces a package of measures to spread growth across the UK and give local leadership the tools to deliver for their areas.

Spring Budget launches the refocused Investment Zones programme to catalyse 12 growth clusters across the UK, including four across Scotland, Wales and Northern Ireland. Each cluster will drive growth in key future sectors and bring investment to the local area. Each English Investment Zone will have access to interventions worth £80 million over five years, including tax reliefs and grant funding.

Spring Budget delivers on the Levelling Up White Paper by providing new and deeper powers to more local leaders. Trailblazer deals have been agreed with the Greater Manchester and West Midlands Combined Authorities which will give them greater control over local transport, skills, employment, housing, innovation and net zero priorities, as well as single funding settlements at the next Spending Review. The government will also negotiate a new wave of devolution deals with areas across England, which will include local investment funding for areas that are committed to electing a mayor or leader.

Spring Budget also announces the roll out of new Levelling Up Partnerships, providing over £400 million of investment in 20 areas across England. The government is also providing additional funding for local projects to encourage growth and support communities, including: over £200 million for 16 high quality regeneration projects, £200 million for local authorities to repair potholes and improve roads, over £100 million of support for local charities and community organisations, and over £60 million for public swimming pool providers to help with immediate cost pressures and make facilities more energy efficient.

Getting debt falling

The government had to increase borrowing in recent years to support households and businesses through the COVID-19 pandemic and energy crisis. Public debt now stands at almost £2.5 trillion, or 98.9% of GDP. While the public finances have proven more resilient than expected in November, higher inflation has increased the cost of servicing debt, with debt interest spending totalling £96 billion between April 2022 and January 2023.

Autumn Statement 2022 set out a clear plan to get debt falling as a share of the economy in the medium term. The latest forecast from the OBR confirms the government is on track to achieve this aim, with the debt to GDP fiscal rule met in 2027-28 with headroom of £6.5 billion and borrowing falling in every year of the forecast.

The government is providing additional support for public services, including £5 billion for defence and national security priorities over the next two years, and £2 billion each year for defence for the remainder of the forecast period. As set out in the Integrated Review Refresh, the government's aspiration over the longer term is to invest 2.5% of GDP in defence, as the fiscal and economic circumstances allow. The government will continue to spend responsibly and identify efficiency savings in day-to-day budgets to help manage pressures from higher inflation and focus spending on key public services and government priorities.

Through these measures the Spring Budget builds on the action taken at Autumn Statement 2022 to halve inflation, grow the economy and get debt falling; to support businesses and households with the cost of living; and underpin the UK's long-term prosperity.

Spring Budget 2023

1 Economic and fiscal context

Overview

1.1 Supported by government decisions taken at Autumn Statement 2022, the economy and public finances have proved more resilient than expected in the Office for Budget Responsibility's (OBR) November 2022 forecast. Spring Budget 2023 takes further action to deliver on three of the Prime Minister's five priorities: halving inflation, growing the economy, and getting debt falling. The OBR's latest forecast shows that inflation will more than halve this year, the economy is on track to avoid recession with gross domestic product (GDP) higher, and debt falling in the medium term (Table 1.1).[1]

Table 1.1 Economic priorities

Priority	On track to be met?
Halving Inflation	**Yes:** The OBR forecasts Consumer Prices Index (CPI) Inflation in Q4 2023 will be less than half the level it was in Q4 2022, then return sustainably to target in the medium term.
Growing the Economy	**Yes:** The OBR forecasts the UK economy will avoid a recession and, supported by action taken at the Spring Budget, GDP is higher in the medium term.
Debt Falling	**Yes:** The OBR forecasts debt as a share of GDP will fall in 2027-28 and will be lower in every year than expected in the OBR's November forecast.

1.2 While the UK economy's performance has improved compared to the OBR's November forecast,[2] significant challenges remain. Inflationary pressures, initially driven by global factors, have become widespread across the economy, weighing on household incomes and dragging on growth. Since the COVID-19 pandemic, higher interest rates, coupled with slowing economic growth, have hit the public finances, against a backdrop of higher levels of government debt. Furthermore, structural factors – including low business investment and increased labour market inactivity – have dragged on growth and likely pushed up inflation.

1.3 The Spring Budget addresses these challenges. In the short term, the government is striking a balance between providing necessary help to households, businesses and the economy, and supporting the Bank of England to reduce inflation. The OBR forecasts the economy will avoid a recession and that government decisions are expected to help inflation fall more quickly this year. Over the medium term, the Spring Budget delivers an ambitious package to support higher growth, by boosting business investment and labour market activity, while getting debt falling in line with the government's fiscal rules.

[1] Economic and Fiscal Outlook, Office for Budget Responsibility, March 2023.
[2] Economic and Fiscal Outlook, Office for Budget Responsibility, November 2022.

Measures in the Spring Budget deliver the largest permanent increase in potential GDP the OBR have ever scored in a medium-term forecast as a result of government policy. Over the longer term, the UK's strong fundamentals and the government's plan – built on the four pillars of employment, education, enterprise and everywhere – should promote stronger, sustainable growth.

Inflation

Inflation has peaked and is starting to come down, but remains high and has become more broad-based

1.4 Over 2022, both Putin's illegal invasion of Ukraine and global supply chain pressures pushed CPI inflation to 40-year highs as energy prices rose to record levels.[3] Domestic inflation has also risen over the last year, with price rises becoming more broad-based (Box 1.A). Inflation peaked in October 2022 at 11.1% before falling to 10.1% in January 2023.[4] Inflation has been lower than the OBR expected in its November 2022 forecast; wholesale energy prices in 2023 are now forecast to be £1.50 per therm, less than half the £3.40 per therm assumed at the November 2022 forecast, and supply chain pressures have continued to ease. Despite this, inflation remains elevated across advanced economies.[5]

1.5 The Bank of England have noted that the labour market remains tight and domestic price and wage pressures have been stronger than expected, suggesting risks of greater persistence in underlying inflation.[6] Whole economy regular pay growth is 6.5%.[7] This level of pay growth is not consistent with returning CPI inflation sustainably to the 2% target.

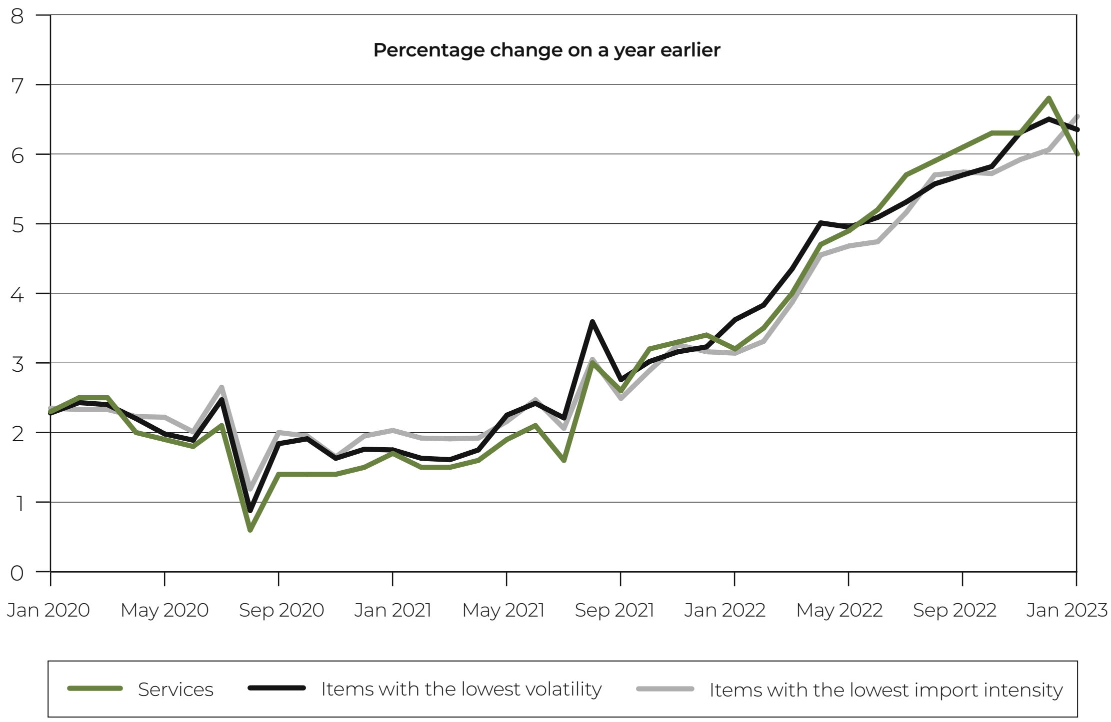
Box 1.A Inflation has fallen from its peak, but domestically generated price pressures remain elevated

UK CPI inflation has risen sharply since mid-2021, primarily driven by global factors, reaching 11.1% in October last year.[a] These external pressures have eased in recent months. Disruption in global supply chains has dissipated, which has been visible in indicators such as lower global shipping prices[b] and shorter delivery times for suppliers.[c] This has helped UK goods price inflation fall. In addition, the introduction of the Energy Price Guarantee (EPG) and Energy Bill Relief Scheme has limited energy inflation for households and businesses.[d]

[3] UK Natural gas (NBP), Bloomberg (FN1 Comdty), March 2023.
[4] Consumer price inflation, UK: January 2023, Office for National Statistics, February 2023.
[5] Consumer price indices, OECD, 2023
[6] Monetary Policy Report, Bank of England, February 2023.
[7] UK Labour Market: March 2023, Office for National Statistics, March 2023.

As external pressures have begun to subside, domestic inflationary pressures – reflecting the balance of domestic supply and demand in the economy – have risen. In the UK, these domestic pressures stem from a tight labour market, putting upward pressure on wages, and elevated inflation feeding through into wage and price setting. Services price inflation – an indicator of domestic inflation – has risen sharply over the past year (Chart 1.1), and is well above its historical average. Similarly, those items in the CPI basket with supply chains that are the least dependent on imports – therefore relatively shielded from external conditions – have also seen large increases in inflation rates which are yet to ease, as have items with historically lower price volatility. Together, these trends indicate that domestic inflationary pressure is elevated.

Chart 1.1: Measures of domestically generated inflation



Source: Office for National Statistics and HM Treasury calculations.

The shift from external to domestic pressures increases the risk that inflation stays high for longer. A longer period of high inflation would eat further into wages, eroding living standards and hindering economic growth. It could also entrench elevated inflation expectations, which in turn could generate more domestic inflationary pressure. This highlights the importance of the government's commitment to tackle inflation. The Bank of England's independent Monetary Policy Committee (MPC) has also noted this risk and continues to take action to mitigate it.

[a] Consumer price inflation, UK: January 2023, Office for National Statistics, February 2023.

[b] World Container Index, Drewry, March 2023.

[c] Manufacturing PMI, S&P Global / CIPS, March 2023.

[d] Consumer price inflation, UK: January 2023, Office for National Statistics, February 2023.

The government is supporting the independent Monetary Policy Committee to tackle inflation

1.6 The MPC has responded to rising inflation by tightening monetary policy, including by raising Bank Rate to 4.0%; and will continue to adjust policy to meet its 2% inflation target.[8] Monetary policy is the most effective tool to fight high inflation and the MPC has a strong track record of delivering price stability.[9] At Autumn Statement 2022, the Chancellor reaffirmed – and committed not to change – the Bank's 2% CPI inflation target.[10]

1.7 Globally, rising interest rates, necessary to control inflation, have had significant implications for financial markets, resulting in heightened volatility, particularly in mid-March 2023. UK banks are well placed to deal with this volatility, supported by regulatory reforms since the 2007-09 Global Financial Crisis. The Bank of England conducts regular stress tests on major UK banks to ensure their ability to weather economic shocks, and the wider UK banking system remains safe, sound, and well capitalised. Recently, the Bank of England, with the support of the government, used its resolution powers to safely manage the sale of Silicon Valley Bank UK Ltd (SVBUK) to HSBC UK Bank plc, which has protected SVBUK customers' deposits at no expense to the taxpayer.

1.8 High and volatile inflation must be brought to an end because it hurts economic growth, disrupts decision-making for households and businesses, and erodes living standards. More persistent inflationary pressures would require the MPC to increase interest rates further and hold them higher for longer. While this would be necessary to deal with inflation, it would push up borrowing costs and hold back growth.

1.9 The government's policy decisions are supporting the MPC. In the autumn, the government took difficult but necessary decisions to limit borrowing and get the public finances under control. This better aligned fiscal policy with monetary policy, which has promoted macroeconomic stability.

1.10 Decisions at the Spring Budget strike the appropriate balance between supporting the MPC with its objectives, helping households and businesses in the short term, and focusing on sustainable growth and reducing the deficit in the medium term (Box 1.B). The EPG is supporting households and has reduced peak inflation. The OBR has said that the EPG reduced peak CPI inflation by 2.5 percentage points,[11] and measures at the Spring Budget – extending the EPG, freezing fuel duty and changes to alcohol duty – lower CPI inflation by 0.7 percentage points in 2023-24.[12]

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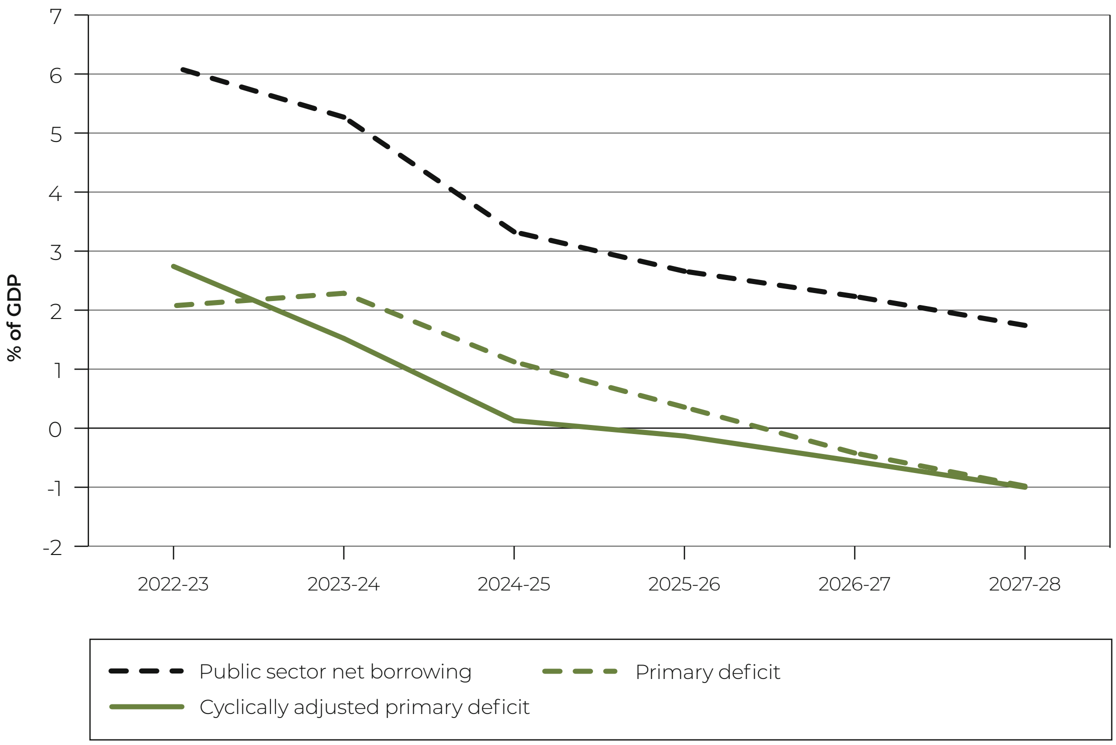
[8] Monetary Policy Summary and minutes of the Monetary Policy Committee meeting, Bank of England, February 2023.
[9] HM Treasury calculations using Consumer price inflation, UK: January 2023, Office for National Statistics, February 2023.
[10] Autumn Statement 2022, HM Treasury, November 2022.
[11] Economic and Fiscal Outlook, Office for Budget Responsibility, November 2022.
[12] Economic and Fiscal Outlook, Office for Budget Responsibility, March 2023.

Box 1.B How fiscal policy is supporting lower inflation, higher growth and debt falling

Fiscal policy decisions are balancing the need to support households and businesses while helping the MPC bring inflation back to target and maintaining fiscal sustainability. Across recent fiscal events, policy decisions[a] have provided significant near-term support for households, businesses, and the economy, which is being withdrawn as the economy returns to stronger growth rates. Given the generous level of support, the government has taken the difficult decisions to keep overall costs down and ensure debt is falling over the medium term. The Spring Budget contains an ambitious package of measures (see Table 4.1) to support sustainable and non-inflationary growth, which results in the largest permanent increase in potential GDP the OBR has ever scored in their medium-term forecast as a result of government policy.

Chart 1.2 shows how fiscal policy delivers the Prime Minister's priorities, through the lens of borrowing measures. Headline borrowing rose to 6.1% of GDP in 2022-23, a historically high level,[b] substantially driven by debt servicing costs. It then declines across the forecast, consistent with the government's fiscal targets. The primary deficit[c] – a better measure of the impact of fiscal policy on growth and inflation – starts from a lower level and increases a little next year, reflecting support for households and businesses announced in the Spring Budget, which is expected to help the economy avoid a recession this year. The cyclically adjusted primary deficit, which removes OBR estimates of the impact of the economic cycle,[d] shows that fiscal policy is gradually withdrawing stimulus at a pace that is well-matched to the strength of the economy over the medium term. This supports the MPC in getting inflation down to target and ensures debt is forecast to fall by the end of the forecast.

Chart 1.2: Fiscal stance



Source: Office for Budget Responsibility and HM Treasury calculations.

[a] Policy decisions are shown in Table 5.1 of the Autumn Statement 2022 and Table 3.1 of the Spring Statement 2022.

[b] The historical average for public sector net borrowing from 1948-49 to 2019-20 is 2.5% GDP, OBR databank January 2023.

[c] The primary deficit is calculated as PSNB minus net interest payments.

[d] As measured by OBR output gap estimates.

Inflation is forecast to more than halve by the end of 2023, then sustainably return to target in the medium term

1.11 The OBR expects inflation to fall from its peak of 10.7% in Q4 2022 to 2.9% in Q4 2023, a fall of over two-thirds. Inflation in 2023 as a whole is expected to be 6.1%, 1.2 percentage points lower than in the OBR's November forecast. The direct effect of policies at the Spring Budget lower CPI inflation by 0.7 percentage points in 2023-24. The OBR notes that real household disposable incomes would have fallen a further 1.5% in 2023 had it not been for the EPG reducing CPI inflation this year.

1.12 The OBR then expects inflation to fall to 0.9% in 2024 and to remain near 0.0% until mid-2026. Inflation is then forecast to return sustainably to the 2% target by 2027-28.

Growth

The economy has proved more resilient than feared in the autumn

1.13 The level of GDP remained steady in the final quarter of 2022,[13] outperforming expectations for a recession in the second half of the year, as government support helped cushion the fall in household incomes. Business investment grew by nearly 5%, regaining its Q4 2019 level in Q4 2022.[14]

1.14 Output in the UK's private sector industries – defined as total output excluding the health, education and public administration and defence sectors – has seen a strong recovery from the pandemic returning to above pre-pandemic levels (Box 1.C). On this metric, the UK's performance is in line with major European peers. Total output remains below 2019 levels due to a slower recovery in the public sector, principally the health sector due to the ongoing effects of the pandemic, further emphasising the importance of the Prime Minister's priority to get NHS waiting lists down.

Box 1.C An otherwise strong recovery has been partly offset by weaker public sector output growth

By the start of 2022, output in the UK's private sector industries had fully recovered from the effect of the COVID-19 pandemic. By the end of the year, private sector output was 0.7% higher than its pre-pandemic peak. On this metric, the UK's economic performance over the course of the pandemic has been in line with major European peers, and ahead of Germany and Spain (Chart 1.3).

Total UK output remained below its pre-pandemic level in Q4 2022 due to a weaker recovery in the public sector. Measuring public sector output presents unique challenges, and methodologies vary across countries. Because of this, the Office for National Statistics (ONS) have warned that international comparisons are hard to make.[a]

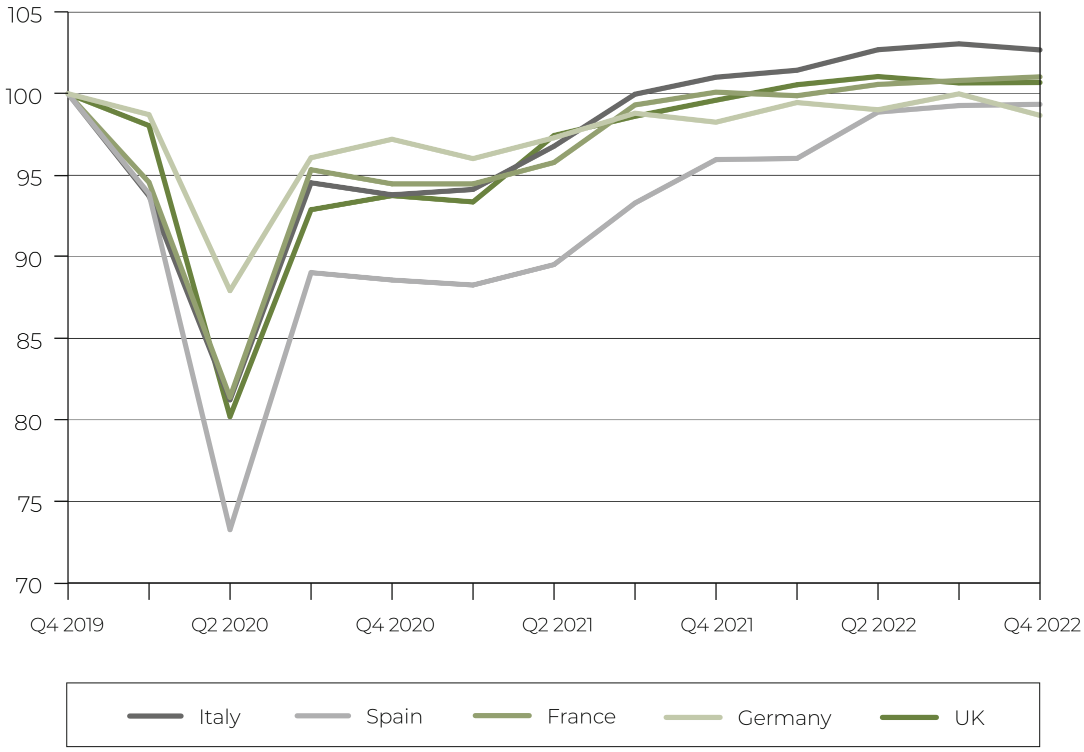
The UK's approach to measuring the public sector in the health and education sectors involves directly counting services delivered, such as the number of hospital operations or children attending school. Some other countries instead measure it indirectly by looking at the volume of inputs like expenditure on salaries. The methodology used in the UK is recognised as best practice, as it better reflects changes in the actual services delivered rather than simply changes in the resources government has put in.[b]

[13] GDP first quarterly estimate, UK: October to December 2022, Office for National Statistics, February 2023.
[14] Gross fixed capital formation – by sector and asset, Office for National Statistics, February 2023.

The UK measurement approach meant that the disruptions to public services during the COVID-19 pandemic were recorded as a relatively large hit to public sector output, which fell nearly 40% by Q2 2020, as schools were closed and non-essential care was postponed. The measured recovery in the public sector has subsequently been slow, with output in the health, education and public adminstration and defence sectors collectively remaining over 5% down by Q4 2022 and accounting for the shortfall in total output.[c]

The health sector is a key driver of the remaining shortfall, reflecting the ongoing effects of the pandemic. The Prime Minister's priority to reduce NHS waiting lists addresses this by ensuring more people get the care they need more quickly. Increasing the number of people receiving care will boost GDP.

Chart 1.3: Output excluding Health, Education, and Public Administration and Defence: UK and European Peers (Index, Q4 2019 = 100)



Source: Office for National Statistics, Eurostat, and HM Treasury calculations.

[a] International comparisons of GDP during the coronavirus (COVID-19) pandemic, Office for National Statistics, February 2021.

[b] The Atkinson review: final report. Measurement of government output and productivity for the national accounts, Anthony Atkinson, 2005

[c] GDP output approach – low-level aggregates, Office for National Statistics, February 2023.

1.15 The recent resilience of output builds on a relatively strong record of growth that has seen the UK economy grow faster than Japan, France and Italy since 2010 and at about the same rate as Germany.[15] Over the same period the UK has seen the highest investment growth of any large European economy[16] and has a higher stock of inward foreign direct investment than any country other than the US.[17]

In the short term, the economic outlook remains challenging, but the government is providing support

1.16 High inflation continues to put pressure on the budgets of households and businesses. Reflecting this, headline economic growth slowed in the second half of 2022 and the UK narrowly avoided recession. GDP in January 2023 was 0.7% lower than the post-pandemic monthly peak reached in May 2022.[18]

1.17 When accounting for inflation, household disposable income has fallen by 2.6% between Q3 2021 and Q3 2022.[19] The rising cost of living has seen households cut back on spending, with retail sales volumes falling 5% in the year to January 2023[20] and total household consumption expenditure in Q4 2022 remaining 2.3% lower in real terms than it was before the pandemic.[21]

1.18 In response to these ongoing challenges, the government is providing support to households and businesses. Support to households to help with higher bills will total £94 billion, or £3,300 per household on average, across 2022-23 and 2023-24.[22] This includes capping energy prices and introducing additional support payments to vulnerable households. This is one of the largest support packages in Europe[23] and the OBR expects this support, along with other measures announced at the Spring Budget, to have helped the UK economy avoid a recession in 2023.

The Chancellor's strategy lays the foundations for sustainable growth

1.19 Since the Global Financial Crisis, the key obstacle to sustainable, long-term growth has been weak productivity growth. Output per hour worked grew at an average annual rate of nearly 2% in the decade before the crisis. In the decade since, the average growth rate dropped to just 0.6%.[24]

1.20 Weaker growth in business investment has been one of the reasons for slower productivity growth in the UK since 2008.[25] High uncertainty, the pandemic, higher energy prices and rising cost of capital have all weighed on business investment

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[15] Quarterly National Accounts, OECD, 2023.
[16] Investment (GFCF), OECD, 2023.
[17] FDI financial flows – Main aggregates, OECD, 2023.
[18] HM Treasury calculations using GDP monthly estimate, UK: January 2023, Office for National Statistics, March 2023.
[19] Quarterly national accounts, UK: July to September 2022, Office for National Statistics, December 2022.
[20] Retail sales, Great Britain: January 2023, Office for National Statistics, February 2022.
[21] GDP first quarterly estimate, UK: October to December 2022, Office for National Statistics, February 2023.
[22] Comprised of the Energy Price Guarantee, benefits uprating in 2023-24 and further direct household support announced over Spring Budget 2023, Autumn Statement 2022, May 2022 Package, Spring Statement 2022 and Autumn Budget 2021.
[23] 'National fiscal policy responses to the energy crisis', Bruegel, February 2023.
[24] Output per hour worked, Office for National Statistics, January 2023.
[25] Productivity overview, UK: January to March 2022, Office for National Statistics, July 2022.

growth in recent years. Business investment has been uneven and weak since the pandemic, and despite growth in the last quarter, has only just returned to its pre-pandemic level.[26]

1.21 More recently labour market participation has become a major challenge to growth. The UK economy has emerged from the pandemic with unemployment near a 50-year low; unemployment in the three months to January was 3.7%.[27] However, there are 490,000 more people of working age who are economically inactive than prior to the pandemic (Box 3.A). [28]

1.22 A smaller labour force is leading to elevated vacancies and likely contributing to higher inflation and weighing on growth. Firms report they are struggling to hire workers.[29] Although labour market data released in March suggested a slight softening in demand and a reduction in inactivity, the labour market remains near record levels of tightness.[30]

1.23 The Chancellor's growth strategy focuses on education, employment, enterprise and everywhere. By prioritising these four areas the government can drive sustainable growth, which will support living standards and falling public debt. Central to this strategy are policies to increase business investment and boost labour supply.

1.24 The full expensing capital allowance announced in the Spring Budget aims to incentivise firms to bring forward investment and thereby boost the level of business investment in the next few years. The government wants to ensure the tax regime remains competitive longer term, and will make this measure permanent as soon as it is economically responsible to do so. Additionally, an improving economic outlook and greater stability, which government support has helped with, will provide the right conditions to encourage businesses to invest.

1.25 The Spring Budget announces a number of measures to address inactivity in the labour market, centred around four cohorts: the long-term sick and disabled, older workers, welfare recipients and parents. The UK economy's capacity to grow sustainably without generating inflation is determined by both productivity and the labour supply. Growing the labour supply through these policy measures will increase the potential output of the economy.

Supported by action taken at the Spring Budget, output is expected to be higher over the medium term

1.26 The OBR has revised up its GDP growth forecast in the near term, reflecting lower expectations for wholesale energy prices and Bank Rate, as well as contributions from policies announced at the Spring Budget. The UK economy is now expected to avoid a recession in 2023. Despite avoiding a recession, economic

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[26] Gross fixed capital formation – by sector and asset, Office for National Statistics, February 2023.
[27] UK labour market: March 2023, Office for National Statistics, March 2023.
[28] HM Treasury calculations based on UK labour market: March 2023, Office for National Statistics, March 2023.
[29] Business insights and impact on the UK economy, Wave 75, Office for National Statistics, February 2023.
[30] UK labour market: March 2023, Office for National Statistics, March 2023.

conditions remain challenging in the short term. The OBR forecasts the economy to contract in the first quarter of 2023 by 0.4% and not to grow in the second quarter, before growth returns and strengthens over the rest of the forecast period.

1.27 GDP will fall by 0.2% on an annual basis over 2023 but has been revised up by 1.2 percentage points compared to the OBR's November forecast, the largest upward revision the OBR has made to growth between forecasts outside the pandemic period.[31] While cumulative GDP growth will be limited this year, the peak to trough fall in output has been revised down significantly – from 2.1% to 0.6%.

1.28 Beyond this year, GDP growth increases, with the economy growing by 1.8% and 2.5% in 2024 and 2025 respectively, as interest rates begin to fall and energy price falls take inflation below the 2% target. The OBR notes that the recovery is driven by private consumption, as real household incomes rise, and increased business investment, aided by changes to capital allowances. In 2026 and 2027, GDP then grows by 2.1% and 1.9% respectively.

1.29 The unemployment rate is expected to rise modestly to a peak of 4.4%, 0.5 percentage points below the OBR's November forecast, and employment reaches 33.8 million by the end of the forecast, 850,000 higher than the pre-pandemic peak. The OBR judges that policies announced at the Spring Budget will have a material impact on labour supply, directly increasing employment by 0.3% and raising GDP by 0.2% in 2027-28. This is the largest permanent increase in potential GDP the OBR has ever scored in their medium-term forecast as a result of government policy.

1.30 The outlook for business investment remains weak, but the OBR has judged that full expensing will help boost business investment by almost 3.5% in 2024-25 and 2025-26. The OBR forecasts business investment to fall by 2.8% in 2023 but grow by 1.3% in 2024 and 6.1% in 2025.

1.31 The OBR's forecast for potential output reflects their assessment of the quantity of labour and capital available to businesses and the efficiency and intensity with which these factors are deployed. Over the forecast period, potential output growth is expected to average 1.9% per year before settling at 1.75% in 2027-28, unchanged from the November forecast. At the end of the forecast period, the final level of potential output is 0.5% higher than in the OBR's November forecast. 0.2 percentage points of this uplift is attributed by the OBR to policies announced at the Spring Budget.

[31] Historical official forecasts database, Office for Budget Responsibility, March 2023

Debt

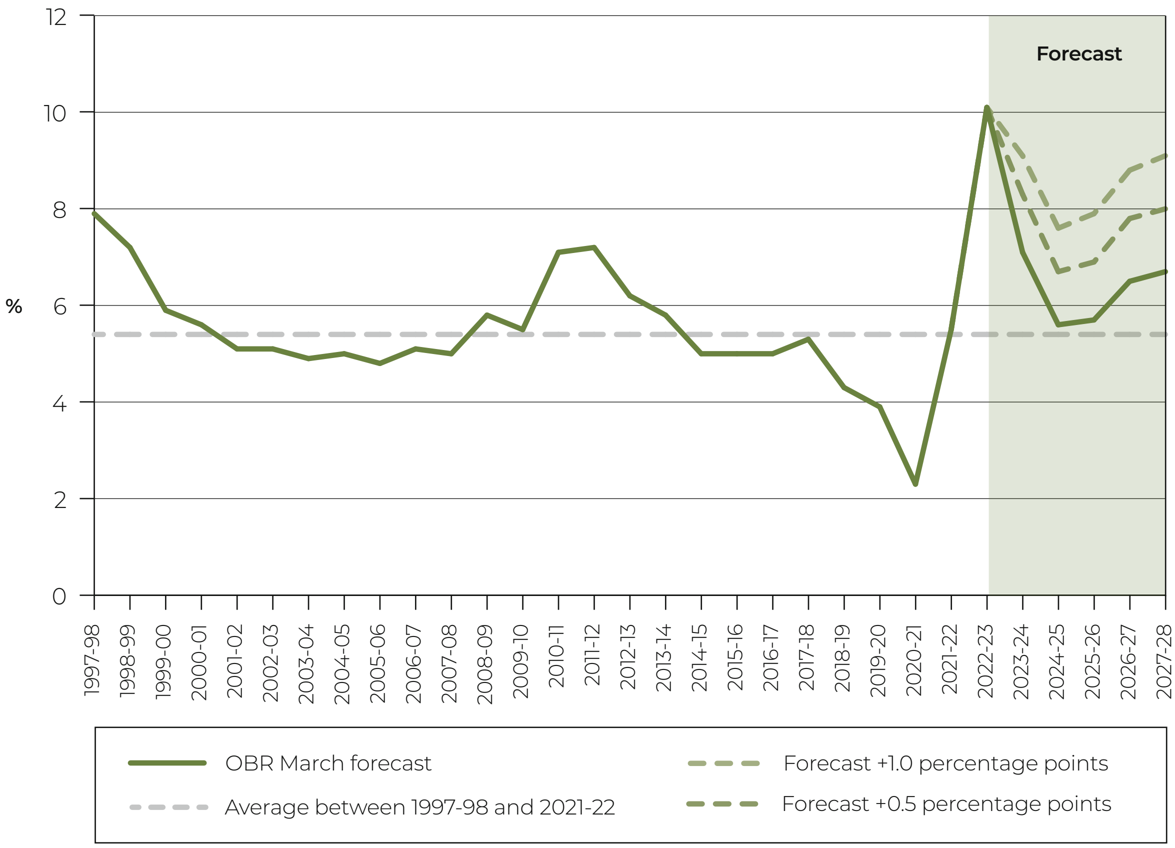
While the public finances have proved more resilient than expected in November, public debt remains high

1.32 Public sector net debt (PSND)[32] currently stands at almost £2.5 trillion.[33] The OBR forecasts that PSND will reach 100.6% of GDP in 2022-23, which would be its highest level since the 1960s.[34] Debt has risen over recent decades as a result of external shocks like the Global Financial Crisis, the COVID-19 pandemic and the energy crisis. These shocks have had material impacts on the economy and led to higher borrowing to fund additional support for households and businesses. The impact of these shocks has been felt globally, meaning that although debt as a share of GDP is historically high in the UK, it remains lower than the US, Canada, France, Italy and Japan.[35]

1.33 High inflation and rising interest rates have increased the cost of servicing government debt. Chart 1.5 shows that with a higher stock of debt, the public finances are more sensitive to these changes. Debt interest spending this financial year to January 2023 was £95.6 billion, £34.8 billion higher than the same period last year.[36] The debt interest to revenue ratio (total spending on debt interest expressed as a share of revenues) is growing and currently stands at 9.4% (Chart 1.4). This is significantly above the historical average of 5.4% between 1997-98 and 2021-22.

[32] Public Sector Net Debt excluding Public Sector banks.
[33] Public sector finances, Office for National Statistics, January 2023.
[34] Public sector finances, Office for National Statistics, January 2023 and Economic and Fiscal Outlook, Office for Budget Responsibility, March 2023.
[35] Fiscal monitor, International Monetary Fund, October 2022.
[36] Public sector finances, Office for National Statistics, January 2023.

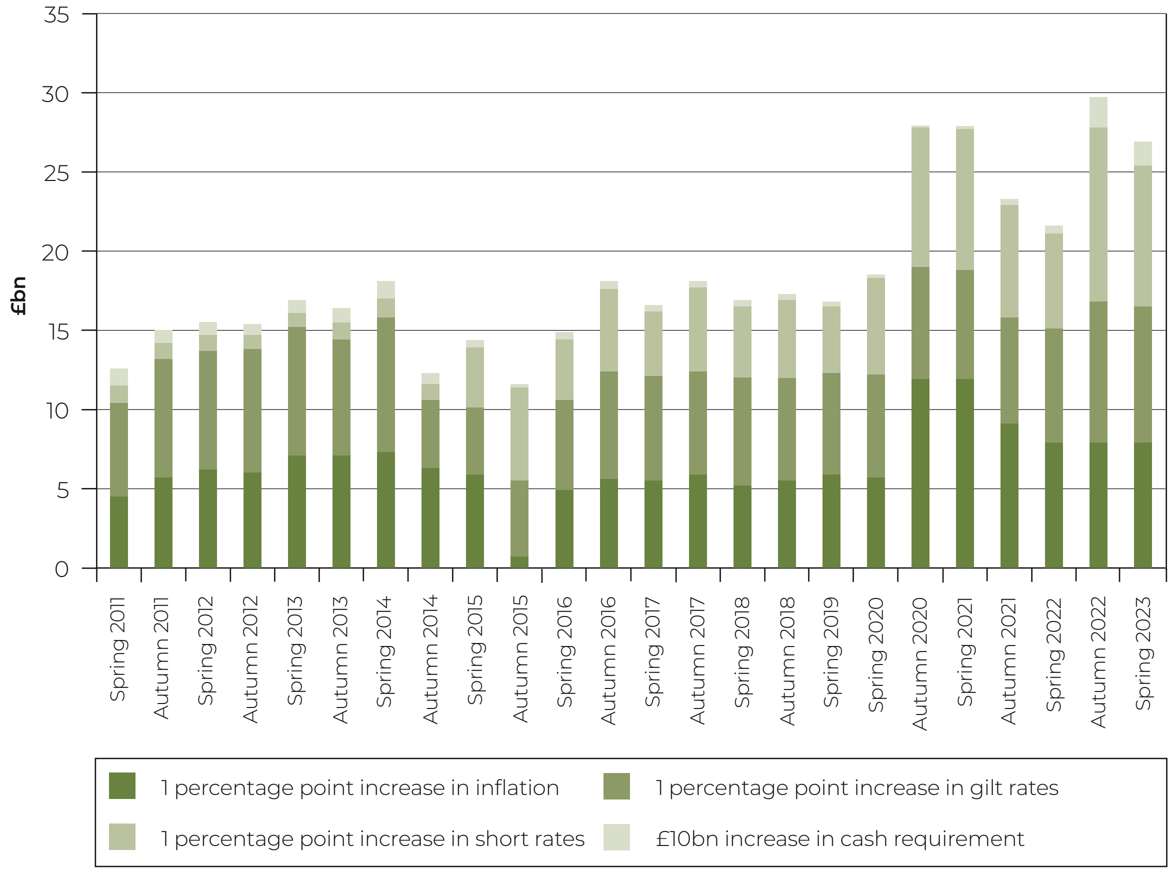
Chart 1.4: Debt interest to revenue ratio with illustrative interest rates and RPI shocks



The debt interest to revenue ratio is defined as public sector net interest paid (gross interest paid less interest received) as a proportion of non-interest receipts.
For illustrative rate and RPI shocks all increases are assumed to take effect at the beginning of 2023-24 and continue throughout the forecast.

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

Chart 1.5: Debt interest sensitivities in the final year of the forecast, by forecast event



Source: Office for Budget Responsibility.

1.34 The OBR expects spending on debt interest to reach £114.7 billion this year. This level of interest spending is largely explained by higher Retail Prices Index (RPI) inflation. While this is £5.7 billion less than the OBR's November forecast, this remains double the level seen last year. If debt interest spending were a government department, its departmental budget for 2022-23 would be second only to the Department for Health and Social Care (Table 2.1). The debt interest to revenue ratio reaches 10.1% this year which is the highest level since World War Two, demonstrating that debt interest spending represents a large burden relative to the revenues that the government receives.[37] This ratio falls over the forecast to 6.7% but remains elevated compared to the recent historical average (Chart 1.4).

1.35 Borrowing remains high in the context of recent history and when compared to our international peers. While public sector net borrowing (PSNB) has fallen from the post war peak in 2020-21, borrowing in 2021-22 remained nearly double the 2019-20 level.[38] The UK is expected to have one of the highest levels of borrowing, as a percentage of GDP, among major advanced economies in 2023.[39]

[37] HM Treasury Calculations using Economic and Fiscal Outlook, Office for Budget Responsibility, March 2023.
[38] Public sector finances, Office for National Statistics, January 2023.
[39] HM Treasury calculations using OECD Economic Outlook, OECD, November 2022 and Economic and Fiscal Outlook, Office for Budget Responsibility, March 2023.

Debt falling over the medium term provides the stable foundations for economic growth

1.36 Sustainable public finances are necessary to provide the confidence and stability to underpin economic growth. Keeping public debt on a sustainable path is important because debt cannot continue to grow forever – at some point lenders would become concerned that they would not be repaid and choose to lend their money elsewhere. Reducing debt will rebuild important buffers, providing space for the government to support households and businesses through future shocks and help to reduce spending on debt interest that could otherwise be spent on public services.

1.37 The government's plan to reduce debt as a proportion of GDP is particularly important in the context of elevated risks. The OBR's Fiscal Risks and Sustainability (FRS) report noted the risks of high debt alongside heightened global challenges.[40] The government's response to the report, published alongside the Spring Budget, highlights rebuilding fiscal buffers is a key part of the government's plan to manage and mitigate fiscal risks. The government's approach to managing fiscal risks is at the forefront of international best practice.

1.38 The government's priority to reduce debt is aligned with the approach of other advanced economies around the world. Several countries have reaffirmed their commitments to reduce the debt-to-GDP ratio over the medium term, such as Canada and France.[41, 42]

The fiscal outlook has improved in recent months

1.39 At Autumn Statement 2022, the government took difficult, but necessary, decisions across taxation and spending to restore economic stability. Without these decisions, debt would have been on an unsustainable path.[43]

1.40 The outlook for borrowing has improved relative to the OBR's November forecast. Borrowing in 2022-23 is £24.7 billion lower than the OBR forecast in November, which reflects the strength in outturn data and is largely explained by lower energy costs and stronger tax receipts. The OBR judges much of the strength in receipts will persist across the forecast period and a stronger economic forecast is expected to boost receipts further. This improvement in the forecast for tax receipts, alongside lower debt interest costs due to lower expected interest rates, have been the main 2022 factors driving the lower borrowing forecast relative to the Autumn Statement. After the policies announced at this event, the government is borrowing £19.9 billion less in 2027-28 compared to the November forecast (Table 1.2).

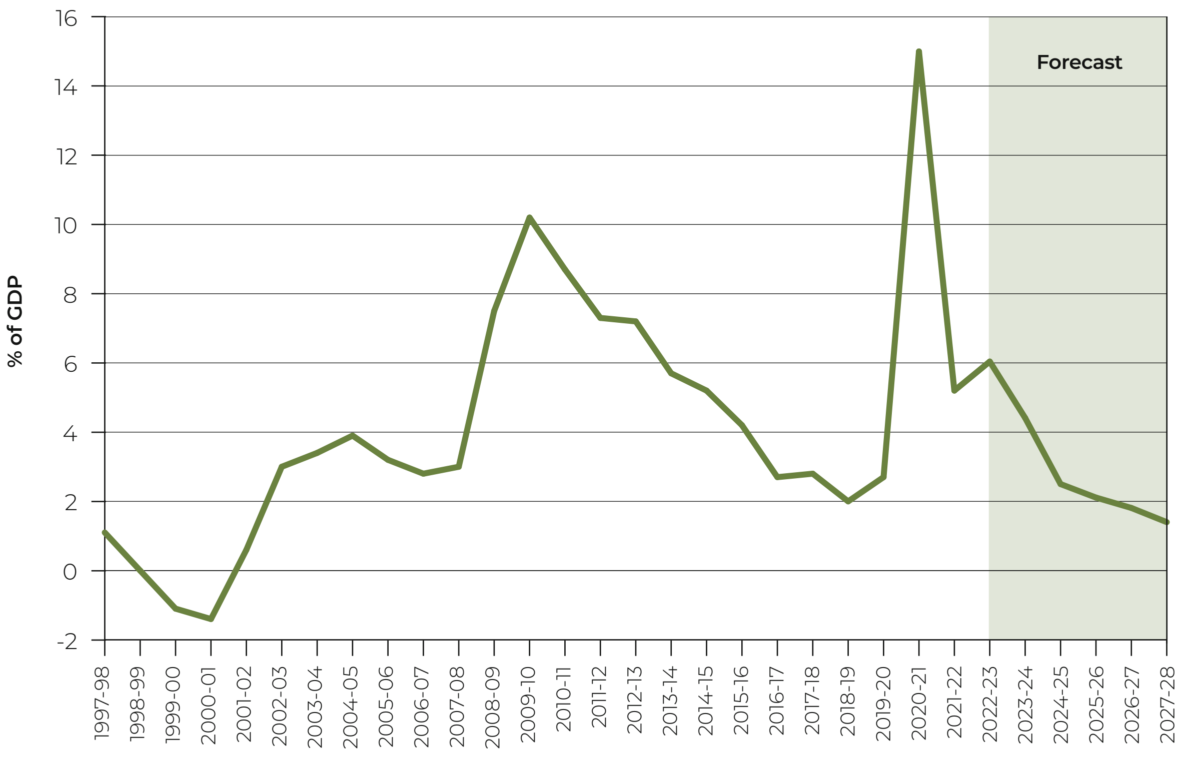
[40] Fiscal risks and sustainability, Office for Budget Responsibility, July 2022.
[41] Draft Public Finance Programming Law for 2023-2027, France - Ministry of the Economy, Finance and Digital and Industrial Sovereignty, September 2022.
[42] Fall economic statement 2022, Department of Finance Canada, November 2022.
[43] Economic and Fiscal Outlook, Office for Budget Responsibility, November 2022.

Debt is forecast to fall as a proportion of GDP by the end of the forecast

1.41 Policies set out in the Spring Budget keep the public finances on a sustainable path, with debt falling over the medium term. The government has chosen to use some of the improvement in borrowing since November to fund measures that will encourage business investment and support more people to join the labour market. The OBR notes these measures improve the strength of the economy, which increases tax receipts, offsetting part of the direct cost. A stronger economy also improves the affordability of the debt burden, as measured by debt as a proportion of GDP. The government's continued disciplined and responsible approach to public spending will continue to support the fall in debt at future fiscal events.

1.42 Borrowing remains elevated in the near term but will fall over the forecast. In 2022-23, the public sector is expected to borrow £152.4 billion (6.1% of GDP), £30 billion higher than 2021-22.[44] Borrowing falls in every year of the forecast, reaching £49.3 billion (1.7% of GDP) by 2027-28 (Chart 1.6).

Chart 1.6: Public sector net borrowing



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

[44] Public Sector Finances UK: January 2023, Office for National Statistics, February 2023

Table 1.2: Changes in borrowing since November 2022

	£ billion						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
November 2022 forecast	133.3	177.0	140.0	84.3	76.9	80.3	69.2
March 2023 forcast	122.4	152.4	131.6	85.4	76.7	63.5	49.3
Difference	**-10.9**	**-24.7**	**-8.5**	**1.1**	**-0.2**	**-16.9**	**-19.9**
of which:							
Underlying differences[1]		**-24.8**	**-27.0**	**-18.4**	**-19.3**	**-29.4**	**-28.4**
of which:							
Receipts[2]		-12.1	-8.4	-18.1	-25.1	-26.8	-26.0
Welfare spending		0.7	2.2	2.0	2.2	2.8	3.0
Debt interest spending		-5.7	-12.8	-7.6	-1.9	-8.9	-8.0
September energy package[3]		-13.5	-7.3	-0.4	0.0	0.0	0.0
Other spending[2]		5.8	-0.8	5.6	5.5	3.5	2.5
Direct effect of policy package[4]		**0.1**	**21.6**	**21.0**	**20.9**	**14.4**	**9.9**
of which:							
Energy support measures		0.0	4.4	0.0	0.0	0.0	0.0
Increasing labour market participation		0.0	1.0	4.0	6.3	7.0	7.1
Temporary 100% capital allowances		1.2	8.0	10.7	8.7	1.6	-2.2
Other spending decisions		-1.2	3.1	3.6	2.4	2.2	2.1
Other tax decisions		0.1	5.1	2.7	3.6	3.6	2.9
Indirect effects of decisions		**0.0**	**-3.0**	**-1.5**	**-1.9**	**-1.9**	**-1.4**

[1] Includes classification changes.

[2] The effects of environmental levies have been removed from this line. They increase both receipts and spending and so have no effect on overall borrowing.

[3] Includes the energy price guarantee and the energy bill relief scheme.

[4] Differences between the direct impacts of the policy measures as set out in Table 4.1 of the Budget, and how the OBR incorporate these into their forecast are explained in the OBR's EFO Annex B.

Note: This table uses the convention that a negative figure means a reduction in PSNB i.e. an increase in receipts or a reduction in spending will have a negative effect on PSNB. Figures may not sum due to rounding.

Source: Office for Budget Responsibility

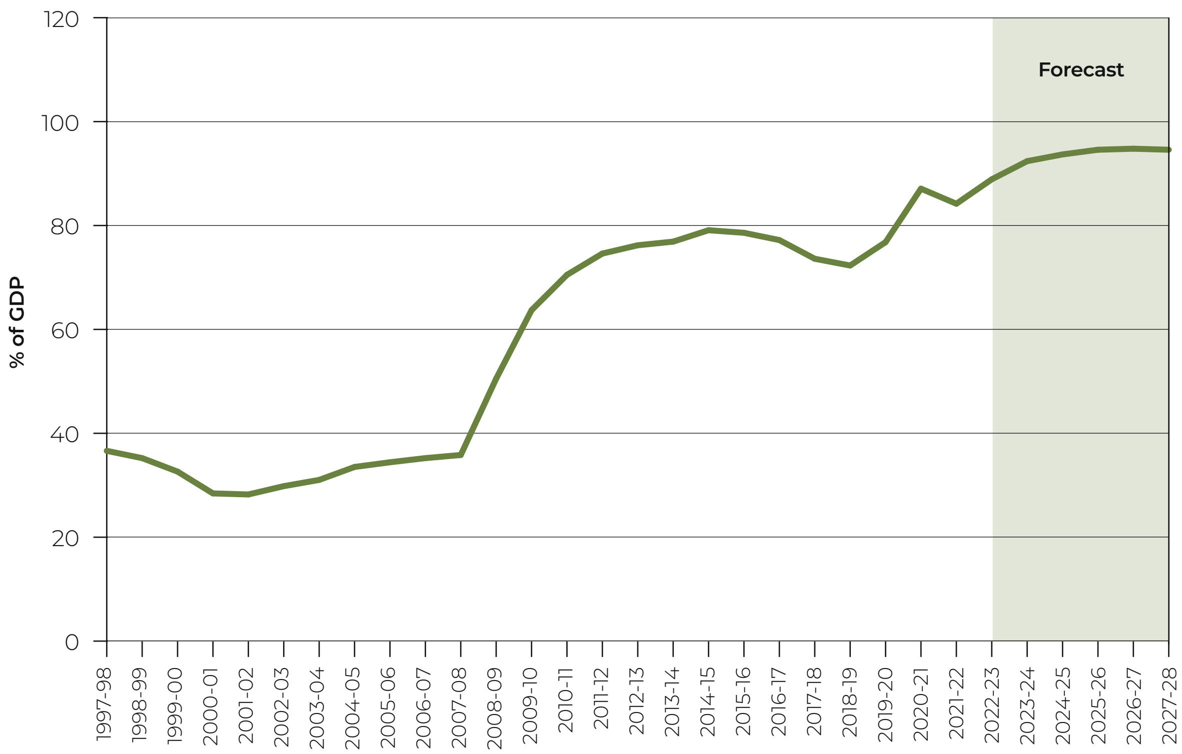
1.43 The Spring Budget also marks an important step towards reaching a position where day-to-day spending is funded through tax revenues and the government is only borrowing for investment. The current budget (the difference between receipts and spending excluding capital expenditure) is in surplus from 2026-27, reaching £12.9bn (0.4% of GDP) in 2027-28.[45] The OBR's November forecast showed a current budget deficit in every year.

1.44 The government's debt projection has significantly improved since the OBR's November forecast. By 2027-28, headline and underlying debt (public sector net debt excluding the Bank of England) levels are reduced by £53.7 billion (2.3% of GDP) and £63 billion (2.6% of GDP), respectively (Chart 1.7). The OBR's forecast

[45] Economic and Fiscal Outlook, Office for Budget Responsibility, March 2023

shows that underlying debt falls at the end of the forecast period, peaking in 2026-27, before falling to 94.6% of GDP in 2027-28, meeting the government's fiscal target. Despite the significant improvement in borrowing since Autumn Statement 2022, the year in which debt is expected to fall is unchanged compared to November (2027-28). This is because the path of debt is highly dependent on the profile of nominal GDP growth. Slower nominal GDP growth in the final year of the forecast, thanks to the shallower near-term economic downturn than expected in November, leaves less space for above-trend growth in the medium term. The OBR's view of the medium-term potential growth rate has not changed, noting that real GDP will return towards the assumed medium-term growth rate by the final year of the forecast.[46]

Chart 1.7: Public sector net debt excluding the Bank of England



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

1.45 The Net Financing Requirement for the Debt Management Office in 2023-24 is forecast to be £246.1 billion; this will be financed by gilt sales of £241.1 billion and net Treasury bill sales for debt management purposes of £5.0 billion. National Savings and Investments will have a net financing target of £7.5 billion in 2023-24, within a range of ± £3.0 billion. The government's financing plans for 2023-24 are summarised in Annex A and set out in full in the 'Debt Management Report 2023-24', published alongside the Spring Budget.

[46] Economic and fiscal outlook, Office for Budget Responsibility, March 2023

Debt is reduced in a sustainable way, supported by responsible management of the public sector balance sheet

1.46 The Charter for Budget Responsibility includes an aim to strengthen over time a range of measures of the public sector balance sheet, as monitoring these broader metrics helps to ensure that debt is reduced in a sustainable way. Public sector net worth (PSNW), the total value of the public sector's assets and liabilities, is expected to be on an improving path as a share of GDP from 2023-24 onwards. The OBR forecasts PSNW to strengthen from -81.6% of GDP in 2022-23 to -73.1% of GDP in 2027-28, improving faster than underlying debt predominantly due to an increase in government-owned assets. Public sector net financial liabilities (PSNFL), a measure of the financial balance sheet, is forecast to fall from a peak of 89.3% of GDP in 2023-24 to 85.7% in 2027-28.

1.47 When the government takes on risk, this can use up future fiscal space, so a balance sheet approach to fiscal sustainability includes transparency about new commitments that may result in future costs, known as contingent liabilities. Between October 2022 and March 2023, there were four new significant contingent liabilities taken on, with £165 million of expected loss offset by £90 million of expected income. These include two Foreign, Commonwealth and Development Office guarantees facilities through the Just Energy Transition Partnership; an indemnity provided by the Department for Energy Security and Net Zero for the Energy Bills Support Scheme and Alternative Fuel Payment in Northern Ireland; and an extension to HM Treasury's Mortgage Guarantee Scheme. In addition, since October 2022, the maximum exposure of the contingent liability associated with the Bank of England's Asset Purchase Facility has fallen by £35 billion. This reflects the completion of the Bank's temporary and targeted financial stability operation, and the ongoing process of quantitative easing unwind.

Table 1.3: Newly approved contingent liabilities since Autumn Statement 2022

Department	Number of quantified contingent liabilities	Reasonable worst case exposure (£m)	Lifetime expected loss (£m)	Expected income (£m)
HMT	1	2,500	75	90
DESNZ	1	300[1]	5	0
FCDO	2	2,200	85	0
Totals	**4**	**5,005**	**165**	**90**

[1] This has been quantified as maximum exposure instead of reasonable worst case exposure.

Source: HM Treasury contingent liability database and Contingent Liability Central Capability Analysis

1.48 Good balance sheet management includes realising the value of assets that previous policy interventions have added to the public sector's holdings. The government remains committed to disposing of its shareholding in NatWest Group, acquired as a result of the 2007-2009 Global Financial Crisis, subject to market conditions and achieving value for money for taxpayers. Having successfully reduced its shareholding to under 42%[47] the government intends for its programme of sales to conclude by 2025-26. The government will seek to ensure that the NatWest trading plan, which has made a critical contribution with over £3.5bn of sales as of 1 March 2023, continues to support sales while actively seeking to utilise other disposal options when market conditions permit, including accelerated bookbuilds and directed buybacks.

Performance against our fiscal rules

1.49 The OBR confirms the government is on track to meet both its borrowing and debt fiscal rules. In the target year (2027-28), underlying debt falls to 94.6% of GDP. The borrowing rule is met two years early, at 2.8% of GDP in 2025-26 and 2.2% in 2026-27 before falling to 1.7% in the final year.

1.50 The OBR has forecast that the welfare cap will be breached by £4.1 billion in 2024-25. The increase in welfare spending is largely due to higher demand for disability benefits, and health related claims to Universal Credit. Nonetheless, the government remains committed to ensuring welfare spending is sustainable and is focused on meeting the welfare cap by the formal assessment year of 2024-25.

1.51 In accordance with the Charter for Budget Responsibility, the level of the welfare cap and pathway has been adjusted to reflect a fiscally neutral classification change associated with changes to the Administrative Earnings Threshold on Universal Credit.

1.52 The debt and borrowing fiscal rules are met with a margin of safety ("headroom") of £6.5 billion against the debt rule and £39.2 billion against the borrowing rule in the target year. As set out above, the material improvement in borrowing headroom has not carried through in full to the debt rule, meaning debt falling remains a constraint on any permanent fiscal loosening. Headroom supports stability by reducing the risk the government needs to adjust policy if the forecast deteriorates, but the level needs to balance implications for public services, taxes and the economy. The OBR notes the outlook is 'somewhat brighter' compared to November, but also that headroom to debt falling is low by historical standards and would be eliminated by just a 0.2 percentage point change in nominal growth in 2027-28.

[47] As of 1 March 2023

Forecast Summary

Table 1.4: Overview of the OBR's economic forecast

	Outturn		Forecast				
	2021	2022	2023	2024	2025	2026	2027
GDP growth	**7.6**	**4.0**	**-0.2**	**1.8**	**2.5**	**2.1**	**1.9**
GDP growth per capita	**7.2**	**3.4**	**-0.8**	**1.3**	**2.0**	**1.7**	**1.5**
Potential output growth			**2.5**	**1.7**	**1.7**	**1.7**	**1.8**
Main components of GDP							
Household consumption[2]	6.2	5.4	-0.8	1.5	1.8	1.7	1.9
General government consumption	12.5	1.9	3.7	1.6	1.2	1.5	1.9
Total Fixed investment	6.1	7.7	-1.6	0.7	3.5	2.1	-0.4
Business investment	0.9	9.9	-2.8	1.3	6.1	1.9	-1.9
General government investment	5.3	2.8	12.3	0.4	-3.3	-1.1	-1.4
Private dwellings investment[3]	16.9	6.6	-7.4	-0.1	3.4	4.6	2.9
Change in inventories[4]	1.0	0.0	-0.4	0.0	0.0	0.0	0.0
Exports	2.2	10.3	-6.6	-0.3	1.1	0.7	0.4
Imports	6.2	12.6	-4.0	-1.3	-0.4	-0.5	-0.9
Consumer Price Index (CPI) inflation	**2.6**	**9.1**	**6.1**	**0.9**	**0.1**	**0.5**	**1.6**
Employment (millions)	**32.4**	**32.7**	**32.8**	**32.8**	**33.1**	**33.4**	**33.7**
Unemployment (% rate)	**4.5**	**3.7**	**4.1**	**4.4**	**4.3**	**4.2**	**4.1**
Productivity – output per hour	**1.0**	**0.4**	**0.1**	**1.0**	**1.3**	**1.2**	**1.1**

[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 the 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. Office for National Statistics (for details of relevant ONS codes see Spring Budget 2023 Data Sources document).

Table 1.5: Overview of the OBR's fiscal forecast (% GDP)

	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Public sector net debt[1]	100.6	103.1	102.4	99.1	97.6	96.9
Public sector net debt ex Bank of England[1]	88.9	92.4	93.7	94.6	94.8	94.6
Public sector net financial liabilities[1]	87.9	89.3	88.8	88.5	87.3	85.7
Public sector net worth[1,2,3]	81.6	81.6	79.8	78.2	75.7	73.1
Public sector net borrowing	6.1	5.1	3.2	2.8	2.2	1.7
Public sector net investment	2.3	2.9	2.7	2.5	2.3	2.1
Current budget deficit	3.7	2.3	0.5	0.3	-0.0	-0.4
Cyclically-adjusted public sector net borrowing	6.8	4.5	2.4	2.4	2.1	1.7

[1] Stock values at end of March; GDP centred on end of March.
[2] IMF Government Finance Statistics Manual (GFSM) basis.
[3] PSNW has been inverted to facilitate comparisons with the other stock metrics.

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

2 Cost of living and public services

2.1 Building on decisions taken at Autumn Statement 2022, the government is continuing to take a fiscally responsible approach to public spending and taxation to deliver on three of the five key priorities set out by the Prime Minister in January: to halve inflation, grow the economy and get debt falling. This includes taking action to support households and businesses with the impacts of high inflation and the increased cost of living and continuing to support vital public services.

Sustainable public finances

2.2 Autumn Statement 2022 set out a fiscally responsible path to getting debt falling as a share of the economy, protecting vital public services, and prioritising the needs of the most vulnerable. Through Spring Budget 2023 the government continues to take responsible decisions on public spending, helping to limit inflationary pressure and get debt falling. This includes prioritising spending to help more people into employment and enhance the country's defence in the context of Putin's illegal war in Ukraine.

Public spending

2.3 Spending Review 2021 set UK government departments' resource and capital Departmental Expenditure Limit (DEL) budgets and the devolved administrations' block grants from 2022-23 to 2024-25.

2.4 Since those budgets were set, Putin's illegal invasion of Ukraine and global supply chain pressures pushed inflation to 40-year highs.[48] While inflation has peaked, the economic environment remains challenging. The government is therefore working more efficiently within this context to ensure government departments can continue to operate within their budgets while still delivering the outcomes that matter most for the public and driving value for every taxpayer.

2.5 At Autumn Statement 2022, the government made available up to an additional £6.1 billion in 2023-24 and £8 billion in 2024-25 to support health and adult social care services, and an additional £2.3 billion in each of 2023-24 and 2024-25 for the core schools budget in England.

2.6 The Spring Budget includes an additional £3.1 billion a year by 2024-25 rising to £5.2 billion at the end of the forecast period to help get more people into employment.[49]

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[48] Consumer price inflation time series, Office for National Statistics, February 2023.
[49] These figures are DEL.

2.7 The government is also providing an extra £5 billion for defence and national security priorities over the next 2 years and £2 billion each year for defence for the remainder of the forecast period. This is in recognition of the deteriorating security environment where the UK must be able to deter and defend against increasing threats to our security, as described in the Integrated Review Refresh. This will improve the resilience and readiness of the country's forces, by bolstering our conventional stockpiles, enabling early investment for the AUKUS submarine alliance, and modernising our nuclear enterprise. As set out in the Integrated Review Refresh, the government's aspiration over the longer term is to invest 2.5% of GDP in defence, as the fiscal and economic circumstances allow.

2.8 To ensure the whole of government is geared up to deliver for the British people, the government created four new departments in February: the Department for Energy Security and Net Zero, the Department for Science, Innovation and Technology, the Department for Business and Trade, and the Department for Culture, Media and Sport. Tables 2.1 and 2.2 confirm indicative budgets for these new departments.

2.9 As a result of this overall approach to public spending, total departmental spending (DEL) will grow in real terms at 4% a year on average over this Spending Review period. Public sector net investment as a proportion of GDP will average 2.5% over the forecast period, delivering over £600 billion of planned public sector gross investment over the next 5 years.

Table 2.1: Resource Departmental Expenditure Limits (DEL) excluding depreciation

£ billion (current prices)	Outturn[1] 2021-22	Plans[2] 2022-23	Plans 2023-24	Plans 2024-25
Resource DEL excluding depreciation				
Health and Social Care	144.1	173.9	176.2	180.5
of which: NHS England	*133.7*	*155.4*	*160.4*	*165.9*
Education	70.1	77.0	81.4	84.9
of which: core schools	*49.8*	*53.8*	*57.3*	*58.8*
Home Office	14.4	16.9	15.4	15.5
Justice	8.5	9.4	9.8	10.0
Law Officers' Departments	0.7	0.8	0.8	0.8
Defence	31.7	32.6	32.4	32.8
Single Intelligence Account	2.5	2.7	2.3	2.4
Foreign, Commonwealth and Development Office	7.5	7.3	7.8	7.7
DLUHC Local Government	10.7	11.9	15.7	15.3
DLUHC Levelling Up, Housing and Communities	2.6	4.3	2.1	2.1
Culture, Media and Sport[3]	-	2.0	1.5	1.4
Science, Innovation and Technology[3]	-	0.4	0.3	0.3
Transport	3.2	8.7	6.8	5.7
Energy Security and Net Zero[3]	-	1.4	1.6	1.5
Environment, Food and Rural Affairs	4.1	4.5	4.4	4.2
Business and Trade[3]	-	1.4	1.6	1.5
Work and Pensions	5.7	8.2	8.5	7.7
HM Revenue and Customs	4.6	5.9	5.6	4.6
HM Treasury	0.4	0.4	0.3	0.3
Cabinet Office[4]	0.9	0.7	0.5	0.4
Scotland[5]	32.5	36.0	36.6	37.1
Wales[5]	13.7	15.6	15.9	15.8
Northern Ireland	12.5	13.8	13.5	13.7
Small and Independent Bodies	2.4	2.4	2.4	2.4
UK Shared Prosperity Fund[6]	-	-	0.6	1.3
Reserves	-	-	13.8	13.0
Other Departments[7]	4.5	-	-	-
Total Resource DEL excluding depreciation, ringfenced COVID-19 and Energy support funding in DEL	**377.2**	**438.0**	**457.7**	**463.1**
Ringfenced COVID-19 funding	74.6	-	-	-
Energy support funding in DEL[8]	-	14.6	0.6	-
Total Resource DEL excluding depreciation	**451.8**	**452.5**	**458.2**	**463.1**
Allowance for Shortfall	-	-4.7	-3.8	-3.8
Total Resource DEL excluding depreciation, post Allowance for Shortfall	**451.8**	**447.9**	**454.5**	**459.3**

[1] 2021-22 figures reflect outturn in PESA, adjusted for provisional estimates of core spending. For devolved administrations, figures represent the Barnett consequentials of departmental COVID-19 funding less the element they carried forward from 2021-22 into 2022-23.

[2] 2022-23 figures reflect plans (voted and non-voted) as set out in Supplementary Estimates 2022-23. For the Department of Culture, Media and Sport, the Department for Science, Innovation and Technology, the Department for Energy Security and Net Zero, and the Department for Business and Trade, figures presented reflect indicative allocations based on prior departmental Supplementary Estimates 2022-23.

[3] Following the Machinery of Government change of 7 February 2023, indicative budgets are presented and will be confirmed at Main Estimates 2023-24.

[4] Figures for the Cabinet Office reflect the movement of the Geospatial Commission from the Cabinet Office to the Department for Science, Innovation and Technology.

[5] Due to the scale of tax devolution in Scotland, Scottish Government DEL funding is presented excluding tax and welfare Block Grant Adjustments. Welsh Government DEL funding is presented including tax Block Grant Adjustments.

[6] The UK Shared Prosperity Fund figures reflect unallocated funding in 2023-24 and 2024-25. Funding for 2022-23 has been allocated to the appropriate department figures.

[7] 2021-22 outturn for the Department for Business, Energy and Industrial Strategy, Department for International Trade, and Department for Digital, Culture, Media and Sport. Budgets for other years are presented for new departments. This reflects the Machinery of Government change on the 7 February 2023.

[8] The Department for Energy Security and Net Zero plans in 2022-23 exclude £12.3 billion of funding for Energy Bills Support Scheme (EBSS), £1.7 billion of funding for the Expected Credit Loss from the Bulb Special Administration Regime, and £0.7 billion of funding for Alternative Fuel Payments. In 2023-24, plans for the Department for Energy Security and Net Zero exclude £50 million of funding for Alternative Fuel Payments, and plans for the Reserves exclude £0.2 billion of funding for EBSS, £72 million for Alternative Fuel Payments, and £0.2 billion for ending the Prepayment Meter premium.

Source: HM Treasury Public Spending Statistics, HM Treasury DEL plans, and Office for Budget Responsibility

Table 2.2 Capital Departmental Expenditure Limits (DEL)

£ billion (current prices)	Outturn 2021-22[1]	Plans 2022-23[2]	Plans 2023-24	Plans 2024-25
Capital DEL[3]				
Health and Social Care	9.0	11.2	12.0	12.6
Education	4.7	5.9	7.0	6.1
Home Office	0.9	1.2	1.0	1.1
Justice	1.4	1.5	2.3	1.8
Law Officers' Departments	0.0	0.1	0.0	0.0
Defence	14.2	20.5	18.5	18.9
Single Intelligence Account	0.9	1.2	1.2	1.2
Foreign, Commonwealth and Development Office	1.7	2.3	3.6	4.1
DLUHC Levelling Up, Housing and Communities	6.2	7.2	7.3	7.0
Levelling Up Fund[4]	-	-	1.4	1.4
Culture Media and Sport[5]	-	0.6	0.7	0.7
Science, Innovation and Technology[5]	-	10.4	13.1	13.7
Transport	19.0	20.6	20.3	20.5
Energy Security and Net Zero[5]	-	4.7	5.9	8.2
Environment, Food and Rural Affairs	1.4	1.8	3.1	2.9
Business and Trade[5]	-	1.2	0.9	1.0
Work and Pensions	0.3	0.6	0.7	0.5
HM Revenue and Customs	0.7	0.7	0.6	0.5
HM Treasury	0.0	0.0	0.0	0.0
Cabinet Office[6]	0.3	0.7	1.1	2.6
Scotland	5.1	6.4	5.9	5.6
Wales	3.0	2.8	3.1	2.9
Northern Ireland	1.8	2.1	2.0	1.8
Small and Independent Bodies	0.3	0.4	0.5	0.7
UK Shared Prosperity Fund[4]	-	-	0.1	0.2
Reserves	-	-	4.9	1.5
Adjustment for Budget Exchange	-	-	-1.8	-
Other Departments[7]	21.3	-	-	-
Total Capital DEL, excluding ringfenced COVID-19 funding and Energy support funding in DEL	**92.1**	**103.8**	**115.4**	**117.5**
Ringfenced COVID-19 funding	0.9	-	-	-
Energy support funding in DEL[8]	-	3.9	-	-
Total Capital DEL	**93.0**	**107.6**	**115.4**	**117.5**
Remove Capital DEL not in PSGI[9]	-16.0	-12.4	-10.3	-12.3
Allowance for Shortfall	-	-8.9	-8.9	-8.3
Public Sector Gross Investment in Capital DEL	**77.0**	**86.3**	**96.1**	**96.9**

[1] 2021-22 figures reflect outturn in PESA, adjusted for provisional estimates of core spending. For devolved administrations, figures represent the Barnett consequentials of departmental COVID-19 funding less the element they carried forward from 2021-22 into 2022-23.

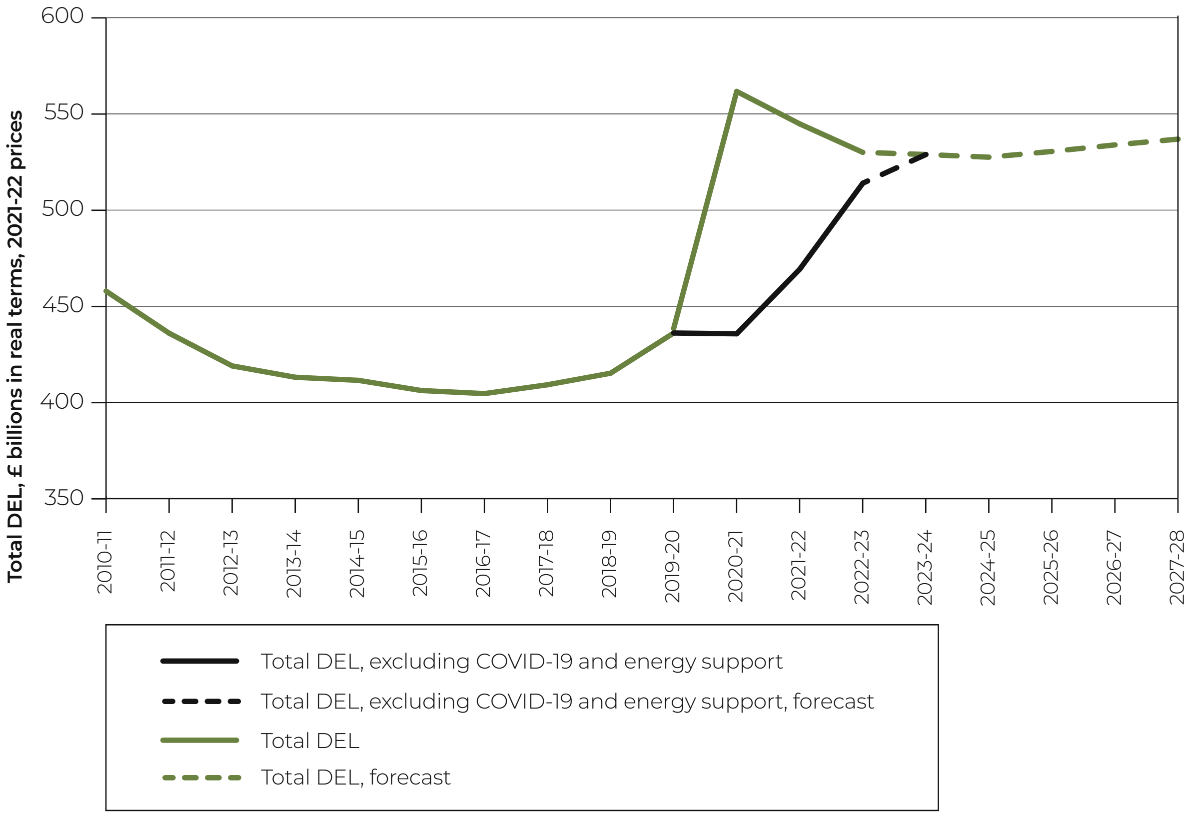
[2] 2022-23 figures reflect plans (voted and non-voted) as set out in Supplementary Estimates 2022-23. For the Department of Culture, Media and Sport, the Department for Science, Innovation and Technology, the Department for Energy Security and Net Zero, and the Department for Business Trade, figures presented reflect indicative allocations based on prior departmental Supplementary Estimates 2022-23.

[3] Following the reclassification of IFRS16, total Capital DEL has been increased to reflect intragovernmental and non-property leases. This increase does not impact Public Sector Gross Investment.
[4] Budgets for the Levelling Up Fund and UK Shared Prosperity Fund for Financial Years 2021-22 and 2022-23 were allocated to departments at the relevant Supplementary Estimates.
[5] Following the Machinery of Government change of 7 February 2023, indicative budgets are presented and will be confirmed at Main Estimates 2023-24.
[6] Figures for the Cabinet Office reflect the movement of the Geospatial Commission from the Cabinet Office to the Department for Science, Innovation and Technology.
[7] 2021-22 outturn for the Department for Business, Energy and Industrial Strategy, Department for International Trade, and Department for Digital, Culture, Media and Sport. Budgets for other years are presented for new departments. This reflects the Machinery of Government change on the 7 February 2023.
[8] The Department for Energy Security and Net Zero plans in 2022-23 exclude £3.9 billion relating to the Bulb Special Administration Regime.
[9] Capital DEL that does not form part of Public Sector Gross Investment in Capital DEL, including Financial Transactions in Capital DEL, intragovernmental leases, and Scottish Government capital.

Source: HM Treasury Public Spending Statistics, HM Treasury DEL plans, and Office for Budget Responsibility

2.10 As part of the OBR forecast process, the government also provides an assumption for the future path of departmental spending. Planned departmental resource spending for the years beyond the current Spending Review period (2025-26 to 2027-28) will follow the cash profile set out at Autumn Statement 2022, with new commitments, including on labour markets and defence, funded in addition to this. This will see overall resource spending continue to grow at 1% a year on average in real terms. Departmental capital spending will follow the cash profile agreed at Autumn Statement 2022, with new commitments, including defence, funded in addition to this. These spending assumptions are set out in Table 2.3.

Chart 2.1: Total DEL



Source: Office for Budget Responsibility and HM Treasury Calculations

2.11 As a result, total departmental spending will be around £100 billion higher in real terms by 2027-28 than it was at the start of this Parliament (2019-20).[50] DEL budgets beyond 2024-25 will be set at the next Spending Review.

2.12 Total Managed Expenditure (TME) is the total amount of money that the government spends through departments, local authorities, other public bodies and social security. TME as a share of the economy has increased since 2019-20 and is forecast to fall in each year of the forecast period as illustrated in Chart 2.2.

Table 2.3: Total Managed Expenditure (TME)[1]

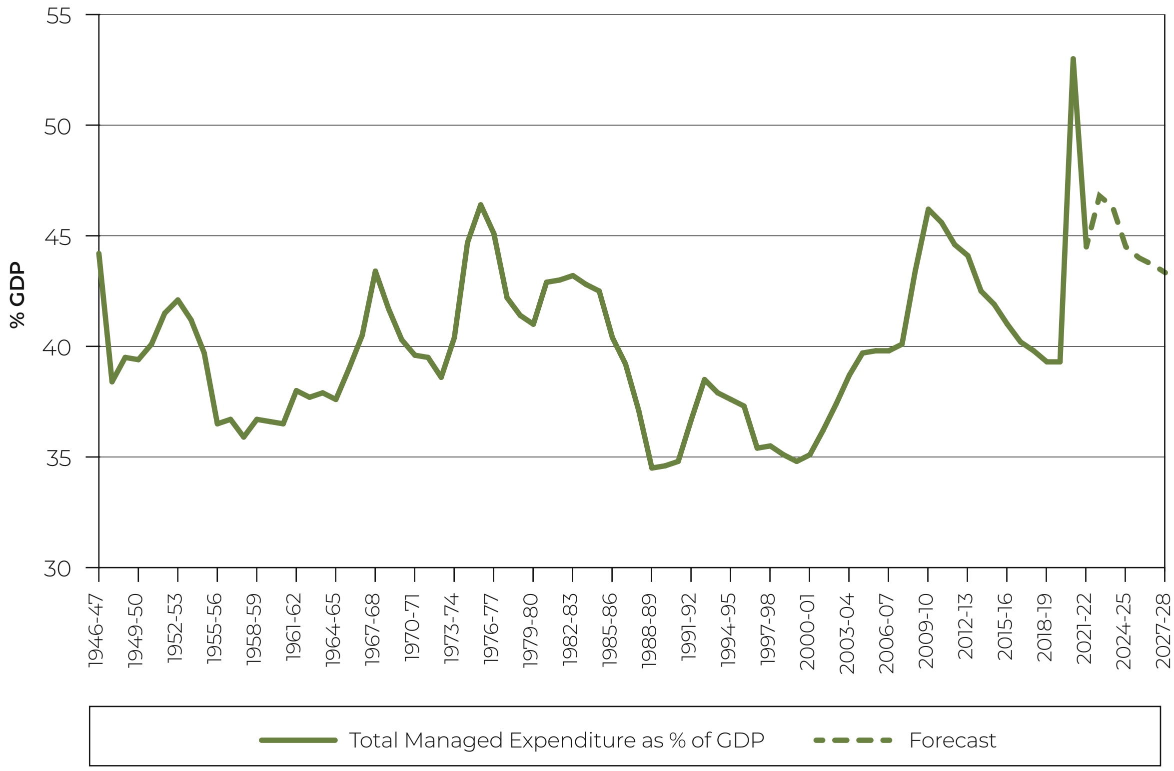
£ billion (current prices)	Outturn 2021-22	Plans 2022-23	Plans 2023-24	Plans 2024-25	Plans 2025-26	Plans 2026-27	Plans 2027-28
Current Expenditure							
Resource AME	459.5	573.3	559.1	554.4	569.1	592.8	610.4
Resource DEL excluding depreciation[1]	451.8	452.5	458.2	463.1	472.3	483.1	496.7
of which: COVID-19 funding	*74.6*	-	-	-	-	-	-
Ringfenced depreciation	24.4	30.0	38.2	38.2	38.8	39.7	40.8
Total Public Sector Current Expenditure	**935.7**	**1055.8**	**1055.6**	**1055.7**	**1080.2**	**1115.6**	**1147.9**
Capital Expenditure							
Capital AME	11.4	8.6	18.2	16.0	16.2	14.4	14.9
Capital DEL[1]	93.0	107.6	115.4	117.5	117.2	117.2	116.7
Total Public Sector Gross Investment	**104.4**	**116.2**	**133.6**	**133.5**	**133.4**	**131.5**	**131.7**
Total Managed Expenditure	**1040.1**	**1172.0**	**1189.2**	**1189.1**	**1213.6**	**1247.2**	**1279.5**
Total Managed Expenditure % of GDP	*44.5%*	*46.8%*	*46.2%*	*44.6%*	*44.0%*	*43.8%*	*43.4%*
of which: Total DEL	*544.8*	*560.1*	*573.6*	*580.6*	*589.5*	*600.3*	*613.4*

[1] Resource DEL excluding ringfenced depreciation is the Treasury's primary control within resource budgets. Capital DEL is the Treasury's primary control within capital budgets. The Office for Budget Responsibility (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.

Source: HM Treasury Calculations and Office for Budget Responsibility EFO.

[50] Public Expenditure Statistical Analyses 2022, HM Treasury, July 2022.

Chart 2.2: Total Managed Expenditure (% of GDP)



Source: Office for Budget Responsibility EFO, Office for National Statistics

2.13 As a result of decisions at the Spring Budget, the devolved administrations are receiving an additional £630 million through the Barnett formula over 2023-24 and 2024-25. The Scottish Government is receiving £320 million, the Welsh Government £180 million and the Northern Ireland Executive £130 million. This is on top of record Spending Review 2021 settlements, which are still growing in real terms over the Spending Review period, and an additional £3.4 billion at Autumn Statement 2022.

Working more efficiently

2.14 To keep spending focused on the government's priorities, the government is committed to continuing to identify ways to work more efficiently and reduce day-to-day running costs of government. The government therefore launched an Efficiency and Savings Review as part of Autumn Statement 2022.

2.15 Through the review, departments have reprioritised and identified further efficiencies, building on the 5% efficiency challenge set at Spending Review 2021. This means that the government can protect the vital frontline services that matter most to the public despite the impacts of higher inflation. This includes the efficiency savings the NHS is making to achieve their efficiency target of 2.2% and the efficiency savings agreed with the Ministry of Defence at Spending Review 2020.

2.16 The government is accelerating plans to innovate and automate public service delivery and is embracing evaluation to make sure spending is focused on what works. This includes incentivising further testing and evaluation of innovative approaches to cross-government working by providing a further £30.4 million from the Shared Outcomes Fund to 10 existing projects covering areas such as data and digital, education, and service provision for people experiencing multiple disadvantages.

2.17 To track efficiency and drive continuous improvement, the government is developing a new Government Efficiency Framework to improve how departments report efficiency savings and ensure government has the appropriate oversight and reporting processes for efficiency savings.

2.18 The government is committed to ensuring public services are funded fairly by maintaining a low tax gap. The government will double the maximum sentences for the most egregious cases of tax fraud from 7 to 14 years, and will consult shortly on the introduction of a new criminal offence for promoters of tax avoidance who fail to comply with a legal notice from HMRC to stop promoting a tax avoidance scheme. The government is also investing a further £47.2 million to improve HMRC's capability to collect tax debts, including supporting those who are temporarily unable to pay.

Helping with the cost of living

2.19 Putin's illegal invasion of Ukraine and weaponisation of gas supplies to Europe, as well as global supply chain pressures, have contributed to global high inflation.[51] The government is committed to supporting households and businesses with the rising cost of living.

2.20 At Autumn Statement 2022, the government announced benefits uprating and generous cost of living support for 2023-24. This included additional Cost of Living Payments for more than 8 million households on means-tested benefits, 6 million people on disability benefits, and 8 million pensioner households across the UK. It also included an additional £1 billion to enable the extension of the Household Support Fund in England, to help households with the cost of essentials.

2.21 At the Spring Budget, the government is taking further steps, including additional energy support, childcare support, and extending the cut to fuel duty.

2.22 The government has already taken decisive action to support households through the Energy Price Guarantee (EPG), which places a limit on the price households pay per unit of gas and electricity. In the face of retail energy costs that are expected to remain historically high through the spring, the government is maintaining the EPG at its current £2,500 per year level for an additional 3 months (April to June 2023). The planned increase to a level of £3,000 per year will therefore be implemented on 1 July, rather than 1 April as previously announced.

[51] Consumer price indices, OECD, 2023.

2.23 The government is also providing domestic UK Heat Network customers on non-domestic heating contracts with a new, sector specific support rate. This will be set at a level that will ensure these customers do not face disproportionately higher energy bills under the Energy Bills Discount Scheme than consumers under the EPG.

2.24 The government continues to develop options to support domestic consumers on a non-domestic meter where they are facing lower levels of support than other domestic consumers. The Department for Energy Security and Net Zero will issue a call for evidence before the summer for domestic consumers who receive their energy via a non-domestic energy contract.

2.25 The government is also removing the premium paid by over 4 million households using prepayment meters (PPM),[52] bringing their charges into line with comparable direct debit customers until the EPG ends and saving them an average of £45 a year. PPM consumers are disproportionately vulnerable, on lower incomes and in fuel poverty, and therefore are more exposed to price changes. Looking beyond the end of the EPG, the government will ensure the PPM premium is ended on a permanent basis. The government supports Ofgem's ongoing work to review PPM costs and has asked the regulator to report by the autumn on any additional regulatory options, including options for ending the PPM standing charge premium, so that they are ready for implementation in April 2024.

2.26 Petrol and diesel prices continue to be volatile given the ongoing conflict in Ukraine and inflation remains high. The government is continuing to support households and businesses by maintaining the rates of fuel duty at the current levels for an additional 12 months through extending the temporary 5p fuel duty cut and cancelling the planned increase in line with inflation for 2023-24. This support is already available for longer than in many countries and represents £10 billion of support over 2 years, worth around £200 for the average car driver. The government will continue to keep fuel duty rates in the long term under review, including carefully considering support for motorists, fiscal implications and use of fuels.

2.27 The government is increasing the amount of income tax relief available to foster carers and shared lives carers. The threshold of income at which qualifying carers begin paying tax on care income will be increased to £18,140 per year plus £375 to £450 per person cared for per week for 2023-24 and these thresholds will then be index-linked, representing a tax cut worth approximately £450 per year on average.

[52] This figure comprises UREGNI data on Northern Ireland PPM consumers (available at https://www.uregni.gov.uk/publications/q4-2022-qremm, p.11), and a GOV.UK QEP dataset on GB customer numbers (https://www.gov.uk/government/statistical-data-sets/quarterly-domestic-energy-switching-statistics), applying splits from existing GOV.UK EBSS customer data sets (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1126050/table_252.xlsx).

2.28 Community facilities have also been impacted by the cost of living. The government is therefore providing over £100 million to support charities and community organisations and over £60 million to support public swimming pools in England, to help with immediate pressures and invest in energy efficiency measures.

Supporting the NHS

2.29 The government is investing record levels of funding in response to the pressures facing our vital health and social care services. Autumn Statement 2022 made available up to £8 billion of additional funding for the NHS and adult social care in England in 2024-25, with an additional £3.3 billion in each of 2023-24 and 2024-25 to support the NHS in England and up to £2.8 billion in 2023-24 and £4.7 billion in 2024-25 to support adult social care and discharge.

2.30 This investment is enabling rapid action to improve urgent and emergency care, as set out in the recent recovery plan, and primary care, with further details to be published shortly.[53] This is in addition to planned spending of more than £8 billion across 2022-23 to 2024-25, as confirmed at Spending Review 2021, to tackle the elective backlog. Last year, the NHS hit its target to virtually eliminate waits of over 2 years and is making progress towards the ambition of tackling 18-month waits by April 2023.

2.31 The NHS is the UK's biggest employer, and the government is committed to ensuring it has the workforce it needs for the future.[54] This includes shortly publishing the long-term workforce plan committed to at Autumn Statement 2022 and the pension tax reforms announced in the Spring Budget which will help remove incentives for doctors to work reduced hours or retire early due to pension tax concerns.

[53] Delivery plan for recovering urgent and emergency care services, NHS England, January 2023.
[54] NHS Long Term Plan, NHS, January 2019. NHS Workforce Statistics, NHS Digital, March 2023.

3 Growing the economy

Delivering growth

3.1 The government took decisive action at Autumn Statement 2022 to protect public finances. Growing the economy is one of the Prime Minister's five key priorities and is the focus of Spring Budget 2023. The government is committed to attracting investment to achieve a high wage high skill economy.

3.2 Boosting economic growth is the only way to sustainably raise living standards and fund the high quality public services the UK population needs.

3.3 There are many underlying strengths of the UK's economy, which will underpin future growth. The UK has a dynamic business environment and was ranked by the World Bank in 2020 as the best place to do business amongst large European nations and second only to the US in the G7.[55] The UK economy is also highly innovative, ranked fourth in the Global Innovation Index, and home to three of the world's top ten universities.[56] Its digital, life sciences and creative sectors are amongst the largest in the world.[57] The UK is on track to become a world leading science superpower, supported by the newly established Department for Science, Innovation and Technology.

3.4 However, UK productivity was 17% weaker in 2021 than the average across France, Germany and the US.[58] Weakness in business investment accounts for part of this gap. UK business investment accounted for 10% of GDP in 2021 compared to 12% on average across Germany, France and the US.[59] There are also longstanding gaps in provision of certain skills. The share of adults with vocational qualifications, for example, is 9 percentage points below the OECD average.[60]

3.5 The government has a plan to address these challenges and build on the UK's areas of strength. The Spring Budget prioritises:

- **Employment:** boosting labour supply, including by encouraging the inactive into work
- **Education:** providing everyone with the skills and support they need
- **Enterprise:** providing the right conditions for businesses to succeed

[55] Doing Business report 2020, World Bank Group.
[56] Global Innovation Index, 2022; The Times World University Rankings, 2023.
[57] UK tech industry position, 2022; UK life sciences industry position, 2019; UK creative sectors strength, 2020.
[58] Data taken from OECD GDP per capita and productivity levels | OECD Productivity Statistics | OECD iLibrary (oecd-ilibrary.org). Data are for 2021 (USD, current prices, current PPPs).
[59] Corporate sector gross fixed capital formation as a percentage of GDP, OECD National Accounts at a Glance, 2023 and HMT calculations.
[60] OECD, Education at a Glance, 2020.

- **Everywhere:** ensuring the benefits of economic growth are felt across the UK.

3.6 The government will prioritise **Employment**, ensuring the economy has the labour supply needed to boost growth and improve living standards. Being in meaningful work enables people to realise social, health and financial benefits. Spring Budget delivers an ambitious package to increase labour supply and ensure the UK continues to attract global talent.

3.7 The government believes that people should be able to access the **Education** and training they need to get the jobs they want. A good education system is the best economic and social policy any country can have, and education should not stop when you start work. UK employers spend just half the European average on vocational training for their employees, and less than 10% of total spend on training goes towards formal high quality training delivered by external institutions.[61] Skills Bootcamps and the Lifelong Loan Entitlement are already in place.

3.8 The government is creating the right conditions for **Enterprise** in all sectors across the economy, based on competitive taxes, access to capital and smarter regulation. By supporting entrepreneurs and attracting the most productive companies to set up, invest and grow in the UK, stronger growth can be delivered in future industries. Spring Budget delivers a range of enterprise boosting measures, such as tax incentives and smarter regulation, that taken together will support future growth for the long-term.

3.9 The government is committed to spreading the benefits of economic growth **Everywhere**. The UK's spatial disparities in productivity are large compared to other advanced economies; there is significant untapped growth potential in the UK's cities outside London, and despite recent progress on devolution the UK's decision making remains overly centralised.[62] Empowered, accountable local leaders are best placed to take the decisions needed to foster local wealth creation and civic entrepreneurialism. Spring Budget drives this vision forward, delivering change for all parts of the UK, including through the creation of Investment Zones and empowering local leadership through further devolution.

3.10 The government is taking bold steps to improve growth and raise economic prospects for everyone. Taken together, these announcements make a significant contribution to delivering on the government's plan for the UK economy to grow sustainably for years to come, with the benefits of that growth spread across every part of the country.

[61] Eurostat, Continuing Vocational Training, 2015 (public data available in this report); Department for Education's Employer Skills Survey, 2019.
[62] Levelling Up the United Kingdom, HM Government, 2 February 2022; 'Centralisation Nation', Centre for Cities, 2 September 2022.

Helping people into Employment

3.11 Increasing the number of people in the labour market is important for growing the UK economy, bringing down debt and inflation, and improving living standards.

3.12 The UK economy has emerged from the COVID-19 pandemic with unemployment near a 50-year low, following a rapid rise in employment across the 2010s. However, since the pandemic, the UK has seen a significant increase in the number of people of working age neither in work nor looking for work. Of the UK's working age population, 6.7 million are economically inactive excluding students. The UK's inactivity rate is 21.3%, 1.1 percentage points higher than the pre-pandemic low of 20.2%.[63]

3.13 This rise in economic inactivity, combined with low unemployment, has contributed to labour shortages and increased job vacancies, holding back the UK's economic prospects. To help address this challenge, the government is introducing policies to help more people enter work, increase their working hours, and extend their working lives.

3.14 At Autumn Statement 2022, the Chancellor announced that the Department for Work and Pensions (DWP) would thoroughly review workforce participation. Reflecting on this work, the government's employment strategy will focus support towards those groups where inactivity levels are high or where employment support is most needed, including the long-term sick and disabled, welfare recipients, people aged over 50, and parents.[64] The government wants to work in partnership with employers to support people to find and progress in work.

[63] A02 NSA: Employment, unemployment and economic inactivity for people aged 16 and over and aged from 16 to 64 (not seasonally adjusted) - Office for National Statistics (ons.gov.uk) - 14 March 2023 release.
[64] A05 SA: Employment, unemployment and economic inactivity by age group (seasonally adjusted) - Office for National Statistics (ons.gov.uk); INAC01 SA: Economic inactivity by reason (seasonally adjusted) - Office for National Statistics (ons.gov.uk); Economic activity and employment type for men and women by age of the youngest dependent child living with them in the UK: Table S - Office for National Statistics (ons.gov.uk).

Box 3.A Unemployment remains low: however, falling participation is a key economic challenge

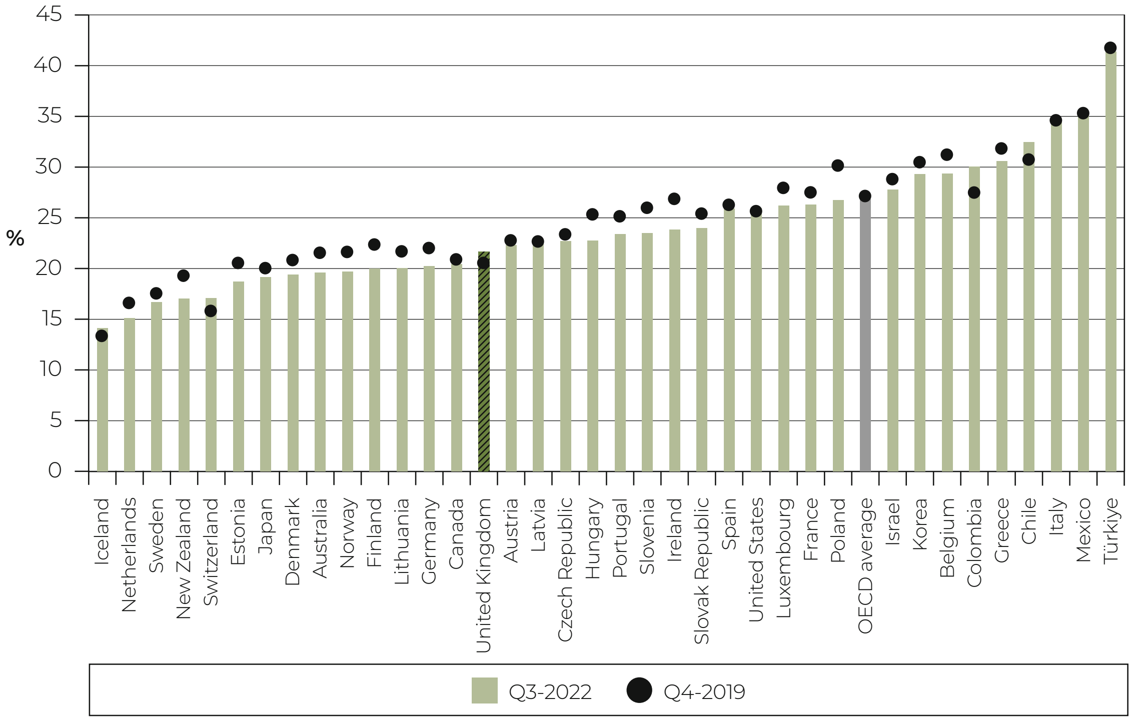
Despite historically low unemployment, there remain 230,000 fewer people in employment than at the start of the pandemic.[65] This is driven by a large and sustained rise in labour market inactivity, which for those of working-age has increased by 490,000.[66, 67] There are a number of possible factors underlying this increase.

Across age groups, the increase in inactivity has also been concentrated among older workers, with the inactivity rate amongst 50 to 64 year-olds having increased by 2 percentage points since the start of the pandemic. By reason, there are 410,000 more people reporting they are inactive due to long-term sickness since the start of the pandemic.[68] This increase has occurred across all working age groups.[69] For those who have left work recently, there has been an increase in the number reporting retirement as the main reason.[70] The ONS's Over 50s Lifestyle Study suggested that those above 60 were most likely to cite 'to retire from paid work' as a reason for leaving work, while those aged 50 to 54 were more likely to cite 'stress' and that 'I did not feel supported in my job'.

The UK inactivity rate is currently significantly higher than in the best performing OECD comparators. This suggests there is considerable scope to reduce it, boosting labour supply and growing the economy. While inactivity is 5.2 percentage points lower than the OECD average, the UK has fallen from having the 8th lowest inactivity to 15th in the OECD since the pandemic (see Chart 3.3).[71] Reducing UK inactivity to the same rate as the Netherlands, the second best performer in the OECD, would result in 2.7 million more people in the labour force, an increase of over 8%.[72]

[65] A01 SA: Summary of labour market statistics – ONS (ons.gov.uk), 14 March Release.
[66] A person is economically inactive if they are not in employment and have not been seeking work within the last 4 weeks and/or are unable to start work within the next 2 weeks.
[67] A01 SA: Summary of labour market statistics – ONS (ons.gov.uk) – 14 March Release.
[68] A01 SA: Summary of labour market statistics – ONS (ons.gov.uk) – 14 March Release.
[69] HMT calculations using Labour Force Survey microdata.
[70] HMT calculations using Labour Force Survey longitudinal two-quarter microdata.
[71] OECD, Short-Term Labour Market Statistics (oecd.org). Q3 2022 and Q4 2019. Data extracted on 02 Mar 2023. The OECD average is calculated as the weighted mean of the data values of all OECD countries for which data are available or can be estimated.
[72] HMT calculations using OECD, Short-Term Labour Market Statistics (oecd.org), Q3 2022. Data extracted on 02 March 2023.

Chart 3.1: 15-64 inactivity rates across OECD Countries



Source: OECD, Short-Term Labour Market Statistics (oecd.org), Q3 2022 and Q4 2019. Data extracted on 2 Mar 2023.

The Spring Budget aims to increase labour supply and support people to move into employment. This would bring about substantial economic and fiscal benefits:

- There are currently 1.1 million vacancies in the economy, an increase of 300,000 since the start of the pandemic.[73] Increasing labour supply will help businesses fill these vacancies and address the labour shortages being experienced across a number of sectors.
- Increasing labour supply will help sustainably grow the economy in the medium-term and support the fiscal position. As the OBR sets out in its Economic and Fiscal Outlook, an upside scenario in which participation is 500,000 higher than their central forecast in 2027 would raise the level of real GDP by 1.5% and reduce borrowing by 0.4% of GDP.[74]
- Increasing labour supply can help address inflationary pressures caused by shortages of workers.

The Spring Budget aims to increase labour supply among four key groups, where there is scope to increase participation:

[73] A01 SA: Summary of labour market statistics- ONS (ons.gov.uk) - 14 March release.
[74] Economic and Fiscal Outlook, Office for Budget Responsibility, March 2023.

- **The long-term sick and disabled –** there are more than 2.5 million people reporting that they are inactive due to long-term sickness, an increase of 26% since 2018.[75] The disability employment rate in Q3 2022 was 30 percentage points below the employment rate for non-disabled people.[76]
- **Welfare recipients –** there are around 1.4 million people in Universal Credit's most intensive work search regime, who are either unemployed or on low earnings and as such are expected to look for work or increase their hours.[77] If the size of this group was reduced by around 15%, there would be an additional 200,000 people in work or with higher earnings.
- **Older workers –** the UK's inactivity rate for 55 to 64 year-olds is higher than that of the best performing economies in the OECD.[78] Matching the 55 to 64 inactivity rate of Sweden, a top performer, would add more than 1 million older workers to the labour force.[79]
- **Parents –** there are 1.7 million people in the UK who report looking after their family or home as their main reason for inactivity.[80] Parents in the UK can face high childcare costs with net costs representing nearly 30% of the average wage for a couple with two children; that is approximately double that of the OECD average.[81] The UK's female inactivity rate is higher than that of the best performing economies in the OECD.[82] Matching the female inactivity rate of the Netherlands, a top performer, would add more than 1 million people to the labour force.[83]

Long-term sick and disabled

3.15 Employment matters to health: the impacts of good work on health and wellbeing are positive, while unemployment can be detrimental.[84] There are now 410,000 more people who report their reason for inactivity as long-term sickness than before the pandemic.[85] This is the largest increase across all reasons given for inactivity, with mental health and musculoskeletal (MSK) conditions among the leading causes. Surveys show that one fifth of people out of work and claiming the highest level of health-related income support benefits say they would like to work

[75] A01 SA: Summary of labour market statistics- ONS (ons.gov.uk) - 14 March release.
[76] Employment of disabled people, 2022 – Department for Work & Pensions, January 2023 release.
[77] Department for Work and Pensions benefit statistics - Stat-Xplore - Table View (dwp.gov.uk).
[78] The UK's 55-64 inactivity rate ranked 23rd lowest in the OECD in Q2 2022 – the latest available data for all countries. OECD, Short-Term Labour Market Statistics (oecd.org). Q2 2022. Data extracted on 10 Mar 2023.
[79] HMT calculations using OECD, Short-Term Labour Market Statistics (oecd.org). Q3 2022. Data extracted on 02 Mar 2023.
[80] A01 SA Summary of labour market statistics - ONS (ons.gov.uk) - 14 March release.
[81] OECD. 2021. Net Childcare costs for parents using childcare facilities, 2021. Net costs as a percentage of average wage, paid by couple with two children on average wage for full-time centre-based childcare, after any benefits designed to reduce the gross childcare fees. Calculations are for families with children aged two and three. The OECD average is calculated as the weighted mean of the data values of all OECD countries for which data are available or can be estimated.
[82] The UK's female inactivity rate was 15th lowest in the OECD in Q3 2022. OECD, Short-Term Labour Market Statistics (oecd.org). Q3 2022. Data extracted on 2 Mar 2023.
[83] HMT calculations using OECD, Short-Term Labour Market Statistics (oecd.org). Q3 2022. Data extracted on 2 Mar 2023.
[84] Health matters: health and work - GOV.UK (www.gov.uk).
[85] INAC01 SA: Economic inactivity by reason (seasonally adjusted) - Office for National Statistics (ons.gov.uk) - 14 March 2023 release.

in the future.[86] The government's policies announced at the Spring Budget will support improved population health outcomes and increase the employment rate and hours worked among those with a health condition or disability.

3.16 The government will embed tailored employment support within mental health and MSK services in England, including expanding the well-established and successful Individual Placement and Support (IPS) scheme, and scaling up MSK hubs in the community. The government will also digitise the NHS Health Check to identify and prevent more cases of cardiovascular disease. These measures will support people with long-term health conditions to access the services they need, effectively manage their conditions and feel supported to return to or remain in employment.

3.17 The government will ensure digital resources such as apps for management of mental health and MSK conditions are readily available, so that more people can easily and quickly access the support that is right for them. This represents a step change in the government's ambition on digital resources for mental health and MSK, putting the NHS at the forefront in its use of innovative technologies.

3.18 The government will also pilot a new programme, WorkWell, to better integrate employment and health support for those with health conditions, supporting individuals into employment and to remain in work.

3.19 To support those claiming benefits who are long-term sick and disabled, the government is publishing a Health and Disability White Paper. This sets out ambitious and extensive reforms to make sure those with disabilities have the right support, opportunities, and incentives to move into and remain in work. The Work Capability Assessment will be abolished and eligibility for the health top-up in Universal Credit will be passported via the Personal Independence Payment benefit. Claimants will benefit from tailored Work Coach support and be able to try work without fear of losing their benefits.

3.20 The government will also increase the funding available in Great Britain for Work Coaches to help those who are long-term sick and disabled into work. Increased Work Coach support, alongside the other measures to improve disability employment being announced at the Spring Budget, will be key to providing tailored support for people whose disability or health condition presents barriers to work.

3.21 The government will introduce a new programme to support people with disabilities and long-term sickness into work. A new Universal Support programme will match individuals in England and Wales who want to work with existing job vacancies, and ensure they are supported to enter and stay in work by funding the necessary training and workplace support.

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[86] Summary: The work aspirations and support needs of claimants in the ESA Support Group and Universal Credit equivalent - GOV.UK (www.gov.uk).

Welfare recipients

3.22 Securing more and better paid work raises living standards and improves lives. There are currently 5.9 million Universal Credit claimants in Great Britain.[87] Many of these people are out of work or on low earnings and could be earning higher wages and contributing more to the economy.

3.23 The longer an individual remains out of the labour market or on low earnings, the harder it is for them to move back into work and progress in the workplace.[88] Evidence suggests that the support that people can access through Universal Credit, including time with Work Coaches and tailored job support, can help improve labour market outcomes.[89] That is why the government is announcing an ambitious package of welfare measures to incentivise work and provide even more job support for Universal Credit claimants.

3.24 The government will increase Work Coach support and work search requirements for a greater number of Universal Credit claimants to help them move into work and onto high earnings. This includes increasing the Administrative Earnings Threshold, which determines how much support and Work Coach time a claimant will receive based on their earnings, for an individual claimant, and removing the couple's Administrative Earnings Threshold. This will provide intensive Work Coach support to claimants in work and on lower earnings and non-working or low-earning partners on Universal Credit. The government will also strengthen job support for claimants that are lead carers of young children who currently have no or limited requirements to search for and prepare for work.

3.25 Alongside this, the government is strengthening the way the sanctions regime is applied, by automating parts of the process to improve efficiency and reduce error, and ensuring that Work Coaches have the tools and training to implement sanctions as effectively as possible, including for failing to take up a job.

3.26 The government will extend the Youth Offer, which provides targeted support to unemployed young people on Universal Credit. This means that young people across Great Britain will have continued access to partner-led Youth Hubs and specialist Youth Employability Coaches to break down barriers to work. Eligibility for the Youth Offer will also be expanded to include young people on Universal Credit who are not currently searching for work, including young parents and carers.

3.27 To help young people leaving residential care into employment, the government is providing an additional £8.1 million in each of the next 2 years to expand the Staying Close programme to around half of local authorities by March 2025. Staying Close provides young people leaving residential care with accommodation, and practical and emotional support, as they transition into independent adulthood.

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87 Department for Work and Pensions benefit statistics - Stat-Xplore - Table View (dwp.gov.uk).

88 Office for National Statistics 2021- Which groups find it hardest to find a job following a period out of work?; Arulampalam, W., Gregg, P., & Gregory, M. (2001). Introduction: Unemployment Scarring. The Economic Journal, 111(475), F577–F584.

89 Department for Work and Pensions (2018), Universal Credit: In-Work Progression Randomised Controlled Trial.

3.28 To make sure Jobcentres are working as efficiently as possible, the government is also expanding the Additional Jobcentre Support Pilot in England and Scotland. The pilot will test how intensive support for a period of 2 weeks can further support claimants, who remain unemployed after 13 and 26 weeks into their Universal Credit claim or on low earnings, into work. As part of this pilot, the government will also trial a scheme that rewards Jobcentre teams for meeting stretching targets for helping claimants into work.

Extending working lives

3.29 The number of inactive 50 to 64 year-olds has increased by 320,000 since before the pandemic, with this age group accounting for 65% of the increase in working-age inactivity over this period.[90] Inactivity among older workers is higher than that of the best performing economies in the OECD (see Box 3.A).[91] The UK has an ageing population, so increasing labour market participation for this group to bring it in line with rates seen in international comparators would grow the economy, while increasing the overall experience of the UK's labour force.

3.30 The government believes that workers of all ages have a vital role to play in their place of work and the wider economy. Through the policies set out in the Spring Budget, the government wants to encourage inactive individuals aged over 50 to stay in and return to work.

3.31 Planning for later life can be difficult, and some may leave the workforce early without a full understanding of their long-term financial resilience. A midlife MOT is a review to help individuals take stock of their finances and wellbeing to prepare for a more secure retirement. The government will enhance the digital strand of the offer to ensure more people can access targeted online guidance regarding their career, health and finances. DWP will also expand access to its in-person midlife MOT offer, providing financial planning and awareness sessions for 50+ Universal Credit claimants, aiming to reach up to 40,000 individuals a year.

3.32 As part of this, the government is bringing forward policies that incentivise highly skilled individuals to remain in the labour market. Currently, there are limits placed on the total tax-relieved pension savings an individual can make each year and over their lifetime. To stop these limits from acting as a barrier to remaining in work, the government will remove the Lifetime Allowance charge, before completely abolishing it in a future Finance Bill, and raise the Annual Allowance to £60,000 from April 2023.

3.33 Once an individual flexibly accesses their defined contribution pension savings, the total tax-relieved pension savings they can make each year is restricted to the level of the Money Purchase Annual Allowance. To support those who have

[90] A05 SA: Employment, unemployment and economic inactivity by age group (seasonally adjusted) - Office for National Statistics (ons.gov.uk) - 14 March 2023 release.
[91] The UK's 55-64 inactivity rate ranked 23rd lowest in the OECD in Q2 2022 – the latest available data for all countries. OECD, Short-Term Labour Market Statistics (oecd.org). Q2 2022. Data extracted on 10 Mar 2023.

left the labour market to return and supplement their income, or build up their retirement savings, the government will also increase the Money Purchase Annual Allowance to £10,000 from April 2023.

3.34 To increase retention in the workforce of the public sector, open and closed public service pension schemes for a given workforce will be considered linked for the purposes of calculating Annual Allowance charges, thus allowing members to offset any negative real growth for Annual Allowance purposes in legacy public service pension schemes against the Annual Allowance.

Employers

3.35 The government will introduce policies that encourage employers to support people back into work, to work more, and to prevent them falling out of work. The government wants to partner with employers to help people manage transitions and overcome barriers to work, so that they can continue to progress and thrive in the workplace.

3.36 Employer-led occupational health services can reduce health-related inactivity by identifying, monitoring and preventing health problems in the workplace, supporting employees to remain healthy and happy in work. Around half of UK employees currently have access to occupational health services, which is lower than some international comparators.[92, 93]

3.37 To support more businesses to provide occupational health services, the government will expand the forthcoming occupational health pilot subsidy scheme for small and medium sized businesses announced by the Department for Health and Social Care and DWP in 2021. The government will also launch a separate consultation on options for incentivising greater take-up of occupational health provision through the tax system.

3.38 The government will consult on ways to boost UK occupational health coverage, including, for example, through regulations to require employers to provide occupational health services. The consultation will also consider a process of kitemarking and professional accreditation to assure quality of occupational health services. To ensure occupational health providers can meet this increased demand for their services, the consultation will also consider the supply of occupational health professionals, including through the Long-Term Workforce Plan for the NHS.

3.39 Working flexibly can help employees balance work commitments and personal circumstances, such as parenting, caring, managing a health condition, or transitioning from full-time work later in life. The government is reforming the statutory framework for flexible working to provide employees with a day one right to request their job be done flexibly. The government will work with employers to demonstrate the benefits of offering flexible working, including through initiatives

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92 Government response: Health is everyone's business (2021).
93 France, Germany and Finland all have occupational health coverage over 90%. International comparison of occupational health systems and provision (2021).

such as employer pledges and offering flexible working in job adverts. Often, the flexible working arrangements people need to manage their lives are ad hoc and informal. To understand more about how these less-formalised types of flexibility work in practice, the government will launch a call for evidence in summer 2023.

3.40 To further support employees with caring or parenting responsibilities to remain in the labour market, the government is backing Private Member Bills that provide unpaid carers with additional leave, parents with greater protections against redundancy, and parents of children receiving neo-natal care with paid statutory leave.

Migration

3.41 Alongside investments to support people into work, the government will ensure that the UK labour market has access to skills and talent from abroad where needed, to help businesses tackle immediate labour shortages and ease business visits to the UK.

3.42 To help ease immediate labour supply pressures, the government commissioned the Migration Advisory Committee (MAC) to undertake a rapid Shortage Occupation List (SOL) assessment for the construction and hospitality sectors, ahead of its full review of the SOL concluding later in 2023. The government has accepted the MAC's interim recommendations, to initially add five construction occupations to the SOL, which will take effect before summer recess. The government will also review the SOL more regularly, based on recommendations from the MAC, so that the legal migration system is quicker and more responsive to the needs of businesses and the economy.

3.43 To make it easier and more attractive to do business in the UK, the government will simplify business visitor rules. This includes expanding the range of short-term business activities that can be carried out for periods of up to 6 months and reviewing permitted paid engagements. These changes will be implemented from autumn 2023. In addition, the government will consider further enhanced provisions linked to negotiations with trade partners, including a wider range of activities.

Parents

3.44 The employment rate and hours worked of parents, particularly mothers, drops after childbirth and persists until after their children reach school age.[94] There are around 435,000 parents in England with children under 3 years who are inactive due to caring responsibilities.[95]

[94] IFS (2021) Women much more likely than men to give up paid work or cut hours after childbirth even when they earn more.
[95] ONS (2023): Economic activity and employment type for men and women by age of youngest dependent child living with them in the UK: Table S.

3.45 This group is made up disproportionately of women, and the more time they spend outside the labour market or working part-time, the lower their future expected earnings, worsening the UK's gender pay gap.[96], The UK's female inactivity rate is higher than in the best performing OECD economies (see Box 3.A).[97]

3.46 The government is removing one of the biggest barriers to parents working, by substantially increasing the amount of free childcare that working families can access. The government will provide over £4.1 billion by 2027-28 to fund 30 free hours per week for working parents with children aged 9 months up to 3 years in England, where eligibility will match the existing 3 to 4 year-old 30 hours offer.

3.47 This will close the gap between the end of parental leave and the start of the current free childcare hours offer, and will mean that parents will be empowered to work sooner to support their families and progress their careers. This new offer will mean that the government is supporting parents who choose to return to work, from when their child is 9 months old until they leave school.

3.48 From April 2024, working parents of 2 year-olds will be able to access 15 hours of free childcare per week, benefiting parents of up to 285,000 children.[98] This will be extended to working parents of 9 month to 2 year-olds from September 2024, benefiting parents of up to 640,000 children.[99] From September 2025, all eligible working parents of children aged 9 months up to 3 years will be able to access 30 free hours per week.

3.49 The government is also substantially uplifting the hourly funding rate paid to providers, to deliver the existing free hours offers in England. This will help providers to manage cost pressures, and develop the necessary capacity to deliver the new free hours offers, as well as raising the quality of provision. The government will provide £204 million in 2023-24, paid from September 2023, and £288 million in 2024-25.

3.50 To increase flexibility for providers and the availability of childcare provision for parents, the government will proceed with changing staff-to-child ratios from 1:4 to 1:5 for 2 year-olds in England, to align with Scotland and other countries. This change will come into force from September 2023, subject to parliamentary procedure. The government will also increase choice and affordability for parents, by taking action to increase the number of childminders. The government will provide start-up grants for new childminders, including those who register with a childminder agency.

[96] IFS (2016): Gender wage gap grows year on year after childbirth as mothers in low-hours jobs see no wage progression.
[97] The UK's female inactivity rate was 15th lowest in the OECD in Q3 2022. OECD, Short-Term Labour Market Statistics (oecd.org). Q3 2022. Data extracted on 02 Mar 2023.
[98] Department for Education analysis of the Family Resources Survey and the Survey of Personal Incomes to estimate the proportion of families earning between the income thresholders in the UK. Proportion applied to Department for Education forecasts of ONS population projections for England by age.
[99] Department for Education analysis of the Family Resources Survey and the Survey of Personal Incomes to estimate the proportion of families earning between the income thresholders in the UK. Proportion applied to Department for Education forecasts of ONS population projections for England by age.

3.51 The government will launch a consultation on further measures to support reform of the childcare market to improve the childcare offer for parents. This will include exploring further flexibilities for providers; allowing childminders more choice over how they operate, and introducing a new, streamlined childminder-specific Early Years Foundation Stage framework.

3.52 Many parents work fewer hours even when their children reach school-age. A key driver of this is accessibility of childcare provision, with only 64% of primary schools currently offering childcare at both ends of the school day.[100] To help ensure that working parents are not forced to reduce their hours due to caring responsibilities, the government is launching a new wraparound childcare pathfinder scheme and setting out the ambition that all parents of primary-aged children in England can access care in school from 8am-6pm. The government will provide £289 million in start-up funding to enable schools and local authorities to test options to increase the availability of wraparound childcare in the longer term, with national roll out over academic years 2024-25 and 2025-26.

3.53 There are around 2.2 million households with children on Universal Credit.[101] Currently, only around 13% of households eligible for the childcare element in Universal Credit claim it.[102] The current offer means parents on Universal Credit in work can claim back 85% of their childcare costs and this is paid in monthly arrears. This presents an issue for many low-income families who struggle to find the funds to pay for their childcare upfront.

3.54 To help address this issue for parents on Universal Credit in Great Britain who are moving into work or increasing their hours, the government will make sure they have support with childcare costs upfront when they need it rather than in arrears. This will help remove a barrier that many low-income parents face on Universal Credit when thinking about going back to work or increasing their hours.

3.55 The government will also increase support for parents on Universal Credit who face the highest childcare costs, often because they are working longer hours, by increasing the Universal Credit childcare cost maximum amounts to £951 for 1 child and £1,630 for 2 children.

Pilots and evaluations

3.56 To deal with the significant economic challenge of inactivity, the government is deploying a wide range of policy interventions, including some which are innovative. The government is committed to monitoring delivery and evaluating the effectiveness of these interventions, to ensure efforts are focused on what works, and so the OBR have the evidence to underpin the labour supply impacts in their future forecasts. To support this evaluation, the government is providing

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[100] School and College Panel: March 2022 wave.
[101] Households on Universal Credit (single, with children and couples, with children) – November 2022.
[102] Universal Credit claimants eligible for and receiving the childcare element between March 2021 to February 2022.

£37.5 million additional funding for pilots and evaluations over 2023-24 and 2024-25 to continue to build the evidence base on what works to improve labour market outcomes.

Education and skills

3.57 The Spring Budget will support people to access the education and training they need to get the jobs they want, helping turn the UK into a high skill, high wage economy.

3.58 Investing in childcare and early years supports economic growth. Attending early years settings has a positive impact on children's future success in education and in the labour market.[103] As outlined above, government is lowering the age at which children of working parents can access free childcare and making the childcare support for parents on Universal Credit more accessible and generous. An early start in early years education benefits children and spending more hours in early education between age 2 and 3 has immediate positive impacts, including more prosocial behaviour, fewer emotional symptoms and peer problems.[104, 105]

3.59 Long-term investment in human capital is crucial for growth and productivity and for maintaining the UK's international competitiveness. Investing in education and skills means people can perform more, and more complex, tasks, boosting their chances of success in the labour market. Increasing skills is vital for boosting productivity: changes in labour quality contributed to around 15% of growth in labour productivity between 2001 and 2007 before the Global Financial Crisis, and the majority of labour productivity growth in the years after.[106]

3.60 The UK has risen nearly 10 places in the global school league tables for maths and reading since 2015 alone and has a strong foundation of advanced skills and a number of world-class universities.[107] However, the UK lags behind international comparators on technical and basic adult skills. This is why the government is making numeracy a central objective of our education system, right up to 18, and is continuing to invest in high quality technical education, incentivising businesses and individuals to invest in skills in England by delivering T Levels, approving Higher Technical Qualifications and rolling out Skills Bootcamps.

3.61 The government will introduce the Lifelong Loan Entitlement in England from 2025, which will have a transformative impact on post-18 study, giving people the opportunity to study, retrain and upskill flexibly throughout their working lives. Individuals will be able to access loan funding for full or part-time study, for a variety of courses – from degrees to Higher Technical Qualifications – and including modular study.

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[103] IFS, The economic effects of pre-school education and quality, 2014.
[104] Department for Education, Study of Early Education and Development (SEED): Impact Study on Early Education Use and Child Outcomes up to Age Three, 2017.
[105] Department for Education, Study of Early Education and Development (SEED): Impact Study on Early Education Use and Child Outcomes up to Age Three, 2017.
[106] Department for Education, Skills and UK productivity – estimating the contribution of educational attainment to productivity growth, 2023.
[107] OECD, 2018 PISA scores by subject. PISA is the OECD's Programme for International Student Assessment. PISA measures 15-year-olds' ability to use their reading, mathematics and science knowledge.

3.62 To support young people into employment, the Department for Education will invest an additional £3 million over the next 2 years to pilot an expansion of the Supported Internships programme to young people entitled to Special Educational Needs support who do not have an Education Health and Care Plan.

3.63 The government will extend the Alternative Provision Specialist Taskforce pilot using funding from the Shared Outcomes Fund. This will continue multi-agency support to vulnerable children in alternative provision schools, to improve engagement with education (including attendance, behaviour and wellbeing) and reduce their vulnerability to serious violence.

3.64 As the country adapts to working for longer, the government is committing to upskilling and retraining workers of all ages. Returnerships are a new offer targeted at the over 50s, which bring together the government's existing skills programmes, focusing on flexibility and previous experience to reduce training length. Returnerships will promote accelerated apprenticeships, Sector-Based Work Academy Programme placements and Skills Bootcamps to the over 50s. This will support better access to re-training and allow workers of all ages to engage with the opportunities of a second career. This will be supported by £63 million for an additional 8,000 Skills Bootcamps places in 2024-25 in England, and 40,000 new Sector-Based Work Academy Programme placements across 2023-24 and 2024-25 in England and Scotland.

3.65 Since March 2022, over 165,000 Ukrainians have been welcomed to the UK through the Ukraine Visa Schemes.[108] While a large number of adults who have arrived through the schemes are now employed in the UK, 56% of arrivals recently surveyed, who have faced difficulty finding work, reported limited English language skills as an ongoing barrier to taking up work or moving into roles more suited to their skills and qualifications.[109]

3.66 In an extension of the government's support for Ukrainians fleeing the war who have arrived in the UK under the Ukraine Visa Schemes, the government is providing £11.5 million to offer intensive English language courses and employment support to up to 10,000 individuals. This new funding is expected to boost the number of Ukrainians entering the labour market for the first time, as well as helping those already employed into higher-skilled roles.

[108] Ukraine Family Scheme, Ukraine Sponsorship Scheme (Homes for Ukraine) and Ukraine Extension Scheme visa data.
[109] Visa holders entering the UK under the Ukraine Humanitarian Schemes – Follow-up survey: 17 October to 7 November 2022.

Creating a culture of Enterprise

3.67 The government will re-invigorate a culture of enterprise, with support for business investment and innovation. Capital allowances, research and development (R&D) relief reform, tax simplification, and smarter regulation will drive this agenda.

Business investment and tax

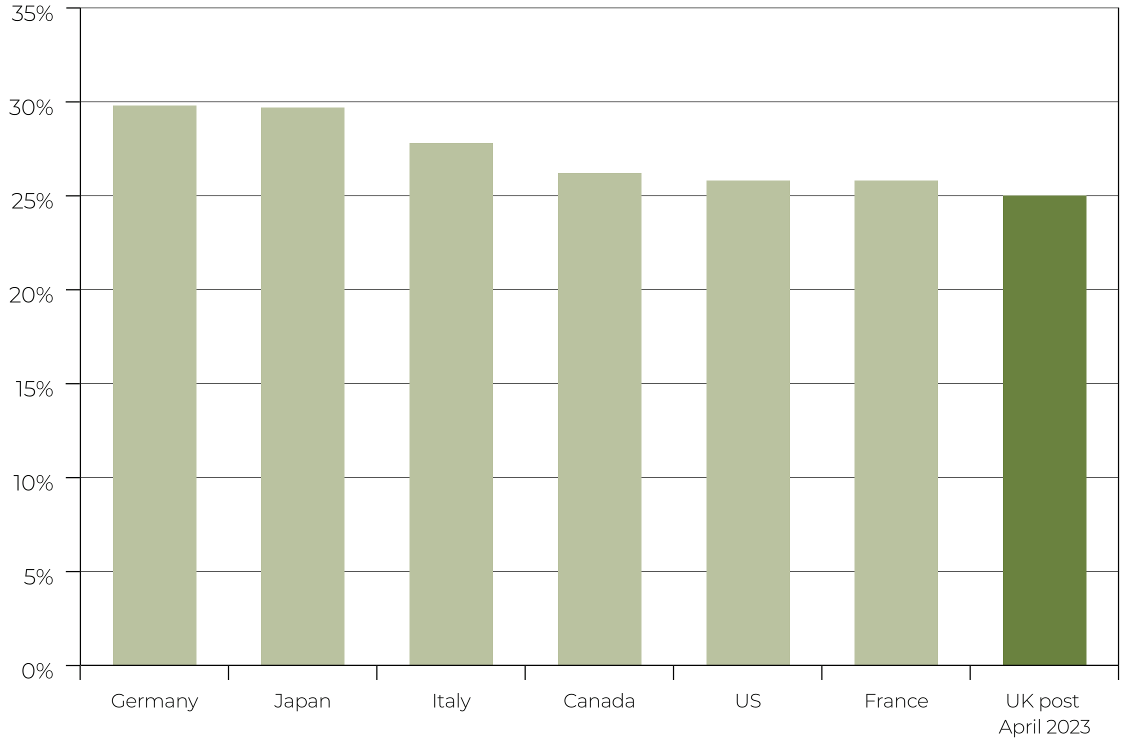
3.68 A competitive corporate tax system is a vital lever to encourage enterprise and investment. To get debt falling, at Spring Budget 2021, the government took the difficult decision to increase the headline rate of Corporation Tax to 25% from April 2023.

Box 3.B Tax and investment

The UK has one of the most pro-business tax regimes in the world. At 25%, the UK will still have the lowest rate of Corporation Tax in the G7.

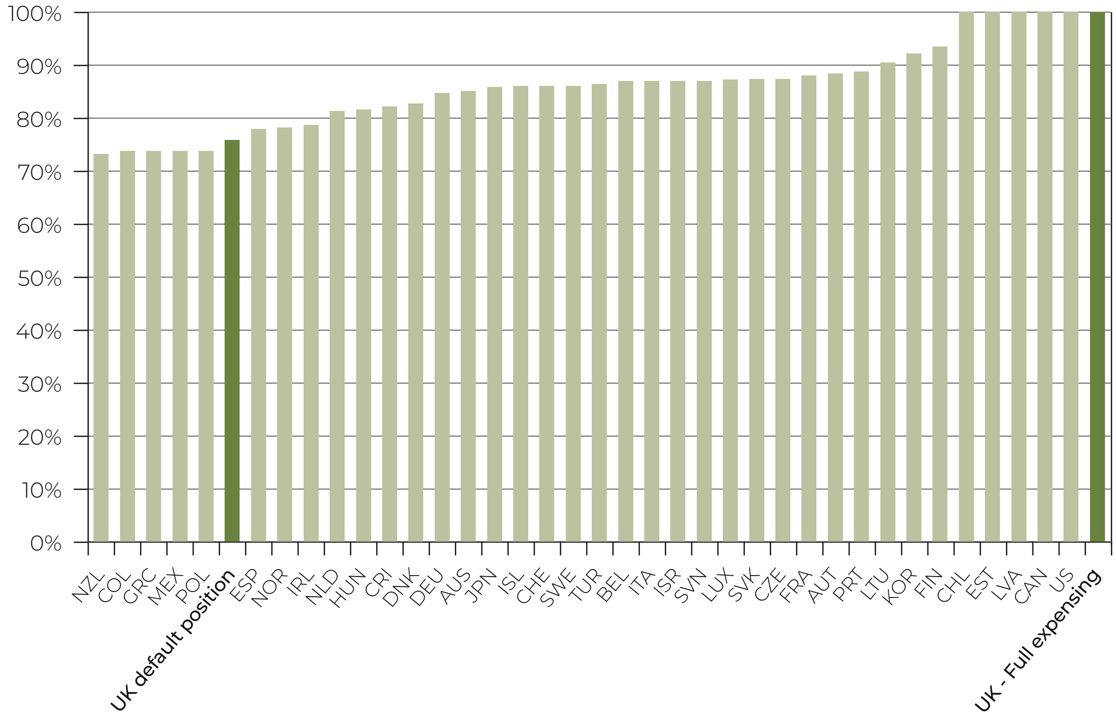
At Spring Budget, the government is going further and announcing a policy of full expensing which will mean that the UK has the joint most generous capital allowance regime in the OECD with a Net Present Value (NPV) of 100%. NPV measures the value of tax relief today, reflecting that relief upfront is better than relief later. Capital allowances allow businesses to write off the cost of qualifying expenditure against taxable income, thus cutting businesses' overall tax bill. This means that until April 2026, for every £1 invested in qualifying expenditure, companies can save up to 25p on their tax bill.

Chart 3.2: Headline Corporation Tax rates, G7 countries, 2022



Source: Based on OECD 2022 data taking into account national as well as sub national rates of Corporation Tax and surcharges https://stats.oecd.org/indes.aspx? DataSet Code = CTS_CIT.

Chart 3.3: Net Present Value of OECD countries' plant and machinery capital allowances, 2021



Source: HMRC analysis using OECD 2021 data from Tax Foundation 2022 cost of capital recovery publication.

3.69 The government is taking further action through the Spring Budget to ensure the UK has one of the most competitive business tax regimes of major economies.

3.70 The reliefs and allowances within the corporate tax system are an important factor in business investment decisions. The decision in the autumn to permanently set the Annual Investment Allowance at £1 million, means 99% of businesses receive 100% tax relief on their qualifying plant and machinery investments in the year of investment.

3.71 In 2021, the government introduced the super-deduction to go further to encourage companies to invest. This was due to end on 31 March 2023. The government is now introducing full expensing, a 100% First Year Allowance, from 1 April 2023 until 31 March 2026. This means that companies across the UK will be able to write off the full cost of qualifying main rate plant and machinery investment in the year of investment. Companies investing in special rate (including long life) assets will also benefit from a 50% first-year allowance during this period. Moving to full expensing means the UK's plant and machinery allowances will be joint first in the OECD in Net Present Value terms, instead of dropping to 33rd.[110]

[110] 'Capital cost recovery across the OECD', Tax Foundation, Fiscal Fact, No.790, April 2022.

3.72 The government wants to ensure the tax regime remains competitive long-term, and will make this measure permanent as soon as it is economically responsible to do so.

3.73 An important part of ensuring prosperity is encouraging more businesses to invest in R&D, helping them to create the technologies, products and services which advance living standards.

3.74 At Autumn Statement 2022, the government announced that from 1 April 2023 the rate of the Research & Development Expenditure Credit (RDEC) would be increased from 13% to 20%. This means that the UK's R&D tax relief for large companies has the joint highest uncapped headline rate in the G7.[111]

3.75 The government also committed to considering the case for further support for R&D intensive SMEs. From 1 April 2023, the government will introduce an increased rate of relief for loss-making R&D intensive Small and Medium size Enterprises (SMEs). Eligible companies will receive £27 from HMRC for every £100 of R&D investment. The government remains committed to supporting R&D, and recognises the important role that R&D and innovation play for the economy and society.

3.76 The government will continue to support the UK's world-leading creative industries by reforming the audiovisual tax reliefs into expenditure credits with a higher rate of relief than under the current system. The expenditure threshold for high-end TV will remain at £1 million per hour. The government will also extend the temporary higher rates of theatre, orchestra, and museums and galleries tax reliefs for 2 further years from April 2023.

3.77 The government also continues to recognise the importance of the UK's world-leading shipping and maritime services industries. From June 2023, for the first time in nearly 18 years, the government will open an election window to permit shipping companies that left the Tonnage Tax regime to return to the UK, bringing with them investment and jobs. This follows reforms to the regime announced at Autumn Budget 2021, which aimed to increase the number of firms headquartered in the UK, following the UK's departure from the EU.

3.78 Spring Budget also announces a range of measures to simplify customs processes, taking advantage of new freedoms following EU Exit. They will support the UK's competitiveness and promote economic growth by making importing and exporting as easy as possible for traders, complementing wider transformational changes at the border that the government has committed to delivering.

[111] Measuring tax support for R&D and Innovation, 2021.

Box 3.C Tax simplification

The government wants the tax system to be simple, fair and to support growth. Simplifying the tax system reduces the time and money businesses and individuals spend on tax administration, helps boost productivity and supports growth. Progress towards these principles can often align, but sometimes there are trade-offs to consider between them.

Following the closure of the Office of Tax Simplification, officials were given a clear mandate to focus on simplicity of tax policy design throughout the policy making process and on simplifying existing tax rules and administration. The government has increased direct engagement with business organisations and tax professionals to better understand where problems for businesses and individuals arise, building on existing HMRC evidence and insight. New policy, as well as existing tax rules, will be subject to increased scrutiny to ensure new changes are as easy to administer as possible. The Budget announces a number of consultations which build on this approach, including on customs processes.

The government is focused on ensuring that meeting tax obligations is as straightforward as possible at key events for a growing business, such as when a business is set up or takes on a first employee. Small businesses account for almost half of employment and around a third of turnover in the UK's private sector.[112] As a first step, Spring Budget announces a consultation to expand the 'cash basis' – a simplified way for over four million sole traders to calculate and pay their Income Tax - and a systematic review of HMRC guidance and key forms for small businesses, to ensure the tax system is easy for them to understand.

For small businesses not applying the cash basis, the Annual Investment Allowance (AIA) provides 100% first-year relief for plant and machinery investments. From April 2023, this will be permanently set at £1 million, simplifying the tax treatment of capital expenditure for 99% of businesses. Larger businesses will benefit from full expensing for the next three years, simplifying claims and investment decisions.

For individuals Spring Budget also simplifies pension tax. Increasing the Annual Allowance and removing the Lifetime Allowance charge will reduce the number of taxpayers that need to report and pay pensions tax.

Spring Budget also includes a discussion document on modernising HMRC's Income Tax services so taxpayers can quickly and easily manage their own tax affairs online, reducing the need to contact HMRC. This builds on the government's commitment to make HMRC services simpler and more efficient, for example through introducing a Single Customer Account so taxpayers can interact with all their tax information in one place.

Tax simplification is an ongoing priority for the government and will be kept at the core of the policy development process as tax and administration changes are considered for future fiscal events.

[112] Gov.uk business population estimates, 2022.

High growth sectors

3.79 The government will turn its vision for UK enterprise into a reality by supporting growth in the sectors of the future. There are opportunities to accelerate the progress of the technologies that will define this century by encouraging investment and smarter regulation. This will support the government's aim to capture a share of growing global markets in:

- green industries
- digital technologies
- life sciences
- creative industries
- advanced manufacturing.

3.80 At Autumn Statement 2022, the government asked Sir Patrick Vallance to lead the Pro-Innovation Regulation of Technologies Review to support innovation in key growth sectors. Sir Patrick publishes his report today on the regulation of emerging digital technologies and he makes interim recommendations on life sciences. Green industries will be addressed in the coming weeks. The new Government Chief Scientific Adviser, Professor Dame Angela McLean, will oversee forthcoming reviews into creative industries and advanced manufacturing.

3.81 Recognising the importance of regulator behaviours for promoting growth, the government has asked Sir Patrick Vallance to report on how regulators can better support innovation. Additionally, the government will ask Professor Dame Angela McLean, to look at the regulator Growth Duty. Recommendations on these cross-cutting regulatory issues, and a government response, will be published by the summer. This work will also inform the Department of Business and Trade's upcoming consultation on economic regulators.

3.82 Cutting-edge companies across these high growth sectors need access to sufficient finance to be able to start, scale and stay in the UK. Since the Patient Capital Review in 2017, the government has delivered a series of reforms to increase investment into innovative scale-up companies, and the UK's venture capital financing gap with the US has halved. To develop the next generation of globally competitive companies that grow and list in the UK, and to bolster the retirement incomes of millions of ordinary people, it will be critical to unlock defined contribution (DC) pension fund investment into the UK's innovative firms. The government has already taken important steps to address barriers and to accelerate progress further. The government will work closely with industry and regulators to bring forward an ambitious package of measures by the autumn. The Spring Budget signals the government's ambition with an initial package:

- Increasing support for the UK's most innovative companies by extending the British Patient Capital programme for a further 10 years until 2033-34 and increasing its focus on R&D intensive industries, providing at least £3 billion in investment.

- Spurring the creation of new vehicles for investment into science and tech companies, tailored to the needs of UK DC pension schemes, through a new Long-term Investment for Technology and Science (LIFTS) initiative. At Spring Budget, the government is inviting feedback on the design of the competition.
- Leading by example by pursuing accelerated transfer of the £364 billion Local Government Pension Scheme assets into pools to support increased investment in innovative companies and other productive assets. The government will shortly come forward with a consultation.

Green industries

3.83 The transition to net zero is essential to long-term prosperity. The UK welcomes decisive international action to tackle climate change and has a world-leading track record in reducing emissions, innovating in green technologies, and mobilising finance for the transition.[113] In addition to the measures in the Spring Budget, the government will set out further action later this month to ensure energy security in the UK and meet our net zero commitments.

3.84 The invasion of Ukraine has highlighted the need for energy security. Clean energy will be vital for both our security and net zero goals, and presents an opportunity for growth. The government is therefore boosting longer-term public and private investment to ensure the country's energy system is secure and clean, and to help meet the government's 2050 net zero commitment.

3.85 To further leverage private investment into the UK's secure and clean energy future, the government is launching Great British Nuclear (GBN) to address constraints in the nuclear market and support new nuclear builds as the government works towards net zero. GBN will launch the first staged competition for Small Modular Reactors, which is expected to attract the best designs from both domestic and international vendors. The government's ambition is to select the leading technologies by the end of this year and if demonstrated to be viable, co-fund this exciting new technology in the UK.

3.86 While the initial focus of GBN will be on Small Modular Reactors, further large Gigawatt-scale projects will also be considered subject to value for money, relevant approvals and technology readiness and maturity, to help deliver net zero. Nuclear energy will also be included in the green taxonomy, subject to consultation, encouraging private investment. This package is essential for the transition to net zero and confirms the government's support for the growth of these critical green industries in the UK.

3.87 To support energy efficiency, the government will extend the Climate Change Agreement scheme for a further 2 years.

3.88 The government will also provide up to £20 billion funding for early deployment of Carbon Capture, Usage and Storage (CCUS), to help meet the government's climate commitments. This unprecedented level of funding for the

[113] The Low Carbon Economy Index 2019, PwC, 2019.

sector will unlock private investment and job creation across the UK, particularly on the East Coast and in the North West of England and North Wales. It will also kick-start the delivery of subsequent phases of this new sustainable industry in the UK, taking advantage of the country's natural comparative advantage in CCUS. A shortlist of projects for the first phase of CCUS deployment will be announced later this month. Further projects will be able to enter a selection process for Track 1 expansion launching this year, and 2 additional clusters will be selected through a Track 2 process, with details announced shortly.

Digital technologies

3.89 The government welcomes Sir Patrick Vallance's first published report into the regulation of emerging digital technologies and accepts all of its recommendations. A supplementary Spring Budget document sets out how they will be implemented.

3.90 The UK has long been a leading location for digital and technology companies to innovate and do business. However, this report highlights that there are areas where the government can further ensure that the UK's regulatory environment enables innovation and a thriving digital economy. From better regulating the applications of AI, to promoting openness of public data and accelerating legislation to bring forward the future of transport, Sir Patrick's report presents ambitious ideas to unlock progress.

3.91 Further investment is needed in infrastructure for research and innovation. Powerful computing capability is an essential component of being a global hub for innovation and achieving the UK's ambition to be a science superpower. Compute is also essential to progress in Artificial Intelligence research.[114] However, according to the independent Future of Compute Review, published last week, the UK's most powerful computer ranks just 28th in the world.[115] The Review also found that the UK's AI community has immediate requirements for large-scale, accelerator-driven compute to remain internationally competitive.

3.92 In line with two of the key recommendations of the Future of Compute Review, the government will invest, subject to the usual business case processes, in the region of £900 million to build an exascale supercomputer and to establish a new AI Research Resource, with initial investments starting this year.[116] Together, these will provide significant compute capacity to our AI community and provide scientists with access to cutting-edge computing power. They will allow researchers to better understand climate change, power the discovery of new drugs and maximise our potential in AI.

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[114] "Compute" refers to computer systems where processing power, memory, data storage and network are assembled at scale to tackle computational tasks beyond the capabilities of everyday computers.
[115] Independent Review of the Future of Compute, 2023.
[116] "Exascale" refers to a high-performance computing system that is capable of at least one exaflop per second (this is a measure of computing performance), The exascale system will be several times more powerful than the UK's existing top supercomputers.

3.93 Recent developments in AI, such as the launch of ChatGPT and the announcement of Google Bard, have shown the powerful potential for technologies which are based upon foundation models, including large language models. As announced alongside the refresh of the Integrated Review, government will establish a taskforce to advance UK sovereign capability in foundation models, including large language models, and provide direct advice to ministers, to ensure that the UK is at the forefront of this technology.

3.94 The government will award a £1 million prize every year for the next 10 years to researchers that drive progress in critical areas of AI.

3.95 Quantum technologies are expected to have transformative and wide-ranging impacts, through the development of new types of computers, secure communications, and wider improvements to sensing, imaging and timing. The Quantum Strategy sets out a new and ambitious quantum research and innovation programme. The government will invest a total of £2.5 billion over 10 years, focusing on realising 4 goals: ensuring the UK is home to world-leading quantum science and engineering; supporting businesses through innovation funding opportunities and by providing access to world-leading R&D facilities; driving the use of quantum technologies in the UK; and creating a national and international regulatory framework.

3.96 The government has allocated £100 million funding for the Innovation Accelerators programme to 26 transformative R&D projects. This will accelerate the growth of 3 high-potential innovation clusters and support Levelling Up. This includes the Manchester Turing Innovation Hub led by the University of Manchester, 2 quantum projects in Glasgow led by the University of Glasgow and M-Squared Lasers Limited, and a project to accelerate new health and medical technologies led by the University of Birmingham.

3.97 The government has committed to lead on the regulation of AI and on the future of web technology, sometimes known as Web 3 or the Metaverse. The government will work to maximise the potential of Web3 and spur UK growth and innovation, alongside empowering individuals to influence how their data is used, and managing downside risks to privacy, security and harms.

Life sciences

3.98 The UK is a world-leader in the life sciences industry, with significant R&D hubs such as Cambridge's Biomedical Campus. East West Rail – the rail line joining Oxford and Cambridge - will support further growth in life sciences and other high-productivity sectors across the region, connecting businesses and talent. In May, the government will confirm the route for the new Bedford-Cambridge section, and will provide capacity funding to support local authorities to develop their plans for strategic economic growth around new stations.

3.99 Boosting the supply of commercial development, in particular lab space, is key to supporting R&D needs and driving investment into high value industries across England, such as the life sciences and advanced manufacturing sectors in the Oxford-Cambridge corridor. Following the recent National Planning Policy Framework consultation the government will set out further details for supporting growth in this area in due course.

3.100 Based on interim recommendations from Sir Patrick's regulatory review of life sciences, the government is supporting the Medicines and Healthcare products Regulatory Agency (MHRA), the first drugs regulator in the world to authorise a COVID-19 vaccine, to become faster and nimbler. With £10 million extra funding over the next 2 years, the MHRA will maximise its use of Brexit freedoms and accelerate patient access to treatments. The MHRA is exploring partnerships with trusted international agencies, such as in the US, Europe and Japan, to provide simple, rapid approvals for medicines and technologies that have received their approval from 2024. The MHRA will also have a fully operational swift approval process in place from 2024 for the most impactful new medicines and technologies - such as cancer vaccines and AI therapeutics for mental health.

Creative industries and advanced manufacturing

3.101 Further policy announcements will follow for these sectors once the recommendations from their subsequent reviews have been considered.

Spreading opportunity Everywhere

3.102 Opportunity is spread unequally across the UK. The government is committed to challenging and reversing that unfairness by ensuring the benefits of economic development are felt by people everywhere, whether in towns, cities, rural or coastal areas.

3.103 The growth of every place and nation in the UK is vital, not just to boost national economic growth, but to create a stronger, fairer and more inclusive society. The Centre for Cities estimates that the UK's regional economic inequalities represent £83 billion of lost output – more than 4% of GDP.[117] The UK is at its best when it can draw from the combined talent and strength of its regions and nations. Empowered local decision-making, civic entrepreneurship and local wealth creation lead to better outcomes for businesses and citizens across the country.

3.104 The UK's second cities should be engines for growth for their surrounding towns and regions, but they are held back by poor connectivity and skills disparities. If the UK's second cities were as productive relative to the national average as those in the G7 then UK GDP would be nearly 5% higher, and would bring the UK second only to the US and Germany for GDP per head.[118]

3.105 The February 2022 Levelling Up White Paper set out a powerful case for change and a clear plan of action. The Spring Budget drives this ambitious agenda forward, delivering change for all parts of the UK with UK-wide support, targeted spending to meet local needs, and devolution to give local leaders the tools they need to drive change in their areas.

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[117] 'So you want to level up?', Centre for Cities, 2021.
[118] HMT calculation using OECD Regions and Cities data.

Levelling up by attracting new private sector investment

3.106 The government is launching the refocused Investment Zones programme to catalyse 12 high-potential knowledge-intensive growth clusters across the UK, including 4 across Scotland, Wales and Northern Ireland. Each cluster will drive the growth of at least one of our key future sectors - green industries, digital technologies, life sciences, creative industries and advanced manufacturing - bringing investment into areas which have underperformed economically.

3.107 Each English Investment Zone will have access to interventions worth £80 million over 5 years. Local government and research institutions will be able to tailor their Investment Zone plan to their local circumstances.

3.108 Investment Zones will have access to a single 5 year tax offer matching that in Freeports, consisting of enhanced rates of Capital Allowance, Structures and Buildings Allowance, and relief from Stamp Duty Land Tax, Business Rates and Employer National Insurance Contributions. Alongside this, Investment Zones will have access to flexible grant funding to support skills and incentivise apprenticeships, provide specialist business support and improve local infrastructure, dependent on local requirements. Local partners will be able to choose the number and size of tax sites, within the £80 million envelope, up to a maximum of 3 sites totalling 600 hectares. The amount of grant funding will depend on the number and size of tax sites.

3.109 To access this offer, plans must credibly set out how local partners will use the levers available to propel growth in priority sectors, identify private sector match funding, and use the local planning system to support growth. Plans will be developed collaboratively by Mayoral Combined Authorities (MCAs) – working in partnership with local universities, councils and businesses – and central government. Plans will need to demonstrate how the Investment Zone will support the UK reaching net zero by 2050 and the government's new long-term targets to protect and enhance the natural environment, and be resilient to the effects of climate change.

3.110 Local partners within the geographies covered by the following authorities will be invited to begin discussions on hosting an Investment Zone with the Department for Levelling Up, Housing and Communities (DLUHC) and HM Treasury, with a view to agreeing Investment Zone proposals by the end of the year. These locations have been shortlisted through a robust analytical assessment, which accounted for strengths in innovation, productivity potential and levelling up need, alongside other factors considered essential for an Investment Zone to be successful, such as strong governance:

- the proposed East Midlands Mayoral Combined County Authority
- Greater Manchester Mayoral Combined Authority
- Liverpool City Region Mayoral Combined Authority
- the proposed North East Mayoral Combined Authority
- South Yorkshire Mayoral Combined Authority

- Tees Valley Mayoral Combined Authority
- West Midlands Mayoral Combined Authority
- West Yorkshire Mayoral Combined Authority.

3.111 Proposals will be led by the MCA or, where the MCA is not yet confirmed, an interim accountable body will be agreed. This shortlist will remain under review, with scope for future discussions with other areas.

3.112 The government has published a policy prospectus which sets out further details on the programme, including the policy framework for the programme in England. DLUHC have also published the selection methodology for England.

3.113 DLUHC is working closely with the devolved administrations to establish how Investment Zones in Scotland, Wales and Northern Ireland will be delivered. The final design choices and agreement on an Investment Zone in Northern Ireland will be subject to the restoration of the Northern Ireland Executive.

Empowering local leadership

3.114 The Spring Budget delivers on the Levelling Up White Paper by providing new and deeper powers to more local leaders, so that they can act more flexibly and innovatively, respond to local need and drive growth for their citizens.

3.115 In the Levelling Up White Paper, the government committed to negotiate trailblazer deeper devolution deals with the Greater Manchester and West Midlands Combined Authorities to set the blueprint for deeper devolution across the rest of England. These deals have now been agreed, subject to ratification, and will equip these authorities with deeper and additional policy levers to deliver on their priorities, including across local transport, employment, housing, innovation and net zero. This includes a greater role in simplifying and integrating ticketing in local transport systems; devolution of the majority of 19+ adult skills funding to mayors; a long-term commitment to local authorities retaining 100% of their business rates; and, for the first time outside of London, local leaders will now be able to set the strategic direction over the Affordable Housing Programme in their areas.

3.116 As part of the trailblazer deeper devolution deals, the government has committed to give Greater Manchester and West Midlands Combined Authorities single multi-year funding settlements at the next Spending Review. These settlements will be agreed directly with government through a single process and will cover their funding for devolved policy areas, including local growth and place, local transport, housing and regeneration, adult skills and retrofitting buildings to drive decarbonisation, for the duration of each Spending Review period. The single funding settlements will give the trailblazer MCAs the flexibility and independence they need to deliver for their areas while providing assurance of MCA performance through a single outcomes-based accountability framework. The government's ambition is to roll this model out to all areas in England with a devolution deal and a directly elected leader over time.

3.117 As part of our commitment to devolution, the government intends to expand the local retention of business rates to more areas in the next Parliament and will work closely with interested councils to achieve this. The government also remains committed to bringing forward wider proposals to improve the local government finance landscape in the next Parliament.

3.118 Last year, the government made significant progress towards its 2030 devolution mission, signing 6 devolution deals. The government is fully committed to these deals and seeing the first elections in May 2024. The government's ambition is to see devolution extended further across England, beyond the areas named in the Levelling Up White Paper. In taking forward this ambition the government will seek to negotiate a new wave of devolution deals over the coming year, which will include local investment funding for areas that are committed to a mayor or directly elected leader.

3.119 The government is committed to empowering democratically elected local leaders at every opportunity. To this end, the government intends for the functions of Local Enterprise Partnerships (LEPs) to be delivered by local government in the future. Therefore, the government is minded to withdraw central government support for LEPs from April 2024. DLUHC and the Department for Business and Trade will now consult on these proposals, before confirming a decision. The government will publish an updated policy position to confirm next steps by the summer.

3.120 At Autumn Budget 2021, the government announced an unprecedented investment package of £5.7 billion for 8 English city regions to transform their local transport networks between 2022-23 and 2026-27. The City Region Sustainable Transport Settlements increase the devolved powers of MCAs and aim to improve sustainability. Spring Budget announces that the government is committing £8.8 billion for a second round of the programme covering 2027-28 to 2031-32, with funding for Greater Manchester and the West Midlands to be included in their Single Settlements.

Levelling up with high quality regeneration across the UK

3.121 The Spring Budget confirms hundreds of millions in targeted funding to regenerate local areas, from rolling out innovative new partnerships to support the most left-behind areas, to unlocking investment and local growth with additional funding for projects up and down the country.

3.122 The Spring Budget announces the rollout of new Levelling Up Partnerships, providing over £400 million and bringing the collective power of government to provide bespoke place-based regeneration in 20 of England's areas most in need of levelling up over 2023 and 2024-25. The government will ensure a fair geographic spread across the regions of England, including: City of Kingston upon Hull, Sandwell, Mansfield, Middlesbrough, Blackburn with Darwen, Hastings, Torbay, Tendring, Stoke-on-Trent, Boston, Redcar and Cleveland, Wakefield, Oldham, Rother, Torridge, Walsall, Doncaster, South Tyneside, Rochdale, and Bassetlaw. Apportionment of this investment will be made on a case-by-case basis, and in each of these places, the government will work with local leaders and mayors in councils and combined authorities, local businesses from all sectors, community organisations and residents to identify and address the biggest barriers to levelling up.

3.123 A third round of the Levelling Up Fund will proceed as planned later in 2023 with a further £1 billion to level up places across the UK.

3.124 The Budget also announces over £200 million for 16 regeneration projects in England. These projects have been assessed as high quality and will commence delivery later this year. Investment has been targeted towards the left-behind places in the Levelling Up White Paper or projects that are under £10 million to ensure quick delivery and a good spread of funding across England. All funding is subject to final subsidy checks. Projects include:

- £6.6 million in Wigan
- £8 million in Blackpool
- £6.7 million in Tendring
- £5.6 million in Kirklees
- £9.8 million in Telford and Wrekin
- £5.4 million in Salford
- £8.4 million in Waltham Forest
- £4.3 million in East Suffolk
- £20 million in Sandwell
- £20 million in Redcar and Cleveland
- £19.9 million in Tameside
- £20 million in Blackburn with Darwen
- £20 million in Wolverhampton
- £16.4 million in Northumberland

- £20 million in Rotherham
- £20 million in North East Lincolnshire.

3.125 £58 million will be invested in 3 levelling up capital projects in the North West of England. This will see a new community hub in Stockport, the transformation of Bootle town centre, and the redevelopment of markets as well as transport connectivity improvements in Rossendale.

3.126 The government has also provided a further £161 million for high-value capital regeneration projects in city regions across England, including business premises and food science facilities in Tees Valley, and unlocking investment in a research campus in the Liverpool City Region.

3.127 The existing £150 million Community Ownership Fund provides funding to areas across the UK to allow community groups to take ownership of assets at risk of closure. The Spring Budget announces funding for an additional 30 projects, meaning almost 100 communities across the UK have taken ownership of vital local assets.

3.128 The government will provide up to £8.6 million for Scotland's festival economy. Funding could help build a permanent headquarters for the Edinburgh Fringe Festival and create year-round opportunities for local artists and talent across Edinburgh festivals. This will boost Scotland's festival economy, which contributes over £300 million a year to Scotland.

3.129 The government has allocated up to £40 million to widening participation in further and higher education in Northern Ireland. The government will also provide up to £3 million to extend the Tackling Paramilitarism Programme, enabling the programme to continue its positive work to tackle paramilitarism in Northern Ireland and strengthen community resilience.

3.130 To support the restoration of the historic grade 2 listed Holyhead Breakwater at Holyhead Port, the government is providing £20 million of funding to the Welsh Government. This will ensure the long-term viability of this vital transport hub and trade links with the island of Ireland, as well as safeguard the hundreds of jobs this port supports in Wales.

Ensuring a sustainable and accessible housing market and driving infrastructure investment and delivery

3.131 At the 2021 Spending Review, the government demonstrated its commitment to investing in safe and affordable housing by confirming a settlement of nearly £24 billion.

3.132 High levels of nutrient pollution in protected sites are stalling housing delivery across 74 Local Planning Authorities, reflecting a major barrier to the government's ambition of delivering 300,000 homes per year. The government has already provided significant support for protected sites that are affected, both to address the pollution at source and to support housing developers to deliver their environmental obligations.

3.133 In recognition of the scale of the impact, the Spring Budget announces further support to ensure 'nutrient neutrality' obligations can be efficiently delivered, thereby reducing the risks facing developers building homes in affected areas. DLUHC will shortly launch a call for evidence from Local Planning Authorities, backed by a commitment to provide funding for high quality, locally-led nutrient mitigation schemes.

3.134 The government is committed to delivering high quality infrastructure to boost growth across the country, including over £600 billion public sector gross investment over the next five years, split across economic and social infrastructure. The government will publish an updated National Infrastructure and Construction Pipeline later in 2023, reflecting this commitment.

3.135 In addition, to boost infrastructure investment that is crucial to local communities and businesses, the government will invest a further £200 million in 2023-24 to maintain and improve local roads. This increase will enable local authorities in England to fix more potholes, complete resurfacing, and invest in major repairs and renewals, such as keeping bridges and major structures open. Better roads enable faster and safer journeys for all users, contributing to productivity gains. The increase is expected to fix the equivalent of up to 4 million additional potholes across the country.

3.136 Now in its final stages in Parliament, the UK Infrastructure Bank Bill will give the UK Infrastructure Bank (UKIB) the powers to deliver on its mandate to accelerate investment into ambitious infrastructure projects which tackle climate change and support levelling up. Since its launch in June 2021 the UKIB has completed 10 deals worth over £1 billion, investing in projects that support people, businesses and communities across the UK.

3.137 The government has published an Action Plan, supported by £15 million funding over 2023-24, setting out reforms to the Nationally Significant Infrastructure Project (NSIP) planning process. These reforms will deliver a more sustainable system, greater certainty for investors, and will ensure that projects of this scale put environmental and community benefits at the heart of delivery. National Policy Statements (NPSs) are a cornerstone of the NSIP regime and as part of the Action Plan, the government has now published a consultation on the National Networks NPS. A consultation on the updated Energy NPS and the final Water NPS will be published shortly.

3.138 In addition, the government has asked the National Infrastructure Commission (NIC) to carry out a study to look at the role of NPSs and make recommendations on how these important documents can support our reforms, including what action the government can take to ensure NPSs are reviewed more regularly and how the process could be improved. The NIC will provide a final report in spring 2023.

4 Policy Decisions

4.1 The following chapter sets out all Spring Budget 2023 policy decisions. Unless stated otherwise, the decisions set out are ones which are announced at the Budget. Table 4.1 shows the cost or yield of all government decisions accounted for at Spring Budget 2023 which have a direct effect on Public Sector Net Borrowing (PSNB) in the years up to 2027-28. This includes tax measures, changes to aggregate Departmental Expenditure Limits (DEL) and measures affecting annually managed expenditure (AME). The government is also publishing the methodology underpinning the calculation of the fiscal impact of each policy decision. This is included in 'Spring Budget 2023: policy costings' published alongside the Spring Budget. The supplementary document 'Overview of Tax Legislation and Rates', published alongside the Spring Budget, provides a more detailed explanation of tax measures.

4.2 Where measures set out in the Spring Budget do not apply UK-wide, the government will provide the devolved administrations with additional funding through the Barnett formula in the usual way. The Scottish and Welsh Governments' funding will also be adjusted in relation to tax and welfare devolution as set out in their respective fiscal frameworks.

Table 4.1: Spring Budget 2023 policy decisions (£ million)[1]

		Head[2]	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Growing the economy: Employment & Education								
	Support for parents							
1	Childcare for working parents: extend 30 free hours to children from 9 months old until they start school, increase the government funding rate for all free hours and implement supply side reforms	Spend	0	-240	-2,410	-4,240	-5,170	-5,240
2	Wraparound childcare: pathfinder scheme	Spend	0	-5	-230	-110	0	0
3	Childcare: funding incentives for childminders	Spend	0	-5	-5	0	0	0
4	DWP: pay Universal Credit childcare support upfront for parents moving into work	Spend	0	-100	-95	-75	-70	-60
5	DWP: increase the maximum support available in Universal Credit for childcare costs	Spend	0	-50	-85	-75	-80	-85
	Disability and health							
6	DWP: employment programme for disabled people	Spend	0	-90	-250	-230	-195	-160

		Head[2]	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
7	DWP: Additional Work Coach Time for Incapacity Benefits claimants	Spend	0	-90	-145	-240	-220	-205
8	DWP: Disability Benefits White Paper reforms	Spend	0	0	0	0	-10	-35
9	DWP: pilot WorkWell Partnerships Programme	Spend	0	-10	-45	-65	0	0
10	DWP: Occupational Health: SME subsidy pilot scheme expansion	Spend	0	-10	-15	0	0	0
11	Funding for further labour market pilots and evaluations	Spend	0	-10	-30	0	0	0
12	Increase employment advisers in health settings	Spend	0	-5	-20	-30	-45	-50
13	Digital health innovations for mental health, musculoskeletal, and cardiovascular conditions	Spend	0	-70	-75	-55	-55	-55
14	Scaling up musculoskeletal support hubs	Spend	0	0	-5	-5	-5	-5
15	VAT: extend the zero rate for prescriptions to Patient Group Directions	Tax	0	*	-5	-5	-5	-5
16	VAT: extend the exemption for medical care services supervised by healthcare professionals to pharmacists	Tax	0	-5	-10	-10	-10	-10
	Welfare and unemployment							
17	DWP: remove the couples Administrative Earnings Threshold	Spend	0	0	-40	-40	-35	-30
18	DWP: additional support and conditionality for carers of young children	Spend	0	-30	-25	-25	-25	-20
19	DWP: increase the Administrative Earnings Threshold from 15 to 18 hours per week at the National Living Wage	Spend	0	-45	-55	-60	-55	-45
	Older workers							
20	Lifetime Allowance (LTA): remove charge from April 2023 and abolish from April 2024	Tax	0	-135	-210	-770	-800	-835
21	Annual Allowance (AA): increase to £60,000 and allow Pension Input Amount aggregation between open and closed public service pension schemes from April 2023	Tax	0	-55	-200	-270	-270	-290
22	Money Purchase Annual Allowance (MPAA): increase to £10,000 from April 2023	Tax	0	-15	-35	-40	-40	-40
23	DWP: improve and expand access to Midlife MOT	Spend	0	-35	-20	-5	-5	-5
	Skills							
24	Sector-Based Work Academy Programme (SWAPs): expansion to 80,000 starts in both 2023-24 and 2024-25 to support Returnerships	Spend	0	-15	-25	0	0	0

	Head[2]	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
25 Skills Bootcamps: expansion to 64,000 places from 2024-25 to support Returnerships	Spend	0	0	-40	-40	-40	-40
26 Employment support programme for Ukrainians	Spend	0	-10	0	0	0	0
Growing the economy: Enterprise							
27 Capital allowances: 100% full expensing for main rate assets and 50% First Year Allowance for special rate assets for three years	Tax	-1,200	-7,955	-10,660	-8,680	-1,550	+2,225
28 R&D tax reliefs: additional tax relief for R&D intensive SMEs[3]	Tax	0	-40	-285	-455	-505	-535
29 R&D tax reliefs: delay implementation of overseas expenditure restrictions by one year[3]	Tax	0	-10	-105	-75	-15	0
30 Creative reliefs: reform of audiovisual tax reliefs into expenditure credits with increase in rates[3]	Tax	0	*	-15	-40	-45	-50
31 Cultural reliefs: extend higher rates of the theatre, orchestra and museums and galleries tax reliefs for two years[3]	Tax	0	-10	-90	-140	-90	-20
32 Community Investment Tax Relief: increase the amount accredited CDFI bodies can raise	Tax	0	*	-5	-5	-10	-15
33 Real Estate Investment Trusts: implement Edinburgh reforms to increase attractiveness of regime	Tax	0	-25	*	*	*	*
34 Artificial Intelligence Challenge Prize: reward world-leading AI research	Spend	0	-5	-5	0	0	0
Growing the economy: Everywhere							
35 Levelling up and pride in place funding	Spend	0	-45	-70	-85	-50	0
36 Potholes Fund: increase resources to maintain and improve local roads	Spend	0	-235	0	0	0	0
37 Swimming Pool Support Fund: help public pools with cost pressures and energy efficiency	Spend	0	-70	0	0	0	0
38 Support for charities and community organisations: funding for services and energy efficiency	Spend	0	-105	-15	0	0	0
Halving inflation: Cost of living support for households and businesses							
39 Fuel Duty: 12 month extension to the 5p cut in rates and no RPI increase in 2023-24	Tax	-45	-4,845	-2,610	-2,575	-2,550	-2,540
40 Alcohol Duty: freeze rates until August 2023 then uprate by RPI and increase Draught Relief to 9.2% for beer and cider and 23% for wine, other fermented beverages and spirits	Tax	-155	-405	-75	-80	-80	-85
41 Energy Price Guarantee: extend the support rate at £2,500 until 30 June 2023	Spend	0	-2,950	0	0	0	0

	Head[2]	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
42 Energy Bills Discount Scheme: support for Domestic Heat Network Customers on non-domestic contracts	Spend	0	-380	0	0	0	0
43 Changes to the Energy Price Guarantee and technical changes relating to other energy support	Spend	0	-500	0	0	0	0
44 Climate Change Agreement scheme: extend for two years, open to new entrants and increase buy-out price to £25/tCO2e	Tax	0	*	-20	-295	-315	0
Spending and welfare							
45 Defence and national security priorities	Spend	0	-2,000	-3,000	-2,010	-2,020	-2,035
46 BBC World Service funding	Spend	0	-10	-10	0	0	0
47 DWP: increase the Severe Disability Premium Transitional Element	Spend	0	*	*	-5	-5	-5
48 DWP: maintain the Universal Credit surplus earnings threshold at £2,500 in 2023-24	Spend	0	-55	0	0	0	0
49 Help to Save: extend scheme for 18 months	Spend	0	0	0	-15	-30	-15
50 Support for veterans	Spend	0	-10	-15	-10	0	0
51 Suicide prevention fund	Spend	0	-5	-5	0	0	0
52 DHSC: additional funding for the Medicines and Healthcare products Regulatory Agency	Spend	0	-5	-5	0	0	0
53 Further support in Scotland, Wales and Northern Ireland[4]	Spend	0	-20	-15	0	0	0
54 Support for care leavers: expansion of the Staying Close programme	Spend	0	-10	-10	-10	-10	-10
55 Public Works Loan Board: new discounted Housing Revenue Account rate	Spend	0	-5	-10	-10	-10	-10
Other tax							
Confirmation of rates and thresholds							
56 Aggregates levy: freeze rate at £2.00 per tonne for 2023-24	Tax	0	-40	-45	-45	-45	-50
57 HGV levy: introduce new reformed levy from August 2023	Tax	0	-45	-65	-65	-70	-70
58 Vehicle Excise Duty: freeze rate for HGVs for 2023-24	Tax	0	-25	-25	-25	-25	-25
59 Individual Savings Accounts: maintain annual subscription limit at £20,000 for 2023-24	Tax	0	*	+35	+75	+105	+140
60 Starting rate limit for savings income: maintain at £5,000 for 2023-24	Tax	0	+10	+25	+25	+25	+25
61 Tobacco duty: increase duty on hand rolling tobacco by an additional 4% and the minimum excise tax by an additional 1%	Tax	+5	+25	+25	+25	+25	+30
62 Gaming duty: maintain Gross Gaming Yield bands for 2023-24	Tax	0	+5	+5	+5	+5	+5

	Head[2]	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
63 Qualifying Care Relief: increase from April 2023, index by inflation from April 2024	Tax	0	0	-15	-10	-10	-10
Tackling the tax gap and tax administration							
64 HMRC: investment in debt management capability	Tax	+115	+330	+395	+200	+165	+165
65 Capital Gains: change to assessment time period	Tax	0	0	0	0	0	+5
66 Amending Self Assessment forms for cryptoassets	Tax	0	0	0	+10	+10	+10
67 Introduce an elective accruals basis for the Carried Interest rules	Tax	0	+80	+10	+10	+10	+10
68 Low income trusts and estates: simplification measures to reduce reporting and administration	Tax	0	0	0	+15	+10	+10
69 Charitable Reliefs: withdraw tax reliefs from non-UK charities and their donors and suppliers from April 2023	Tax	0	0	+5	+10	+10	+10
70 Stamp Duty Land Tax: amendment to the Registered Social Landlord Exemption	Tax	0	-15	0	0	0	0
Previously announced policy							
71 NHS pensions: new retirement flexibilities including partial retirement and pensionable reemployment	Spend	0	-605	-220	+130	+230	+210
72 Energy Bills Discount Scheme	Spend	0	-545	0	0	0	0
73 Electricity Generator Levy: index benchmark price and update rules on costs	Tax	-65	-265	-285	-330	-325	-180
74 Making Tax Digital for income tax Self Assessment and digital prompts: phased introduction from 2026	Tax	0	-10	-125	-500	-620	-520
75 Penalty reform for income tax Self Assessment: phased introduction from 2026	Tax	0	0	0	-20	+30	+155
76 VAT: Northern Ireland second-hand car market support scheme	Tax	0	-40	-45	-45	-45	-50
77 National Insurance contributions: impact of maintaining the Lower Earnings Limit and Small Profits Threshold at 2022-23 levels	Tax	0	-10	-15	-15	-15	-15
78 Re-insurance of long term insurance business: address possible tax mismatch and clarify scope of existing legislation	Tax	+15	+50	+50	+55	+55	+60
79 Changes to tariff rates since Autumn Statement 2022	Tax	*	-10	-5	-5	-5	-5
80 Scottish Green Freeports[5]	Tax	0	0	-5	-10	-10	-10
81 Tax exemptions for Group Litigation Order scheme payments related to the Post Office Horizon scandal	Tax	0	0	-25	-5	0	0

	Head[2]	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
82 Disregarding compensation payments related to the Post Office Horizon scandal from benefit means tests	Spend	0	-5	-5	-5	-5	-5
83 Council tax precepting authorities: reserves implications of referendum principles	Tax	0	+10	+10	+10	+10	+10
84 Mortgage Guarantee Scheme: extend for one year	Spend	+5	+5	+5	+5	+5	+5
Total policy decisions[6,7]		**-1,335**	**-21,850**	**-21,405**	**-21,385**	**-14,910**	**-10,420**
Total spending policy decisions[6,7,8]		+10	-8,545	-7,555	-8,035	-8,590	-8,550
Total tax policy decisions[6,7]		-1,340	-13,305	-13,845	-13,350	-6,315	-1,870

[*] Negligible.
[1] Costings reflect the OBR's latest economic and fiscal determinants.
[2] Many measures have both tax and spend impacts. Measures are identified as tax or spend on the basis of their largest impact.
[3] This measure is formally classified as annually managed expenditure.
[4] This funding is additional to UK-wide measures and Barnett consequentials resulting from policy decisions accounted for at the Budget.
[5] This does not include the cost of Business Rates and Land and Buildings Transaction Tax reliefs, which are devolved to Scotland.
[6] Totals may not sum due to rounding.
[7] The totals for tax and spending reflect both the tax and spend impacts of each measure. Totals may not sum by head classification.
[8] Of this additional spending in 2027-28, 67% is considered by the OBR to have a positive and quantified impact on labour supply.

Economic and Fiscal Outlook

4.3 The Net Financing Requirement for the Debt Management Office (DMO) in 2023-24 – The Net Financing Requirement for the DMO is forecast to be £246.1 billion; this will be financed by gilt sales of £241.1 billion and net Treasury bill sales for debt management purposes of £5.0 billion.

4.4 National Savings and Investments (NS&I) net financing target – NS&I will have a net financing target of £7.5 billion in 2023-24 (within a range of ±3bn), which will be met through net additional deposits with NS&I in the retail savings market. The government's financing plans for 2023-24 are set out in full in the 'Debt Management Report 2023-24', published alongside the Spring Budget.

4.5 NatWest shareholding – Having successfully reduced its shareholding in NatWest Group to under 42% (as of 1 March 2023) the government intends for its programme of sales to conclude by 2025-26, subject to market conditions and achieving value for money for taxpayers.

Cost of living and public services

Sustainable Public Finances

Public Spending

4.6 Defence spending – The government is providing an extra £4.95 billion for defence over 2023-24 and 2024-25 to improve the resilience and readiness of our forces. As set out in the Integrated Review Refresh, the government's aspiration over the longer-term is to invest 2.5% of GDP on defence, as the fiscal and economic circumstances allow.

4.7 Support for veterans – The government is providing an additional £33 million over the next 3 years to increase the service provided to veterans, including support for those with serious physical injury resulting from their service and increasing the availability of veteran housing.

4.8 Economic Deterrence Initiative – The government is launching the Economic Deterrence Initiative with up to £50 million of additional funding over the next 2 years to strengthen our diplomatic and economic tools to deter and respond to hostile acts by current and future aggressors.

4.9 BBC World Service – In recognition of the vital role the BBC World Service plays in projecting British values and culture overseas, the government will provide £20 million of additional grant funding to the World Service over the next 2 years.

4.10 DEL Spending Assumption from 2025-26 to 2027-28 – Planned departmental resource spending for the years beyond the current Spending Review period (2025-26 to 2027-28) will follow the cash profile set out at Autumn Statement, with new commitments, including on labour markets and defence, funded in addition to this. This will see overall resource spending continue to grow at 1% a year in real terms on average. Departmental capital spending will follow the cash profile agreed at the Autumn Statement 2022, with new commitments, including defence, funded in addition to this.

Working more efficiently

4.11 Shared Outcomes Fund (SOF) – The government confirms a further £30.4 million funding for ten existing SOF pilot projects from the £200 million SOF allocation announced at the 2021 Spending Review. This will enable these projects to further test and evaluate innovative cross-government approaches to improve outcomes in areas including Net Zero and supporting both vulnerable children and people experiencing multiple disadvantages.

4.12 Unclaimed Balances – The government is introducing a time limit on funds paid into the Court Funds Office for civil claims which remain unclaimed for 30 years or more. After 30 years, the right to claim will be extinguished and the funds will be returned to the Exchequer.

Supporting with the increased cost of living

4.13 Energy Price Guarantee (EPG) – The government will maintain the EPG across the UK at £2,500 per year for the typical household for an additional three months (April to June 2023). The planned increase to £3,000 per year will therefore be implemented on 1 July, rather than 1 April as previously announced.

4.14 Energy Bills Discount Scheme – The Energy Bills Discount Scheme will provide all eligible businesses and other non-domestic energy users across the UK with a discount on high energy bills until 31 March 2024, following the end of the current Energy Bill Relief Scheme. It will also provide businesses in sectors with particularly high levels of energy use and trade intensity with a higher level of support.

4.15 Prepayment meter (PPM) bills – The government will adjust the EPG from 1 July to bring charges for comparable direct debit and PPM customers into line until April 2024, when the EPG ends. This measure will apply across the UK. As the energy market operates differently in Northern Ireland, this measure will apply there only where a structural PPM premium exists. Looking beyond the end of the EPG, the government will ensure the PPM premium is ended on a permanent basis. The government supports Ofgem's ongoing work to review PPM costs and has asked the regulator to report by the autumn on any additional regulatory options, including options for ending the PPM standing charge premium, so that they are ready for implementation in April 2024.

4.16 Call for evidence on domestic customers on non-domestic meters – The government continues to develop options to support domestic consumers on a non-domestic meter where they are facing lower levels of support than other domestic consumers. The Department for Energy Security and Net Zero (DESNZ) will issue a call for evidence before summer for domestic consumers who receive their energy via a non-domestic energy contract.

4.17 Energy Bills Discount Scheme – support for domestic heat network consumers on non-domestic contracts – The government is providing UK domestic Heat Network customers on non-domestic heating contracts with a higher rate of relief, set at a level that will ensure that they do not face disproportionately higher energy bills than consumers under the EPG.

4.18 Swimming Pool Support Fund – The government will provide over £60 million of support for public swimming pools across England. This will be targeted to address the immediate cost pressures facing public swimming pool providers, as well as providing investment in energy efficiency measures to reform facilities, reduce future operating costs and deliver long-term sustainability.

4.19 Support for charities and community organisations – The government will provide over £100 million of support for charities and community organisations in England. This will be targeted towards those organisations most at risk, due to increased demand from vulnerable groups and higher delivery costs, as well as providing investment in energy efficiency measures to reduce future operating costs.

4.20 Surplus earnings – The government will extend the £2,500 surplus earnings level within Universal Credit (UC) in Great Britain until March 2024.

4.21 Personal Independence Payment (PIP) easement – In May 2021, DWP introduced a series of operational measures for PIP to reduce new claims waiting times in England & Wales. DWP's ability to use these measures will be extended until November 2023 to ensure that new disability benefit claimants are not facing excessive wait times to have their benefits claim processed.

4.22 Uprating the Transitional Severe Disability Premium rates in UC – Increase the Transitional Severe Disability Premium Element rates in UC in Great Britain for 2023-24 by September 2022 CPI and annually thereafter in line with CPI until 2027-28.

4.23 Fuel duty rates – The government is maintaining the rates of fuel duty at the current levels for an additional 12 months.

Supporting Public Services

Healthcare

4.24 Suicide Prevention Voluntary, Community and Social Enterprise (VCSE) Grant Fund – The government will make £10 million available for a grant fund for suicide prevention VCSE organisations in England across 2023-24 to 2024-25 to support people experiencing suicidal thoughts or approaching a mental health crisis.

4.25 VAT: services supervised by pharmacists – The government will extend the VAT exemption on healthcare to include medical services carried out by staff directly supervised by registered pharmacists. This simplification will take effect from 1 May 2023. It will ensure the VAT system keeps up with changes to how the NHS operates and is in line with the government's commitment to ease pressure on GP services.

4.26 VAT: treatment of Patient Group Directions – The government will extend the zero rate on prescriptions to medicines supplied through Patient Group Directions. The proposed change would reduce costs for the NHS, ensure the tax system keeps pace with changes to healthcare delivery, and is in line with the government's commitment to ease pressure on GP services.

4.27 Tobacco duties – Duty rates on all tobacco products will increase by RPI + 2%. The rate on hand-rolling tobacco will increase by RPI + 6% and the minimum excise tax will increase by RPI +3% this year. These changes will take effect from 6pm on 15 March 2023.

Personal Tax

4.28 Qualifying Care Relief (QCR) increase – The government is increasing the amount of income tax relief available to foster carers and shared lives carers (adult placement care, kinship care, staying put care, and parent and child arrangements). The threshold of income at which qualifying carers begin paying tax on care income will be increased to £18,140 per year plus £375-450 per person cared for per week for 2023-24 and these levels will then be index-linked.

4.29 Taxation of new social security benefits – The government is introducing a new power to enable the tax treatment of new payments, or new top-up welfare payments, introduced by the devolved administrations, to be confirmed as social security income.

4.30 Taxation of Scottish Government Carers Support Payment – The government will clarify the tax treatment of the Scottish Government's Carer Support Payment as taxable as a social security income. The Carer Support Payment was announced by the Scottish Government on 7 February 2023.

4.31 Tax exemptions for Group Litigation Order scheme payments related to the Post Office Horizon scandal – The government will provide exemptions from income tax, National Insurance contributions and Capital Gains Tax in relation to Group Litigation Order compensation payments.

4.32 Taxation of environmental land management and ecosystem service markets – The government is publishing a call for evidence and consultation to explore both the taxation of ecosystem service markets and the potential expansion of agricultural property relief from inheritance tax to cover certain types of environmental land management.

4.33 Geographical scope of agricultural property relief and woodlands relief from inheritance tax – The government will restrict the scope of agricultural property relief and woodlands relief from inheritance tax to property in the UK from 6 April 2024.

4.34 Charity Taxes – The government will restrict charitable tax reliefs to UK charities and Community Amateur Sports Clubs only from April 2023 - protecting the Exchequer and focusing UK taxpayer money on UK charities. European Union (EU) and European Economic Area (EEA) charities that HMRC has previously accepted as qualifying for charity tax reliefs before 15 March 2023, will have a transitional period until April 2024.

4.35 Simplification for trusts and estates – To simplify administration, the government will formalise and extend an existing income tax concession for low-income trusts and estates and provide further changes to make calculations and reporting more straightforward. HMRC also intend to make changes to inheritance tax regulations to remove non-taxpaying trusts from reporting requirements.

4.36 Help to Save – The government will extend the Help to Save scheme by 18 months, on its current terms, until April 2025. A consultation will be launched in the interim to seek views on longer term options to support low-income savers.

4.37 Freezing savings tax reliefs – The starting rate for savings will be frozen at £5,000, enabling individuals with less than £17,570 in employment income to receive up to £5,000 of savings income free of tax. Annual subscription limits for Junior Individual Savings Accounts (ISA) and Child Trust Fund accounts will remain at £9,000 and the annual subscription limit for adult ISAs will remain at £20,000.

4.38 Implications of Retained European Law on ISA and Child Trust Fund Legislation – The government will restrict eligibility to manage ISAs and Child Trust Funds to financial institutions with a UK presence.

Tackling the Tax Gap

4.39 Investing in HMRC's debt management capability – The government is investing a further £47.2 million to improve HMRC's capability to manage tax debts. This will allow HMRC to better distinguish between taxpayers who can afford to settle their tax debts but choose not to, from those who are temporarily unable to pay, ensuring taxpayers are offered the right support. It will support taxpayers who are temporarily unable to pay by enhancing the online Self-Serve Time To Pay service, while also providing HMRC with additional capacity to ensure that those who can afford to settle their debts do so.

4.40 Tackling promoters of tax avoidance – The government will consult shortly on the introduction of a new criminal offence for promoters of tax avoidance who fail to comply with a legal notice from HMRC to stop promoting a tax avoidance scheme. The government will also consult on expediting the disqualification of directors of companies involved in promoting tax avoidance including those who exercise control or influence over a company.

4.41 Doubling maximum sentences for tax fraud – The government will double the maximum sentences for the most egregious forms of tax fraud from 7 to 14 years.

4.42 Amending the Self Assessment forms for cryptoassets – The government is introducing changes to the Self Assessment tax return forms requiring amounts in respect of cryptoassets to be identified separately. The changes will be introduced on the forms for tax year 2024-25.

4.43 Legislating to render void assignments of income tax repayments – As announced on 11 January 2023, the government will render void assignments of income tax repayments. This will take effect from 15 March 2023.

4.44 Capital gains assessment time period – The government will legislate to close an avoidance loophole that can leave HMRC out of time to assess tax due on capital gains when an asset is disposed of under an unconditional contract. The changes will apply in relation to contracts entered into on or after 1 April 2023 for corporation tax and 6 April 2023 for Capital Gains Tax.

Growing the Economy

Creating a culture of Enterprise

Business investment and Tax

4.45 Capital allowances: Full expensing – From 1 April 2023 until 31 March 2026 investments made by companies in qualifying plant and machinery will qualify for a 100% first-year allowance for main rate assets. This means companies across the UK will be able to write off the full cost in the year of investment, known as full expensing. Companies investing in special rate (including long life) assets will also benefit from a 50% first-year allowance in the year of investment. Expenditure on plant or machinery for leasing is excluded from first -year capital allowances due to longstanding concerns about abuse and wide scope for error. The government will work with industry to identify possible policy solutions that appropriately mitigate these risks.

4.46 Reforms to audio-visual tax reliefs – Following a public consultation, the film, TV and video games tax reliefs will be reformed, becoming expenditure credits instead of additional deductions from 1 April 2024. The new Audio-Visual Expenditure Credit will replace the current film, high-end TV, animation and children's TV tax reliefs. Film and high-end TV will be eligible for a credit rate of 34% and animation and children's TV will be eligible for a rate of 39%. The expenditure threshold for high-end TV will remain at £1 million per hour. The new Video Games Expenditure Credit will have a credit rate of 34%. Qualifying expenditure for the Video Games Expenditure Credit will be expenditure on goods and services that are used or consumed in the UK. Games that have not concluded development on 1 April 2025 may continue to claim EEA expenditure under the current video games tax relief until this relief sunsets in April 2027.

4.47 Full details of the reforms, including transitional arrangements, can be found in the response to the consultation on reforms to the audio-visual tax reliefs.

4.48 Extending the higher rates of Theatre Tax Relief (TTR), Orchestra Tax Relief (OTR) and Museums and Galleries Exhibitions Tax Relief (MGETR) for 2 years – The temporary higher headline rates of relief for TTR, OTR and MGETR will be extended so that from 1 April 2023, the headline rates of relief for the TTR and the MGETR will remain at 45% (for non-touring productions) and 50% (for touring productions). OTR rates will remain at 50%. From 1 April 2025, the rates will be 30% and 35%, and on 1 April 2026 the headline rates of relief for TTR and MGETR will return to 20% and 25%. The headline rates of relief for OTR will return to 25%.

4.49 Extension of the MGETR sunset clause – MGETR will be extended for a further two years until 31 March 2026.

4.50 Qualifying expenditure in theatre, orchestra and museums and galleries exhibitions tax reliefs – Qualifying expenditure for theatre, orchestra, and museums and galleries exhibition tax reliefs will be changed to 'expenditure on goods and services that are used or consumed in the UK.' This will align the cultural reliefs with the audio-visual reliefs and ensure these reliefs remain compliant with the UK's international obligations. Productions that have not concluded by 1 April 2024 may continue to claim EEA expenditure until 31 March 2025.

4.51 Additional tax relief for R&D intensive SMEs – From 1 April 2023, a higher rate of relief for loss-making R&D intensive SMEs will be introduced. SME companies for which qualifying R&D expenditure constitutes at least 40% of total expenditure will be able to claim a higher payable credit rate of 14.5% for qualifying R&D expenditure. A technical note setting out more detail is published alongside the Spring Budget.

4.52 Update on ongoing R&D tax relief review – The government's consultation on merging the R&D Expenditure Credit (RDEC) and SME schemes closed on 13 March. The government is currently considering the responses and no decision has been made. The government intends to keep open the option of implementing a merged scheme from April 2024. The government will publish draft legislation on a merged scheme for technical consultation alongside the publication of the draft Finance Bill in the summer, with a summary of responses to the consultation. Any further changes as a part of the ongoing R&D tax reliefs review will be announced at a future fiscal event, including a final decision on whether to merge the RDEC and SME schemes.

4.53 Delay to restrictions on overseas expenditure in R&D tax reliefs – The previously announced restriction on some overseas expenditure will now come into effect from 1 April 2024 instead of 1 April 2023. This will allow the government to consider the interaction between this restriction and the design of a potential merged R&D relief.

4.54 The Community Investment Tax Relief (CITR) expansion – The amount Community Development Finance Institutions (CDFIs) can lend to eligible businesses will increase from £250,000 to £375,000 for non-profit organisations and from £100,000 to £250,000 for profit organisations. In addition, the amount accredited CDFIs can raise through CITR will increase from £10 million to £25 million for retail CDFIs and from £20 million to £100 million for wholesale CDFIs.

4.55 Social Investment Tax Relief (SITR) expiry – SITR will be allowed to expire in April 2023. New investments made on or after 6 April 2023 will no longer qualify for Income and Capital Gains Tax relief.

4.56 Non-discretionary tax advantaged share schemes call for evidence – The government will be launching a call for evidence on the Share Incentive Plan (SIP) and Save As You Earn (SAYE) employee share schemes. The government will use the call for evidence to consider opportunities to improve and simplify the schemes.

4.57 Tonnage Tax – opening of an election window – The government will open an election window for the first time in nearly 18 years to make it possible for shipping companies that left the Tonnage Tax regime to return to the UK. Open for 18 months from 1 June 2023, the window will enable these companies to take advantage of the substantive reforms to the regime that took effect last year.

From April 2024, the government will also permit third party ship management companies to join the regime and raise the limit on capital allowances to £200 million for lessors of ships into the regime. This follows the conclusion of reviews announced at Autumn Budget 2021.

4.58 Electricity Generator Levy: Final Legislation – As announced at Autumn Statement 2022, and following the publication of draft legislation on 20 December 2022, the government will legislate for the Electricity Generator Levy. As previously announced, the final legislation will include indexation of the benchmark price; the recognition of a limited set of exceptional costs relating to the acquisition of generation fuel, which can be set against exceptional receipts; and rules for joint ventures.

4.59 Amendments to Corporate Interest Restriction – The government will be making a number of modifications in connection with the Corporate Interest Restriction rules in order to protect Exchequer revenue, remove unfair outcomes and reduce administrative burdens for businesses. In most cases, these will take effect for periods of account commencing on or after 1 April 2023.

4.60 Amendments to the rules for Real Estate Investment Trusts (REIT) – Amendments will be made to the REIT regime to enhance its competitiveness. In addition to changes announced in the Edinburgh Reforms launched on 9 December 2022, which will address unnecessary barriers to entry and ensure the rules are operating as intended, the government will also reduce administrative burdens for certain partnerships investing in REITs. The changes will variously apply from 1 April 2023 and Royal Assent of the Spring Finance Bill 2023.

4.61 Amendments to the Qualifying Asset Holding Companies (QAHC) rules – Following the successful introduction of the new QAHC tax regime from April 2022, the government will legislate to make a number of targeted changes so that the regime is more widely available to investment fund structures which fall within its intended scope and the rules better achieve their intended effect. This will further enhance the attractiveness of the UK as a location for establishing asset holding companies by allowing more relevant companies to make use of the regime. Changes will variously take effect from Royal Assent of the Spring Finance Bill 2023, 20 July 2022 and 15 March 2023, or are deemed to have always had effect.

4.62 Amendments to the Genuine Diversity of Ownership (GDO) Rules – The government will make changes to the GDO condition in the QAHC, REIT and Non-Resident Capital Gains (NRCG) rules. The GDO condition is intended to prevent funds that are only open to a small number of predetermined investors from benefitting from those regimes. The changes will improve the operation of the GDO condition for fund structures involving multiple pooling vehicles, and take effect from Royal Assent of the Spring Finance Bill 2023.

4.63 Introducing an elective accruals basis for the carried interest rules – The government is introducing a new elective accruals basis of taxation for carried interest. This will allow UK resident investment managers to accelerate their tax liabilities in order to align their timing with the position in other jurisdictions where they may obtain double taxation relief. This will apply from 6 April 2022.

4.64 Sovereign immunity from direct taxation – The government has carefully considered the responses to the consultation on sovereign immunity from direct taxation. It has decided that there will be no change to the current exemption, and that it will continue to operate as it does now. The government welcomes the constructive engagement with sovereign investors during the consultation, and over the longer term.

4.65 Write-downs for annuities products and insurer liabilities – The government is legislating to address the pensions tax and corporation tax consequences of write-downs of liabilities of insurers in financial distress under the proposed new section 377A Financial Services and Markets Act 2000 and any subsequent court-ordered variation or termination of those write-down orders.

4.66 Business rates technical consultation: summary of responses and Non-Domestic Rating Information and Impact Note (NDRIIN) publication –The government is publishing a summary of responses to the Business Rates Review technical consultation, which closed in February 2022. This reconfirms the government's commitment to the Non-Domestic Rating reform package and sets out further detail on how this will be delivered in response to stakeholder feedback.

4.67 Valuation Office Agency's Business Rates: Transparency and Disclosure consultation publication – The government is publishing a consultation on providing ratepayers with more information on business rates valuations. The consultation seeks to gather further views and understand any concerns on how this might work in practice for ratepayers, while balancing the need to protect data and confidentiality.

4.68 Digitalising Business Rates: Connecting business rates and tax data – The government is publishing the summary of responses to its consultation and impact assessment on the design of the Digitalising Business Rates (DBR) programme. This document outlines the government's response to the feedback received which includes a reduction in scope, new legislation to deliver DBR, and an integrated system for ratepayers to interact with central government.

4.69 Business Rates Avoidance & Evasion Consultation – Business rates provide essential funding for local services. Recognising concerns raised by stakeholders during the Business Rates Review, the government will ensure that revenue is protected by consulting on measures to combat business rates avoidance and evasion.

4.70 2023-24 Plastic Packaging Tax rate – The government will uprate the Plastic Packaging Tax rate in line with CPI, from 1 April 2023.

4.71 2023-24 & 2024-25 Landfill Tax rates – The government will uprate Landfill Tax rates in line with RPI, from 1 April 2024. It was announced at Autumn Budget 2021 that Landfill Tax rates from 1 April 2023 would be uprated in line with RPI. Landfill Tax applies in England and Northern Ireland.

4.72 Landfill Tax Review – The government has published a response to the call for evidence on aspects of Landfill Tax, which closed in February 2022. This confirms the government will continue engagement with stakeholders before making further announcements in due course.

4.73 Aggregates Levy rate 2023-24 – The government will freeze the Aggregates Levy rate for 2023-24. As indicated at Autumn Budget 2021, the government will return to index-linking the Aggregates Levy rate, which will increase in line with RPI, from 1 April 2024.

4.74 Air Passenger Duty (APD) – APD rates will increase in line with RPI for 2024-25 rounded to the nearest pound, meaning that short haul international rates remain frozen, benefitting more than 70% of passengers. Following a 50% cut in APD for domestic flights in 2023-24, the rate for domestic flights will increase by 50p to £7. The long haul and ultra-long haul economy rates will increase by £1.

4.75 Vehicle Excise Duty (VED) uprating & Heavy Goods Vehicles (HGV) VED freeze – The government will uprate VED rates for cars, vans and motorcycles in line with RPI from 1 April 2023. To support the haulage sector, VED for HGVs will remain frozen for 2023-24.

4.76 Reform of HGV Levy – Following consultation in 2022, the government will introduce a new reformed HGV levy from August 2023 following the planned end of the current levy suspension period. The reforms to the HGV levy are a further step towards reflecting the environmental performance of the vehicle. The government remains committed to ensuring that the levy applies to all HGVs using the UK road network.

4.77 VAT: fund management reform – Following the consultation on proposed reform of the VAT rules on fund management to improve legal clarity and certainty, which closed in February, the government is considering the responses and continuing to discuss the proposals with interested stakeholders. The government will publish its response to the consultation in the coming months.

4.78 VAT: review of the VAT treatment of financial services – Building on the recommendations of the Industry Working Group established to consider the future of VAT and financial services, the government will continue working with industry stakeholders to consider possible reforms to simplify the VAT treatment of financial services, with the aim of reducing inconsistencies and providing businesses with greater clarity and certainty.

4.79 VAT relief for energy saving materials – The government has published a call for evidence on options to reform the VAT relief for the installation of energy saving materials in the UK. The call for evidence will consider the inclusion of additional technologies and the possible extension of the relief to include buildings used solely for a relevant charitable purpose.

4.80 VAT and Deposit Return Schemes – The government will legislate to simplify the VAT treatment of deposits charged under a deposit return scheme for drinks containers. This will ensure that, where a deposit is charged on a drink that is within the scope of a deposit return scheme and the container is returned for recycling, VAT will not be applied to the deposit amount. Where the container is not returned for recycling, HMRC will collect the VAT on the unredeemed deposit.

4.81 VAT: DIY Housebuilders Scheme Digitisation Project – The government will legislate to digitise the DIY housebuilders' scheme and will also extend the time limit for making claims from 3 to 6 months. These measures should improve the overall customer experience and reduce the administrative burden for claimants and HMRC.

4.82 Alcohol duties – Duty rates of all alcoholic products produced in, or imported into, the UK will increase in line with RPI. Draught Relief will increase from 5% to 9.2% for beer and cider draught products and from 20% to 23% for wine, spirits based and other fermented draught products. These changes will take effect from 1 August 2023.

4.83 Alcohol duty reform – The government will legislate to make changes to the duty structure for alcoholic products, creating standardised tax bands based on alcohol by volume. The government will also introduce two new reliefs and transitional arrangements for certain wine products. These changes will take effect from 1 August 2023. HMRC will also take forward plans to harmonise the approval, return and payment processes for domestic producers of alcoholic products. These changes are scheduled to take effect from late 2024 with the introduction of the new digital system.

4.84 Temporary approvals for certain excise regimes – The government will legislate to make a minor technical amendment to temporary approvals which are given to a business seeking a review or appealing against HMRC's decision to revoke certain excise approvals. The legislation will provide HMRC with a discretionary power to extend a temporary approval when a business is unsuccessful in overturning HMRC's decision, which would otherwise end automatically. This will give HMRC the ability to agree a short period for the business to legally dispose of stocks without incurring a penalty. The change will take effect from Royal Assent of Spring Finance Bill 2023.

4.85 Gaming duties – The Gross Gaming Yield bandings for gaming duty will be frozen from 1 April 2023.

4.86 Changes to Customs Guarantees for Special Procedures, Temporary Storage and Duty Deferment – The government will engage with stakeholders in Spring 2023 on potential changes to enable more traders to hold customs authorisations to use Special Procedures, Temporary Storage and Duty Deferment without a financial guarantee.

4.87 Introducing voluntary standards for customs intermediaries – The government will consult in summer 2023 on introducing a voluntary standard for customs intermediaries, with the aim of improving the overall quality of service provided across the sector.

4.88 Modernising Authorisations (MA) – The government will engage with stakeholders in spring 2023 on plans to streamline and digitise HMRC's customs and excise authorisation processes through the Modernising Authorisations project, which will simplify authorisations for customs facilitations and deliver a new digital self-serve portal for traders.

4.89 Simplified Customs Declaration Process (SCDP) improvements – The government will implement a series of policy improvements to the Simplified Customs Declaration Process. This includes an extension to declaration deadlines, allowing traders to submit one declaration covering a longer period of time, and increasing accessibility by updating guidance.

4.90 Simplifying customs declarations review – The government is reviewing opportunities to streamline customs declaration requirements and will engage stakeholders later in the year to support this work.

4.91 Transit policy simplifications – The government will engage in summer 2023 on various simplifications to the transit regime, including changes to make it easier for businesses to access a guarantee waiver and to start and end transit movements at their own premises.

Tax Simplification

4.92 Transforming HMRC Guidance and Forms for Small Businesses – The government will collaborate with businesses and representative bodies to undertake a systematic review of tax guidance and forms for small business over the next 24 months to make it easier for small businesses to interact with the tax system as they set up and grow. The government will ensure guidance is clear, simple and easy to find, introduce step-by-step interactive guidance and modernise HMRC forms to improve the customer experience.

4.93 Expanding the cash basis – The government will consult on expanding the cash basis which is a simplified way for sole traders to calculate and pay their income tax. The government is interested in ways to increase the number of eligible businesses and how to increase use of the cash basis within the eligible population, to ensure as many businesses are benefitting from this simplification.

4.94 Enterprise Management Incentives (EMI): changes to the process to grant options – The government is simplifying the process to grant options under an EMI scheme. From April 2023, the requirement for a company to set out details of share restrictions within the option agreement and the requirement for a company to declare an employee has signed a working time declaration will be removed. From April 2024, the government will extend the deadline for a company to notify HMRC of the grant of an EMI option from 92 days following grant, to the 6 July following the end of the tax year.

4.95 Delivering agent access to payrolling Benefits in Kind – As part of the government's long-term strategy to simplify the tax system for taxpayers and their agents, the government will deliver IT systems to enable tax agents to payroll Benefits in Kind on behalf of employers. This will help to reduce burdens on employers and enable agents to support their clients more effectively.

4.96 Tax Administration Framework Review: Modernising income tax services – The government is publishing a discussion document on modernising HMRC's income tax services to support better digital communication with taxpayers and reduce administrative burdens. This seeks views on how to integrate and modernise income tax Self Assessment and Pay As You Earn processes so taxpayers can quickly and easily manage their own tax affairs online, reducing the need to contact HMRC.

4.97 Tax Administration and Maintenance Day – The government will bring forward a further set of tax administration and maintenance announcements later in the spring at a Tax Administration and Maintenance Day.

High growth industries

4.98 Two-Year extension of the Climate Change Agreement scheme – The government will extend the Climate Change Agreement scheme by two years. Participants that meet agreed energy efficiency targets will be entitled to reduced rates of Climate Change Levy in 2025-26 and 2026-27. The extension will be open to new participants in currently eligible sectors. DESNZ will consult on the details of the extension and proposals for any potential future Climate Change Agreement scheme.

4.99 Carbon Capture, Usage and Storage (CCUS) – The government will also provide up to £20 billion funding for early deployment of CCUS, to help meet the government's climate commitments. A shortlist of projects for the first phase of CCS deployment will be announced later this month. Further capture projects will be able to enter a selection process for Track 1 expansion to be launched this year, and 2 additional clusters will be selected through a Track 2 process, with details announced shortly.

4.100 CCUS – tax treatment of payments into decommissioning funds – Certain oil and gas assets can be repurposed for use in CCUS projects, generating cost and development time savings. The government will introduce legislation in a future Finance Bill to establish the tax treatment of payments made into decommissioning funds by oil and gas companies in relation to the repurposing of oil and gas assets for use in CCUS projects.

4.101 Great British Nuclear (GBN) – The government will launch GBN to address constraints in the nuclear market and support new nuclear builds as we work towards our Net Zero goals. GBN will launch the first staged competition for Small Modular Reactors with an ambition to select the leading technologies by the end of this year and if demonstrated to be viable we will co-fund this new technology for the UK. Nuclear energy will also be included in the green taxonomy, subject to consultation, encouraging private investment. Small Modular Reactors will be the initial focus of GBN, but further Gigawatt-scale projects will also be considered in future.

4.102 Control for Low Carbon Levies (CLCL) – The government will set out plans to refresh the existing CLCL. The CLCL was published in 2017, before the government's commitments on Net Zero, and will be replaced by a new framework to reflect our energy security priorities. We will set out details later in the year.

4.103 Landfill Tax Grant Scheme – The government will develop a grant scheme to fund costs of Landfill Tax to public bodies in England, where such costs are acting as a determinative barrier to the remediation and redevelopment of contaminated land.

4.104 Exascale supercomputer and Artificial Intelligence (AI) Research Resource – In line with two of the key recommendations of the Future of Compute Review, the government will invest, subject to the usual business case process to finalise exact details, in the region of £900 million to establish a new AI Research Resource and to develop an exascale supercomputer, with initial investments starting this year. These investments will provide scientists with access to cutting-edge computing power and bring a significant uplift in computing capacity to the AI community.

4.105 AI Challenge Prize – The government will award a £1 million prize every year for the next 10 years to researchers that drive progress in critical areas of AI.

4.106 Innovation Accelerators – The government has allocated £100 million funding for the Innovation Accelerators programme and will shortly publish the details of the 26 transformative R&D projects in the Glasgow City Region, Greater Manchester and the West Midlands.

4.107 AI Foundation Models Taskforce – As announced alongside the refresh of the Integrated Review, the government is establishing a taskforce to advance UK sovereign capability in foundation models, including large language models, and provide direct advice to ministers, to ensure that the UK is at the forefront of this technology.

4.108 Quantum Strategy – The Quantum Strategy outlines the government's commitments to the sector, including a new and ambitious ten-year £2.5 billion quantum research and innovation programme.

4.109 Future of Web Technology – The government is committing to undertake work to maximise the potential of the future of web technology, sometimes known as Web3 or the Metaverse, to spur UK growth and innovation, alongside empowering individuals to influence how their data is used, while managing downside risks to privacy, security and harms.

4.110 Vallance digital tech regulation report and HMG response – Sir Patrick Vallance's report on the regulation of emerging digital technologies has highlighted where the UK can go further to create an attractive business environment. The government accepts all of the report's recommendations; a response has been published in a separate document.

4.111 Regulators and growth – As part of the Pro-innovation Regulation of Technologies Review, the government has asked Sir Patrick Vallance to report on how regulators can better promote growth and innovation. His successor as head of the Review, Professor Dame Angela McLean, will consider the regulator Growth Duty. Recommendations, and a government response setting out the government's intentions, will be published before the summer.

4.112 Medicines and Healthcare products Regulatory Agency (MHRA) recognition framework – The government is providing £10 million extra funding in 2023-24 to 2024-25 to the MHRA, allowing the regulator to maximise its use of Brexit freedoms and accelerate patient access to treatments. From 2024, MHRA will have a fully operational swift approval process for the most impactful new medicines and technologies. The MHRA is also exploring partnerships with trusted international agencies, such as the U.S., Europe and Japan to provide simple, rapid approvals for medicines and technologies from 2024.

4.113 East West Rail – The government will provide up to £15 million local capacity funding to support local authorities along the East West Rail route to maximise economic opportunities. The Department for Transport will make a route update announcement in May.

4.114 Extending British Patient Capital – Building on British Patient Capital's strong track record, the government will extend the programme a further 10 years until 2033-34 and increase its focus on R&D intensive industries. This will bring at least £3 billion government investment across key industries including life sciences, Net Zero and deep tech, crowding in many multiples more in private capital.

4.115 Long Term Investment for Technology and Science (LIFTS) – To support Defined Contribution (DC) scheme investment into innovative UK companies, the government will launch a Long-term Investment for Technology and Science (LIFTS) scheme, providing a key stimulus for industry to create the structures needed to mobilise DC scheme investment into our most cutting-edge companies. Today, the government is inviting feedback on the design of the competition.

4.116 Local Government Pension Scheme investment – The government is challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets – a forthcoming consultation will propose LGPS funds transfer all listed assets into their pools by March 2025, and set direction for the future. This may include moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale. While pooling has delivered substantial benefits so far, progress needs to accelerate to deliver and the government stands ready to take further action if needed. The Government will also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets.

Spreading Opportunity Everywhere

Levelling up by attracting new private sector investment

4.117 Investment Zones – The government is launching the refocused Investment Zones programme to catalyse 12 high-potential knowledge-intensive growth clusters across the UK, including four across Scotland, Wales and Northern Ireland. English Investment Zones will have access to interventions worth £80b over five years, including a single five -year tax package for businesses in Investment Zones and grant funding to address local productivity barriers. The government has invited local partners in eight areas in England to begin discussions on establishing Investment Zones. DLUHC is working closely with the devolved administrations to establish how Investment Zones in Scotland, Wales and Northern Ireland will be delivered. Further details will be announced in due course.

Empowering local leadership

4.118 Trailblazer devolution deals and single settlements – The government has agreed, subject to ratification, trailblazer devolution deals with the West Midlands Combined Authority and the Greater Manchester Combined Authority. These deals equip the authorities with new levers over local transport, employment, housing, innovation and Net Zero priorities, a long term commitment to local authorities retaining 100% of their business rates, and include a commitment to provide these MCAS with single multi-year funding settlements at the next Spending Review.

4.119 Business rates retention – The government intends to expand the local retention of business rates to more areas in the next Parliament and will work closely with interested councils to achieve this. The government also remains committed to bringing forward wider proposals to improve the local government finance landscape in the next Parliament. DLUHC will set out further details in due course.

4.120 New devolution deals – Building on the six successful devolution deals agreed last year, the government will seek to negotiate a new wave of devolution deals in England over the coming year.

4.121 Withdrawing central support from Local Enterprise Partnerships – The government is minded to withdraw all remaining central support for Local Enterprise Partnerships from April 2024. DLUHC and DBT will consult on this decision.

4.122 City Region Sustainable Transport Settlements (CRSTS)– Round 2 – The government is committing £8.8 billion for a second round of CRSTS for English city regions to transform their local transport networks, covering the period 2027-28 to 2031-32.

Levelling up with high-quality regeneration across the UK

4.123 Levelling Up Partnerships – The Spring Budget announces the rollout of new Levelling Up Partnerships, providing over £400 million and bringing the collective power of government to provide bespoke place-based regeneration in twenty of England's areas most in need of levelling up over 2023-24 and 2024-25. The government will ensure a fair geographic spread across the regions of England, inviting the following areas to develop a partnership including: City of Kingston upon Hull, Sandwell, Mansfield, Middlesbrough, Blackburn with Darwen, Hastings, Torbay, Tendring, Stoke-on-Trent, Boston, Redcar and Cleveland, Wakefield, Oldham, Rother, Torridge, Walsall, Doncaster, South Tyneside, Rochdale, and Bassetlaw. Apportionment of this investment will be made on a case-by-case basis, and in each of these places, the government will work with local leaders and mayors in councils and combined authorities, local businesses from all sectors, community organisations and residents to identify and address the biggest barriers to levelling up.

4.124 Levelling Up Regeneration Projects – The Spring Budget announces £211 million for 16 regeneration projects in England. These projects have been assessed as high quality and will commence delivery later this year. Investment has been targeted towards the left-behind places in the Levelling Up White Paper or projects that are under £10 million to ensure quick delivery and a good spread of funding across England. All funding is subject to final subsidy checks.

4.125 Levelling Up Capital Projects – £58 million will be invested in three levelling up capital projects in the North West of England. This will see a new community hub in Stockport, the transformation of Bootle town centre, and the redevelopment of markets as well as transport connectivity improvements in Rossendale.

4.126 City and Metropolitan Regeneration Projects – The government has provided a further £161 million for high-value capital regeneration projects in city regions across England, including business premises and food science facilities in Tees Valley, and unlocking investment in a research campus in the Liverpool City Region.

4.127 Community Ownership Fund – The government is announcing funding for a further 30 projects across the UK as part of the existing £150 million Community Ownership Fund.

4.128 Levelling Up Fund Round 3 update – A third round of the Levelling Up Fund will proceed as planned later in 2023 with a further £1 billion to level up places across the UK.

4.129 Edinburgh Festivals – The government is providing, subject to the usual business case process, up to £8.6 million of funding for cultural festivals in Edinburgh, including the Edinburgh Fringe.

4.130 Holyhead Breakwater – The government is providing £20 million of funding for the Welsh Government to restore the Holyhead Breakwater.

4.131 Tackling Paramilitarism Programme – The government is providing up to £3 million, subject to business case, to extend the Tackling Paramilitarism Programme in Northern Ireland.

4.132 Further and Higher Education in Northern Ireland – The government has allocated up to £40 million of funding, subject to business case, to widen participation in further and high education in Northern Ireland.

4.133 Cloddach Bridge – The government is providing £1.5 million to Moray Council, subject to business case, to help fund repairs to Cloddach Bridge in Moray, Scotland.

A sustainable and accessible housing market and driving infrastructure investment

4.134 Nutrient neutrality credit schemes – DLUHC will open a call for evidence from local authorities in England for locally led nutrient neutrality credit schemes. Where high quality proposals are identified, this government will provide funding to support clearer routes for housing developers to deliver 'nutrient neutral' sites, in line with their environmental obligations.

4.135 New Housing Revenue Account Rate for the Public Works Loan Board (PWLB) – The government will bring forward a new discounted PWLB policy margin to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing.

4.136 Potholes Fund: increase resources to maintain and improve local roads – The government will allocate an additional £200 million for local road maintenance in England, including potholes, in 2023-24.

Helping people into employment

Long-term sick and disabled

4.137 Digital Mental Health – The government will modernise and digitise mental health services in England, providing wellness and clinical grade apps free at the point of use, pilot cutting-edge digital therapies, and digitise the NHS Talking Therapies programme.

4.138 Cardiovascular conditions improvement support – The government will digitise the NHS Health Check in England to identify cardiovascular conditions earlier, resulting in improved health outcomes.

4.139 Musculoskeletal (MSK) interventions – The government will scale up community MSK hubs in England so more people can access treatment, and provide free access to digital support tools hosted on the NHS website and app.

4.140 Employment advice in MSK – The government will introduce employment advisors into MSK services to help individuals with those conditions return to or remain in employment in England.

4.141 Individual Placement and Support (IPS) expansion – The government will expand the IPS scheme in England which supports people with severe mental illness into employment.

4.142 Health and Disability White Paper – The government is, alongside the Spring Budget, setting out a plan for health and disability benefits reform. The Work Capability Assessment will be abolished in Great Britain and eligibility for the health top-up in UC will be passported via the Personal Independence Payment benefit. Work search requirements will be set through tailored conversations with Work Coaches.

4.143 Universal Support – The government will introduce a new supported employment programme for disabled people and those with long-term health conditions in England and Wales, matching participants with open market jobs and funding support and training.

4.144 Additional Work Coach Time – The government will expand an existing programme in Great Britain that provides tailored Work Coach support to help claimants of Employment and Support Allowance and the health component of UC to find suitable work. This includes voluntary Work Coach support for individuals who do not currently see Work Coaches.

4.145 WorkWell Partnerships Programme pilot – The government will pilot integrated work and health hubs in England, linking Jobcentres, health services and other local organisations to provide wraparound health support for jobseekers, benefits claimants and those at risk of falling out of work because of their health condition.

Welfare recipients

4.146 Changes to the Administrative Earnings Threshold (AET) – The government will increase the AET, which determines how much support and Work Coach time a claimant will receive based on their earnings, from 15 to 18 hours at the National Living Wage for an individual claimant. This will apply across Great Britain. The government will also remove the AET for couples in Great Britain. This will mean a greater number of UC claimants, including those in-work and on lower earnings, and non-working or low earning partners on UC, will receive additional Work Coach support to help them take active steps to move into work or increase their earnings.

4.147 Strengthening Work Coach support and work search requirements placed on UC claimants that are lead carers of children aged 1-12 – The government will provide additional Work Coach support for lead carers of children aged 1 or 2 in Great Britain to prepare for work. Lead carers with children aged 3 to 12 in Great Britain will also be supported to increase the number of hours they are expected to search or prepare for work each week.

4.148 Improving application of the UC sanctions regime – The government will strengthen the way the UC sanctions regime is applied in Great Britain by automating parts of the process to reduce error rates, and additional training for Work Coaches to apply sanctions more effectively, including for claimants who do not look for or take up employment.

4.149 Integrating digital tools into claimant work journeys – The government will integrate digital tools such as JobHelp into a claimant's work journey in Great Britain to help structure their work search activity, provide tailored resources to improve work search ability and connect claimants with suitable career development opportunities.

4.150 Additional Jobcentre Support Pilot – To make sure Jobcentres are working as efficiently as possible, the government is also expanding the Additional Jobcentre Support Pilot in England and Scotland. The pilot will test how intensive support for a period of two weeks can further support claimants, who remain unemployed after 13 and 26 weeks into their UC claim or on low earnings, into work. As part of this pilot, the government will also trial a scheme that rewards Jobcentre teams for meeting stretching targets for helping claimants into work.

4.151 Youth Offer extension and expansion – The government will extend the Youth Offer, which provides mandatory tailored support for 16 – 24 year olds in the Intensive Work Search regime in Great Britain, to April 2028, and expand it on a voluntary basis to young people in other conditionality groups to give them the support they need to find a job.

4.152 Care leavers support – To help young people leaving residential care into employment, the government is providing an additional £8.1 million in each of the next two years to expand the Staying Close programme to around half of local authorities by March 2025. Staying Close provides young people leaving residential care with accommodation and practical and emotional support as they transition into independent adulthood.

Extending working lives

4.153 Reforming pension tax thresholds – The government will increase the Annual Allowance from £40,000 to £60,000 from 6 April 2023. Individuals will continue to be able to carry forward unused Annual Allowances from the 3 previous tax years.

The government will increase the Money Purchase Annual Allowance from £4,000 to £10,000 and the minimum Tapered Annual Allowance from £4,000 to £10,000 from 6 April 2023. The adjusted income threshold for the Tapered Annual Allowance will also be increased from £240,000 to £260,000 from 6 April 2023.

The government will also remove the Lifetime Allowance charge from 6 April 2023, before fully abolishing the Lifetime Allowance in a future Finance Bill. The maximum Pension Commencement Lump Sum for those without protections will be retained at its current level of £268,275 and will be frozen thereafter.

4.154 Linking open and closed public service pension schemes – Open and closed public service pension schemes for a given workforce will be considered linked for the purposes of calculating Annual Allowance charges, thus allowing members to offset any negative real growth for Annual Allowance purposes in legacy public service pension schemes against the Annual Allowance. This will be legislated for through secondary legislation and will apply from April 2023 tax year.

4.155 Midlife MOT – The government will expand and improve the midlife MOT tool to support individuals with planning for later life across Great Britain, by: expanding the midlife MOT Jobcentre Plus offer to reach more 50+ claimants through support sessions; improving the digital midlife MOT tool; and working with employers and pension providers to encourage signposting to the midlife MOT and related support.

Employers

4.156 Occupational Health SME Subsidy Pilot – The government will expand a subsidy pilot scheme to support small and medium-sized businesses in England with the cost of purchasing occupational health services.

4.157 Consultation on increasing occupational health coverage – The government will consult on increasing occupational health provision by UK employers, including regulatory options, boosting the supply of occupational health professionals, and kitemarking to indicate the quality of occupational health provision.

4.158 Consultation on occupational health tax incentives – The government will consult on options to increase investment in occupational health services by UK-wide employers through the tax system.

4.159 Strengthening employment rights – The government is supporting Private Members Bills that provide a day one right to request flexible working and grant specific groups protections or leave entitlements, including enhanced redundancy protection for pregnancy, family leave, carer's leave, and neonatal care leave. In addition, the government is supporting bills to ensure that all tips go to staff and providing workers with the right to request a contract with more predictable hours.

4.160 Call for Evidence on informal Flexible working – The government will bring forward a call for evidence to launch in Summer 2023 on informal and ad hoc flexible working to better understand informal agreements on flexible working between employees and employers.

Migration

4.161 Migration – The government will accept the Migration Advisory Committee's (MAC) interim recommendations to initially add five construction occupations to the Shortage Occupation List (SOL), ahead of its wider SOL review concluding in the autumn. The government will also review the SOL more regularly.

The government will expand the range of short-term business activities that can be carried out, review permitted paid engagements, and consider enhanced provisions linked to trade negotiations. These changes will be implemented from autumn 2023.

Funding innovative labour market pilots

4.162 Labour market pilots and evaluations – The government will provide £37.5 million additional funding over 2023-24 and 2024-25 to finance innovative labour market pilots and evaluations to broaden the government's evidence base.

Parents

4.163 30 hours free childcare for working parents and support for childcare providers – The government will provide £4.1 billion by 2027-28 to deliver 30 hours a week of free childcare for eligible working parents of children aged 9 months up to 3 years in England, where eligibility will match the existing 3 – 4 year old 30 hours offer. This will close the gap between parental leave finishing and the current free childcare offer. To support delivery, the government will also provide £204 million in 2023-24 from September, followed by increases each year, to uplift the funding rate for the existing childcare offers. The government will proceed with changing staff-to-child ratios from 1:4 to 1:5 for two-year-olds to align with Scotland and comparable countries, and consult on further measures to improve flexibility for providers. In addition, the government will introduce start-up grants for new childminders, including for those who choose to register with Ofsted or a childminder agency, to support the costs of set up and to grow the childminder market.

4.164 Wraparound childcare – The government will introduce a national pathfinder scheme for wraparound childcare in England, to stimulate supply in the wraparound market and support the ambition that all children should be able to access 8am-6pm childcare provision in their local area.

4.165 Paying UC childcare support upfront for parents moving into work and working longer hours – The government will provide upfront support for childcare costs to parents on UC moving into work or increasing their hours in Great Britain rather than in-arrears.

4.166 UC childcare maximum caps – The government will increase support for those parents in Great Britain on UC who face the highest childcare costs, often because they are working longer hours, by increasing the UC childcare cost maximum amounts to £951 for one child and £1,630 for two children.

Education and Skills

4.167 Returnerships – The government will introduce Returnerships, a new offer promoting existing skills interventions to the over-50s, focussing on flexibility and previous experience to reduce training length. They will be supported by a £63.2 million investment for an additional 8,000 Skills Bootcamps in 2024-25 in England and 40,000 new Sector-Based Work Academy Programme placements across 2023-24 and 2024-25 in England and Scotland.

4.168 Supported Internships – The government will invest an additional £3 million over the next two years in the Supported Internships Programme to pilot an expansion of the programme in England to young people entitled to Special Educational Needs support who do not have an Education, Health and Care Plan.

4.169 Extending Train and Progress – Train and Progress increases the length of time that UC claimants in the Intensive Work Search regime can spend on full-time training, including Skills Bootcamps in England, from 8 weeks to 16 weeks, while still remaining eligible for UC. The government will extend this flexibility to April 2025. The extension will also allow claimants to benefit from opportunities funded and delivered by the Devolved Administrations in Scotland and Wales, where skills and education is devolved.

4.170 Employment support programme for Ukrainians – The government will provide £11.5 million to help Ukrainians fleeing the war who have arrived in the UK under the Ukraine Visa Schemes to boost their English language skills, enter employment and support their integration into society. Further details, including additional groups who may be eligible for this support, will be published in due course.

Annexes

A Financing

A.1 This annex sets out the details of the government's financing plans in 2023-24. Further details can be found in the 'Debt management report 2023-24', available at gov.uk.

Debt management objective

A.2 The debt management objective, as set out in the Debt management report 2023-24, is "to minimise, over the long term, the costs of meeting the government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of the monetary policy".

Debt management policy

A.3 While decisions on debt management policy must be taken with a long-term perspective, specific decisions on funding the government's gross financing requirement are taken annually. Those decisions are announced before the start of the forthcoming financial year and are typically updated in April (a technical adjustment to reflect outturn data from the previous year) and as the Office for Budget Responsibility (OBR) publishes subsequent fiscal projections.

Financing arithmetic

A.4 The financing arithmetic for 2023-24 is set out in Table A.1.

A.5 The OBR's March 2023 forecast for the 2023-24 central government net cash requirement (excluding NRAM ltd, Bradford & Bingley, and Network Rail), which is referred to as CGNCR (ex NRAM, B&B, and NR), is £159.5 billion. This measure is used in the financing arithmetic as it reflects the forecast cash requirement of the Exchequer.

A.6 The net financing requirement (NFR) for the Debt Management Office (DMO) comprises: CGNCR (ex NRAM, B&B, and NR) plus any financing for gilt redemptions, and other adjustments, less the net contribution to financing from National Savings and Investments (NS&I) and any other in-year contributions to financing.

A.7 The NFR for 2023-24 is forecast to be £246.1 billion, reflecting:

- the forecast for CGNCR (ex NRAM, B&B, and NR) of £159.5 billion
- gilt redemptions of £117.0 billion
- a planned short-term financing adjustment of -£21.3 billion resulting from unanticipated over funding in 2022-23
- a net contribution to financing from NS&I of £7.5 billion

- a net contribution to financing from other financing items of £1.5 billion.

A.8 As set out in Table A.1, the NFR for 2023-24 will primarily be met by gilt sales of £241.1 billion. In addition, it is expected that Treasury bills will also make a net positive contribution to debt financing in 2023-24 of £5.0 billion.

Gilt issuance by method, type, and maturity

A.9 Decisions on the skew of gilt issuance are made annually with reference to the government's debt management objective, as set out above, and in the Debt management report 2023-24.

A.10 Auctions will remain the government's primary method of gilt issuance. It is anticipated that £202.1 billion (83.8%) of total gilt sales will take place by auction in 2023-24, and up to around £27.0 billion (11.2%) will take place by syndication. The government will continue to have the option to use gilt tenders to supplement issuance by auction and syndication.

A.11 Issuance by auction and syndication is planned to be split by maturity and type as follows:

- £86.7 billion of short conventional gilts (36.0% of total issuance)
- £65.3 billion of medium conventional gilts (27.1% of total issuance) (including green gilts)
- £50.9 billion of long conventional gilts (21.1% of total issuance) (including green gilts)
- £26.2 billion of index-linked gilts (10.9% of total issuance)

A.12 The financing plans of the DMO include an initially unallocated portion of issuance through which gilts of any maturity or type may be issued, subject to prior notification. This unallocated portion will be initially set at £12.0 billion (5.0% of total issuance) in 2023-24. The unallocated portion is used in such a way as to respond appropriately to evolving market conditions in-year.

Table A.1: Financing arithmetic in 2022-23 and 2023-24 (£ billion)[1]

	2022-23	2023-24
CGNCR (ex NRAM, B&B, and NR)[2]	**115.4**	**159.5**
Gilt redemptions	107.1	117.0
Financing adjustment carried forward from previous financial years[3]	-33.1	-21.3
Gross financing requirement	**189.4**	**255.1**
less:		
NS&I net financing	6.1	7.5
NS&I Green Savings Bonds	0.5	-
Other financing[4]	1.4	1.5
Net financing requirement (NFR) for the Debt Management Office (DMO)	**181.4**	**246.1**
DMO's NFR will be financed through:		
Gilt sales, through sales of:		
Short conventional gilts	66.5	86.7
Medium conventional gilts (including green gilts)[5]	44.6	65.3
Long conventional gilts (including green gilts)[6]	40.8	50.9
Index-linked gilts	17.5	26.2
Unallocated amount of gilts	0.0	12.0
Total gilt sales for debt financing	**169.5**	**241.1**
Total net contribution of Treasury bills for debt financing	**33.2**	**5.0**
Total financing	**202.7**	**246.1**
DMO net cash position	23.6	2.3

[1] Figures may not sum due to rounding.
[2] Central government net cash requirement (excluding NRAM ltd, Bradford & Bingley, and Network Rail).
[3] The -£33.1 billion financing adjustment in 2022-23 carried forward from previous years reflects the 2021-22 outturn for the CGNCR (ex NRAM, B&B, and NR), as first published on 26 April 2022. The -£21.3 billion adjustment in 2023-24 is the amount required to reduce the estimated DMO cash position at end-March 2024 to £2.3 billion.
[4] This financing item is typically comprised of estimated income from coinage and unhedged reserves.
[5] Including green gilt sales of £6.4 billion in 2022-23, and planned green gilt sales in 2023-24.
[6] Including green gilt sales of £3.5 billion in 2022-23, and planned green gilt sales in 2023-24.

Source: Debt Management Office, HM Treasury, National Savings and Investments, and Office for Budget Responsibility.

Index-linked gilts

A.13 As set out in the 2022-23 Debt management report, the government is no longer looking to reduce index-linked gilt issuance as a share of total issuance on a year-on-year basis over the medium term. The government decides index-linked gilt issuance on an annual basis, and in practice the share of total issuance will vary year-to-year depending on factors including the size of the financing requirement, demand, and market conditions.[119]

A.14 In the 2023-24 financing remit, planned index-linked gilt issuance accounts for 10.9% of total gilt issuance. It is higher in absolute terms than in 2022-23 but given the elevated financing requirement in 2023-24, remains significantly lower as a proportion of total gilt issuance than in the years prior to 2018-19.

[119] As is the case for conventional gilts of all maturity buckets, actual index-linked gilt issuance may differ from planned issuance due to transfers from the unallocated pot.

A.15 Decisions on the precise levels of index-linked and conventional gilt issuance will continue to be taken as part of the annual financing remit and in consultation with market participants.

Green gilts and retail Green Savings Bonds

A.16 The UK Government issued its inaugural green gilt on 21 September 2021, marking the launch of the UK Government's green financing programme. As of 15 March 2023, the two green gilts currently in issue have been built up to £18.5 billion (maturing in 2033) and £12.9 billion (maturing in 2053), respectively. All green gilt proceeds are allocated against eligible green spend as defined in the UK Government Green Financing Framework, available at gov.uk.

A.17 The government plans to issue £10.0 billion of green gilts in 2023-24, subject to demand and market conditions. The expectation is that the focus will be on further re-openings of the two existing green gilts, which will be kept under review taking into account market conditions. The planned green financing requirement is derived from eligible green expenditure in the coming financial year.

A.18 The retail Green Savings Bonds (GSB) were brought on sale via the NS&I website on 22 October 2021, and this product has allowed UK savers to support the government's green spending initiatives. As of February 2023, NS&I had raised £0.5 billion from the GSB in the 2022-23 financial year and £0.8 billion since the initial October 2021 launch.

Treasury bills

A.19 Treasury bills for debt management purposes are forecast to constitute £70.0 billion of the total debt stock at the end of 2022-23. It is currently anticipated that net issuance of Treasury bills for debt management purposes in 2023-24 will be £5.0 billion.

NS&I

A.20 NS&I will have a net financing target of £7.5 billion in 2023-24 (within a range of ±£3.0 billion). This target reflects NS&I's requirement to balance the interests of its savers, the taxpayer, and the wider financial services sector.

Illustrative future gross financing requirement

A.21 Table A.2 sets out the illustrative gross financing requirement for each financial year from 2024-25 to 2027-28, using the OBR March 2023 forecast for CGNCR (ex NRAM, B&B, and NR) and taking into account current planned gilt redemptions.

Table A.2: Illustrative gross financing requirement (£ billion)[1]

	2024-25	2025-26	2026-27	2027-28
CGNCR (ex NRAM, B&B, and NR)[2]	**130.9**	**102.6**	**84.4**	**89.4**
Gilt redemptions	139.9	136.6	92.5	109.1
Total illustrative gross financing requirement	**270.8**	**239.2**	**176.9**	**198.5**

[1] Figures may not sum due to rounding.

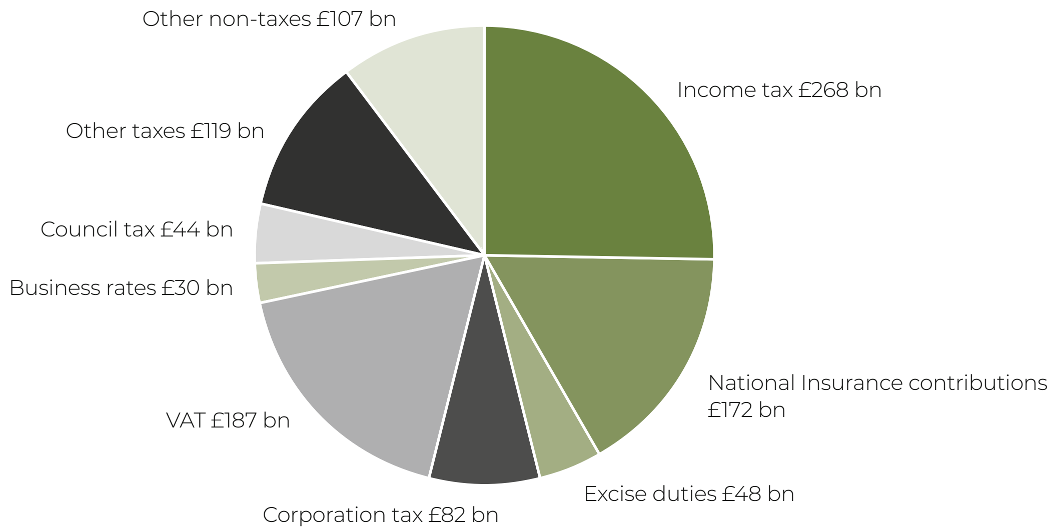
[2] Central government net cash requirement (excluding NRAM ltd, Bradford & Bingley, and Network Rail).

Source: Debt Management Office, HM Treasury, and Office for Budget Responsibility.

B Public sector receipts and spending

B.1 Chart B.1 shows public sector receipts by main type. Public sector receipts are expected to be around £1,058 billion in 2023-24.

Chart B.1: Public sector current receipts 2023-24



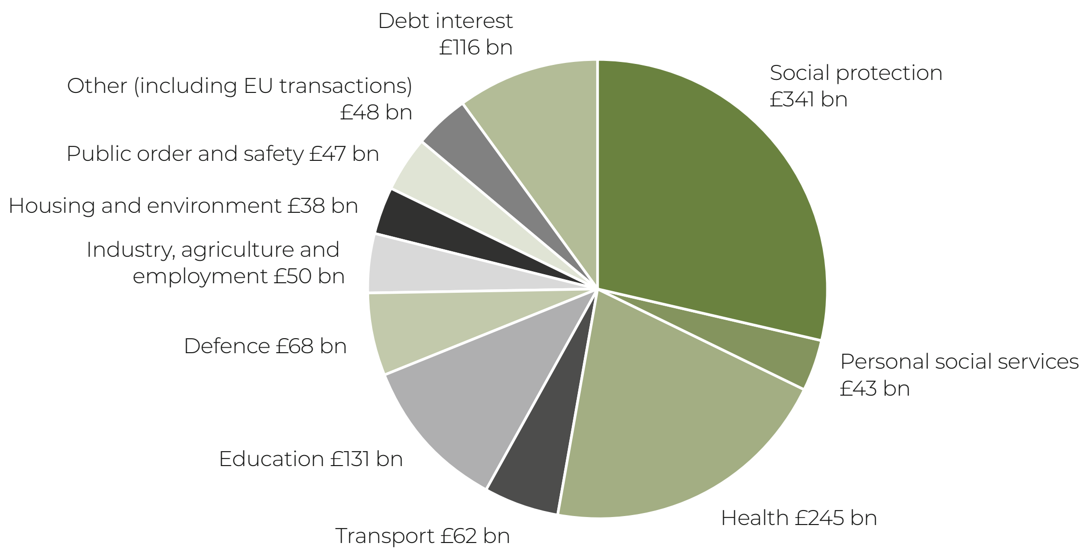
Figures may not sum due to rounding.

Other taxes includes capital taxes, stamp duties, vehicle excise duties and other smaller tax receipts.. Other non-taxes includes interest and dividends, gross operating surplus and other smaller non-tax receipts.

Source: Office for Budget Responsibility.

B.2 Chart B.2 shows public spending by main function. Total Managed Expenditure (TME) is expected to be around £1,189 billion in 2023-24.

Chart B.2: Public sector spending 2023-24



Figures may not sum due to rounding.

Illustrative allocations to functions are based on HMT analysis including capital consumption figures from the Office for National Statistics.

Source: Office for Budget Responsibility and HM Treasury calculations.