HM Treasury

SUMMER BUDGET 2015

HC 264

July 2015

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by the Chancellor of the Exchequer when
opening the Budget.

David Gauke
Her Majesty's Treasury
8 July 2015

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

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Executive Summary

This is a Budget that puts security first. It ensures economic security for working people by putting the public finances in order and setting out a bold plan for a more productive, balanced economy. It supports national security by investment in defence. It sets out bold reforms on tax and welfare, and introduces a National Living Wage so we move Britain from a low wage, high tax, high welfare economy to a higher wage, lower tax, lower welfare economy. It delivers on the promises on which the government was elected.

Since 2010, the government has pursued a long-term economic plan that has halved the deficit as a share of GDP. For the first time since 2001-02, the national debt is falling in 2015-16, meeting the target set out in 2010. The UK was the fastest growing G7 economy in 2014, employment has reached record levels, and wages are rising above inflation.

But the job is not yet done. At 4.9%, the deficit remains too high, and productivity remains too low. The economy is still too unbalanced, and more needs to be done to build up the nations and regions of the UK, and to close the productivity gap between the north and south. The welfare bill is too high, and the welfare system traps too many people in benefit dependency. And for too long, the government has addressed low pay by subsidising it through the tax credit system, instead of delivering lower business taxes and asking business to pay higher wages.

This Budget sets out the action the government will take to:

- eliminate the deficit and run an overall surplus to start paying down debt, while increasing spending on defence and the NHS
- reward work and back aspiration, by introducing a new National Living Wage, cutting taxes so people can keep more of what they earn, and reforming the welfare system to make it more affordable and fair to the taxpayers who pay for it
- back business and make the economy more productive, by cutting corporation tax and increasing the permanent level of the Annual Investment Allowance, and by undertaking major reform of funding for skills and infrastructure to ensure higher standards of living for everyone in the UK
- secure a truly national recovery, by devolving powers and budgets to build a Northern Powerhouse, and create the right conditions for strong growth throughout the UK

Fixing the public finances and running a surplus

The government's long-term economic plan has laid the foundations for a stronger economy, and the UK's recovery is now well established. The labour market remains strong, and in the 3 months to April 2015, employment was around record levels at 31.1 million.

Earnings growth is continuing to strengthen, with earnings up 2.7% over the year in the 3 months to April 2015. Living standards are forecast to be higher in 2015 than they were in 2010, and are expected to continue to grow over the forecast period.

However, Britain is still running a 4.9% deficit, and debt is above 80% of GDP. As seen in recent weeks, the risks from abroad, not least within the euro area, demonstrate the need to secure the UK's economic recovery.

The government will continue to reduce the deficit by around 1.1% of GDP a year on average, the same pace as over the last Parliament. This fiscal path means that the deficit falls smoothly, and that debt falls as a share of GDP in every year of the Parliament. At the same time, the government will ensure that the UK spends 2% of GDP a year on defence for the rest of the decade, and that spending on the NHS in England increases by £10 billion per annum in real terms by 2020-21. As a result of this plan, a surplus will be achieved in 2019-20, and debt as a share of GDP in that year is forecast to be lower than expected at March Budget 2015. New fiscal rules will cement this fiscal path, and ensure that governments run surpluses in normal times.

To achieve the surplus in 2019-20 the government will undertake around £37 billion of further consolidation measures. This Budget sets out around £17 billion of measures that will reduce the deficit, including £12 billion by 2019-20 from welfare reform and £5 billion by 2019-20 from tackling tax avoidance and tax planning, evasion and compliance, and imbalances in the tax system. In the autumn, the government will set out plans to deliver the remaining £20 billion of consolidation measures required to achieve the surplus following a rigorous Spending Review process.

Economic forecast

The Office for Budget Responsibility (OBR) forecasts GDP growth of 2.4% in 2015, 2.3% in 2016, and 2.4% for the remainder of the forecast period.

The OBR forecasts employment to be 31.2 million in 2015, rising each year to 32.1 million in 2020.

CPI inflation is forecast to be below target in 2015, returning gradually to 2.0% in 2020.

Fiscal forecast

Public sector net borrowing is forecast to fall to 3.7% GDP in 2015-16 and then to fall each year. The OBR forecasts that the public finances will return a surplus of £10 billion in 2019-20.

Public sector net debt is forecast to peak at 80.8% of GDP in 2014-19, before falling each year and reaching 68.5% of GDP in 2020-21.

Rewarding work and supporting aspiration

Underpinning the government's approach is a commitment to reward work and support aspiration. This Budget ensures that the welfare system is fair to taxpayers while supporting the most vulnerable, and builds an economy based on higher pay, lower taxes and lower welfare. It ensures that the richest are paying a greater share of tax than they were at the start of the last Parliament, whilst the poorest continue to receive the bigger share of spending.

This Budget:

- introduces a new National Living Wage for workers aged 25 and above, and asks the Low Pay Commission to set out how it will reach 60% of median earnings by 2020; based on OBR forecasts, this means that the National Living Wage will reach the government's target of over £9 by 2020
- reduces taxes on working people by further increasing the personal allowance to £11,000 in 2016-17 and the higher rate threshold to £43,000; as a result of increases to the personal allowance announced since 2010, a typical basic rate taxpayer will be £905 better off

- confirms that, from September 2017, free childcare entitlement will be doubled from 15 hours to 30 hours a week for working parents of 3 and 4 year olds
- sets out the next stage of welfare reform, delivering on the government's commitment to save £12 billion from the working-age welfare budget by 2019-20, including by freezing working-age benefits and Local Housing Allowances for 4 years, reducing rents in social housing by 1% a year for 4 years, reducing the benefit cap, and reforming tax credits and Universal Credit with support focussed on those with lower incomes
- reforms the taxation of dividends by replacing the Dividend Tax Credit with a Dividend Tax Allowance of £5,000 and setting new dividends tax rates
- takes the family home out of inheritance tax for all but the wealthiest with a new transferable nil-rate band of up to £175,000 per estate when a main residence is passed to direct descendants; this means that the effective inheritance tax threshold will be £1 million
- pays for this by introducing a taper to the annual allowance for pensions tax relief for those with total income over £150,000
- increases the standard rate of insurance premium tax from 6% to 9.5%, and extends the time before a car needs its first MOT test from 3 years to 4
- restricts relief for mortgage interest for individual landlords to the basic rate of income tax, phased in over 4 years, limiting the advantage that these individuals currently enjoy over those purchasing their own home
- ends the permanent non-domicile status
- tackles tax evasion, avoidance and tax planning, increases tax compliance, and addresses imbalances in the tax system

Backing business and improving productivity

The best way to create jobs and raise living standards over the long term is to support business and increase productivity by making it more competitive and by prioritising investment in skills and infrastructure. This Budget sets out a plan to back business and support productivity by:

- cutting the corporation tax rate further to 19% in 2017 and 18% in 2020, benefitting over 1 million businesses, large and small
- setting the level of the Annual Investment Allowance to £200,000 from January 2016, its highest ever permanent level
- raising the Employment Allowance by £1,000 to £3,000 from April 2016 to support small businesses and charities to create jobs
- introducing a levy on large employers to fund 3 million new, high quality apprenticeships this Parliament
- supporting sustainable investment in universities by turning maintenance grants into loans, saving £2.5 billion by 2020-21
- reforming vehicle excise duty for new cars and hypothecating the revenue from 2020 to a Roads Fund to ensure sustained investment in the strategic road network

Ensuring a truly national recovery

The government believes that the only way to secure a truly national recovery is through a fundamental rebalancing of the British economy based on investment across the regions, growth driven by the private sector, and further devolution to increase local decision making.

The government is:

- delivering on its commitment to devolve further powers to Scotland, Wales and Northern Ireland, introducing the Scotland Bill, and commencing discussions on a revised Scottish fiscal framework
- building strong city regions by devolving further powers to Greater Manchester and working towards devolution deals with the Sheffield City Region, Liverpool City Region, and Leeds, West Yorkshire and partner authorities as part of building a Northern Powerhouse
- supporting private-sector-led growth, and delivering on the long-term economic plans for the regions by continuing to invest in transport, science and skills

Budget decisions

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

Table 1: Summary of Budget policy decisions[1]

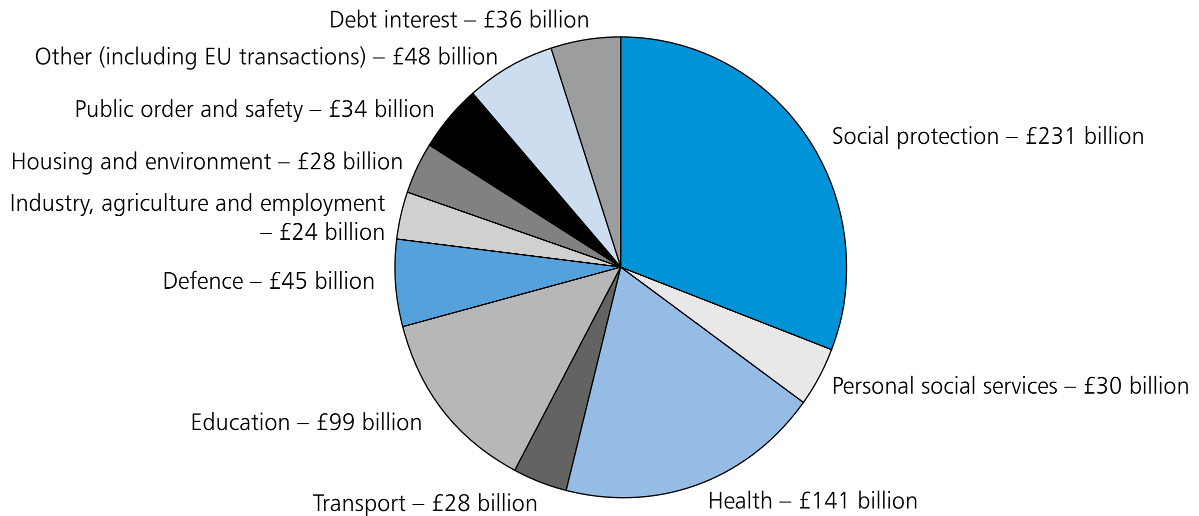
	£ million					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Total spending policy decisions	+2,590	+5,095	+5,945	+8,270	+11,280	+12,415
Total tax policy decisions	+980	+3,980	+5,090	+6,825	+5,785	+6,470
TOTAL POLICY DECISIONS	**+3,570**	**+9,075**	**+11,035**	**+15,095**	**+17,065**	**+18,885**

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

Government spending and revenue

Chart 1 shows public spending by main function. Total Managed Expenditure is expected to be around £742 billion in 2015-16.

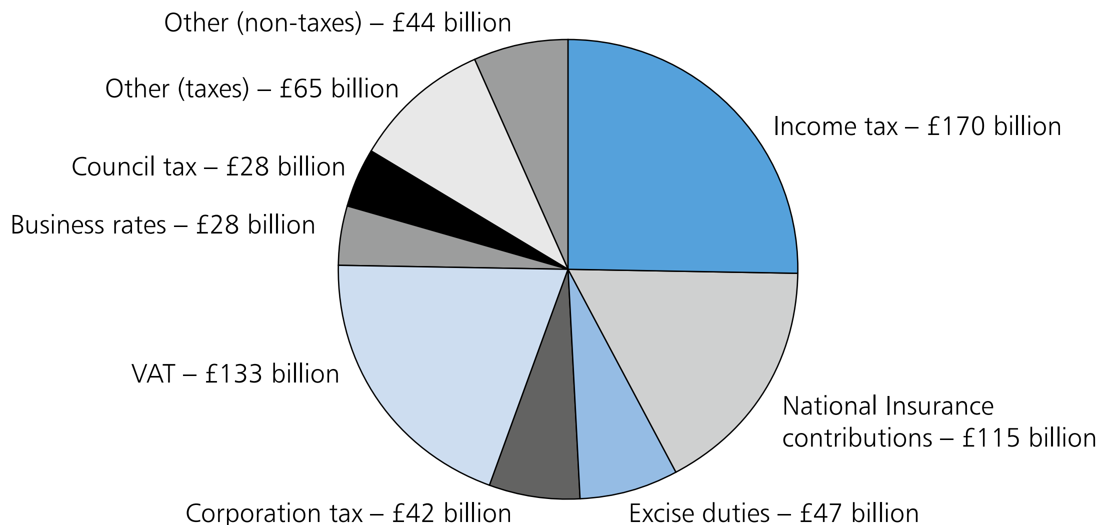
Chart 1: Public sector spending 2015-16



Source: Office for Budget Responsibility 2015-16 estimates. Illustrative allocations to functions are based on HMT analysis including capital consumption figures from the Office for National Statistics. Figures may not sum due to rounding.

Chart 2 shows the different sources of government revenue. Public sector current receipts are expected to be around £673 billion in 2015-16.

Chart 2: Public sector receipts 2015-16



Source: Office for Budget Responsibility, 2015-16 forecast. 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.

Budget Report

1 Budget Report

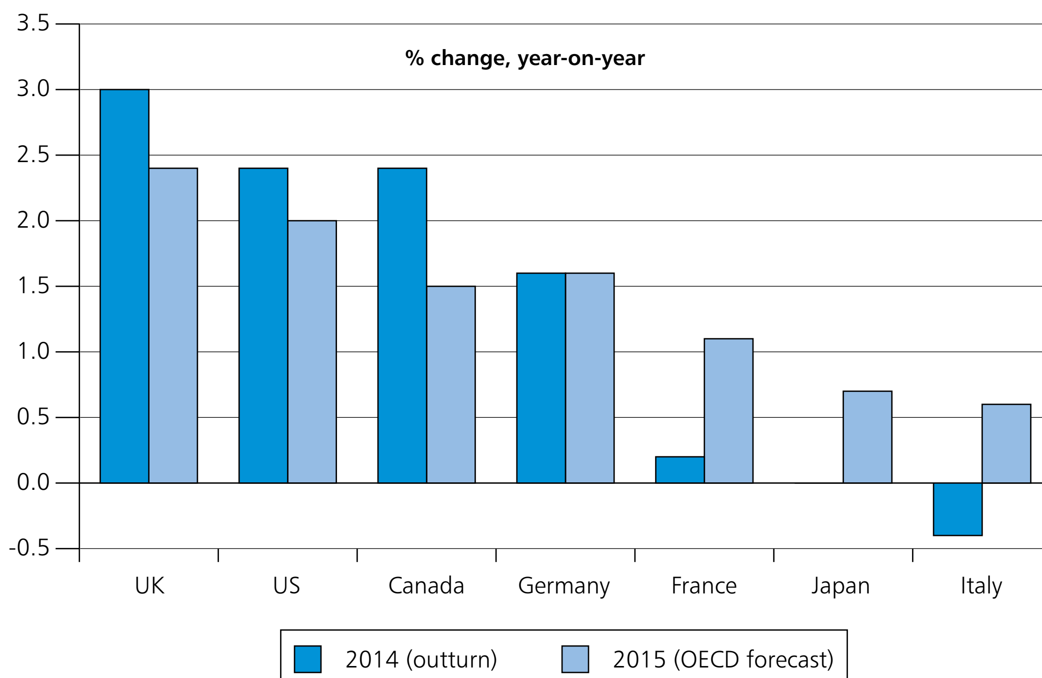
The UK economy and public finances

UK economy

1.1 The government's long-term economic plan has secured the recovery. The government's fiscal responsibility has allowed monetary activism to support demand in the economy alongside repair of the financial sector. This has been supported by supply-side reform to deliver sustainable increases in standards of living.

1.2 The UK's economic recovery is well established. The UK was the fastest growing G7 economy in 2014 growing by 3.0%, its best performance since 2006.[1] The Organisation for Economic Co-operation and Development (OECD) forecasts the UK to be the fastest growing G7 economy again in 2015, as shown in Chart 1.1.[2] Christine Lagarde, Managing Director of the International Monetary Fund (IMF), said "when we look at the comparative growth rates delivered by various countries in Europe it's obvious that what is happening in the U.K. has actually worked".[3]

Chart 1.1: GDP growth in the G7



Source: Organisation for Economic Co-operation and Development, Office for National Statistics.

[1] All UK economy data from Office for National Statistics (ONS) unless otherwise stated. Further detail can be found in 'Summer Budget 2015 Data Sources'.
[2] 'OECD Economic Outlook', Organisation for Economic Co-operation and Development (OECD), June 2015.
[3] Christine Lagarde, International Monetary Fund (IMF) Spring Meetings press conference, April 2015.

1.3 The government's long-term economic plan has laid solid foundations for a stronger economy. This Budget continues the work of repairing the public finances, addressing the long-standing weakness in productivity and rebalancing the economy. It recognises the risks from abroad and the need to secure Britain's economic future.

Employment and earnings

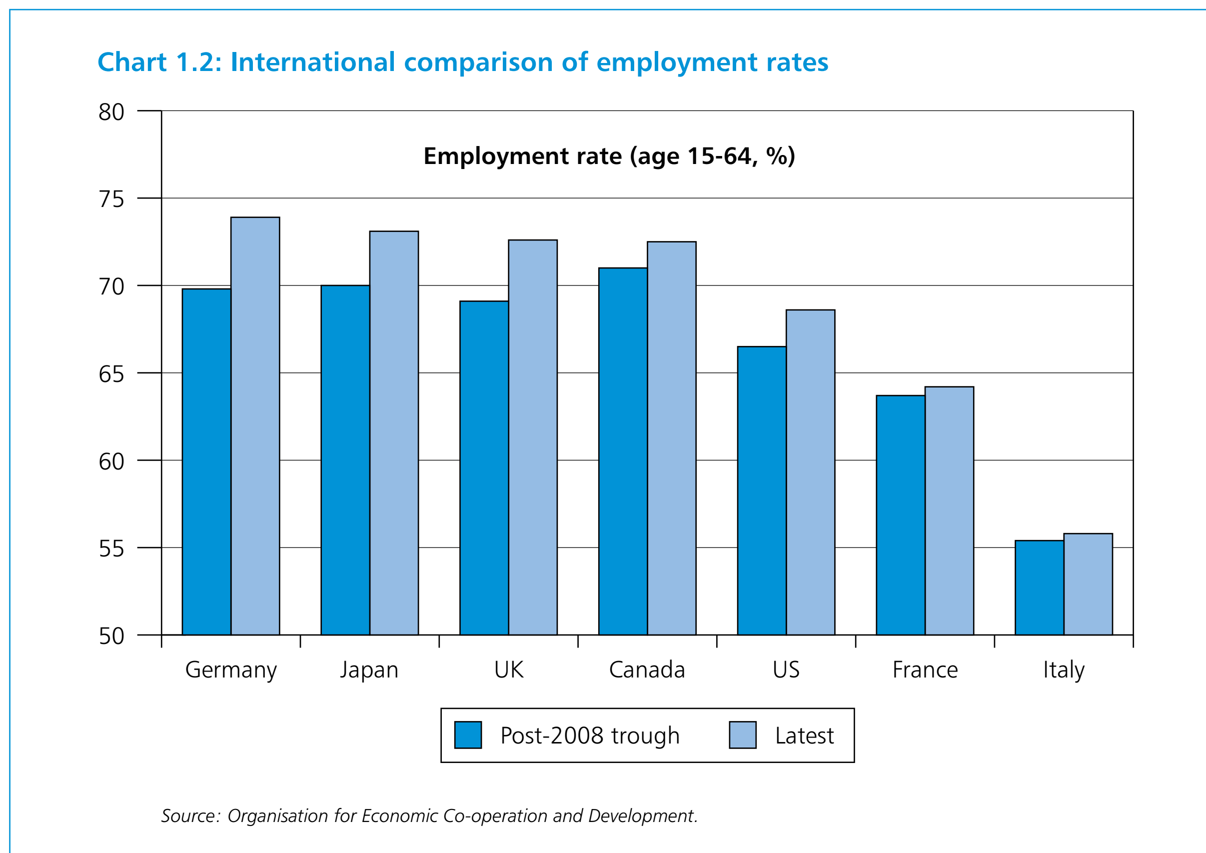
Employment

1.4 The UK labour market performance continues to be strong. In the 3 months to April the employment level and rate were both around record levels at 31.1 million and 73.4% respectively. The recent growth in employment predominantly reflects increases in full-time employment and those employed in high and medium-skilled occupations. Over the past year, 85% of the increase in employment has been in full-time work and 92% has been in high or medium-skilled jobs.[4]

1.5 The proportion of those who are inactive has been falling and is lower than it was before the crisis, but there are still too many working-age people who are not engaged in the labour force. Encouragingly, the increase in participation has been strong amongst women and older workers. The number of working-age women participating in the labour force has increased by over 700,000 since the beginning of the crisis. In the past year alone there have been an extra 200,000 workers aged over 50 in the labour force.

1.6 The UK's labour market has stood out among major advanced economies. Since the trough in the recession, the UK's increase in employment rate has been the second largest in the G7 behind only Germany.[5] The UK has taken another step towards achieving the government's full-employment ambition to have the highest employment rate in the G7, having overtaken Canada in Q1 2015 to have the third highest employment rate in the G7, behind Japan and Germany, as shown in Chart 1.2.

Chart 1.2: International comparison of employment rates



Source: Organisation for Economic Co-operation and Development.

[4] High and medium-skilled occupations as defined in 'Economic Review', ONS, December 2014.
[5] 'Short-Term Labour Market Statistics', OECD, June 2015.

Earnings

1.7 Earnings growth is continuing to strengthen with earnings up 2.7% over the year in the 3 months to April, the fastest growth in real wages since 2007. The OBR forecasts earnings to continue to rise above inflation over the forecast period, as shown in Chart 1.3.[6] The low inflation recently experienced in the UK, driven by lower fuel and food costs, has helped support real incomes and household budgets. Compared to May 2014, fuel and food prices are 11.0% and 1.8% lower respectively.

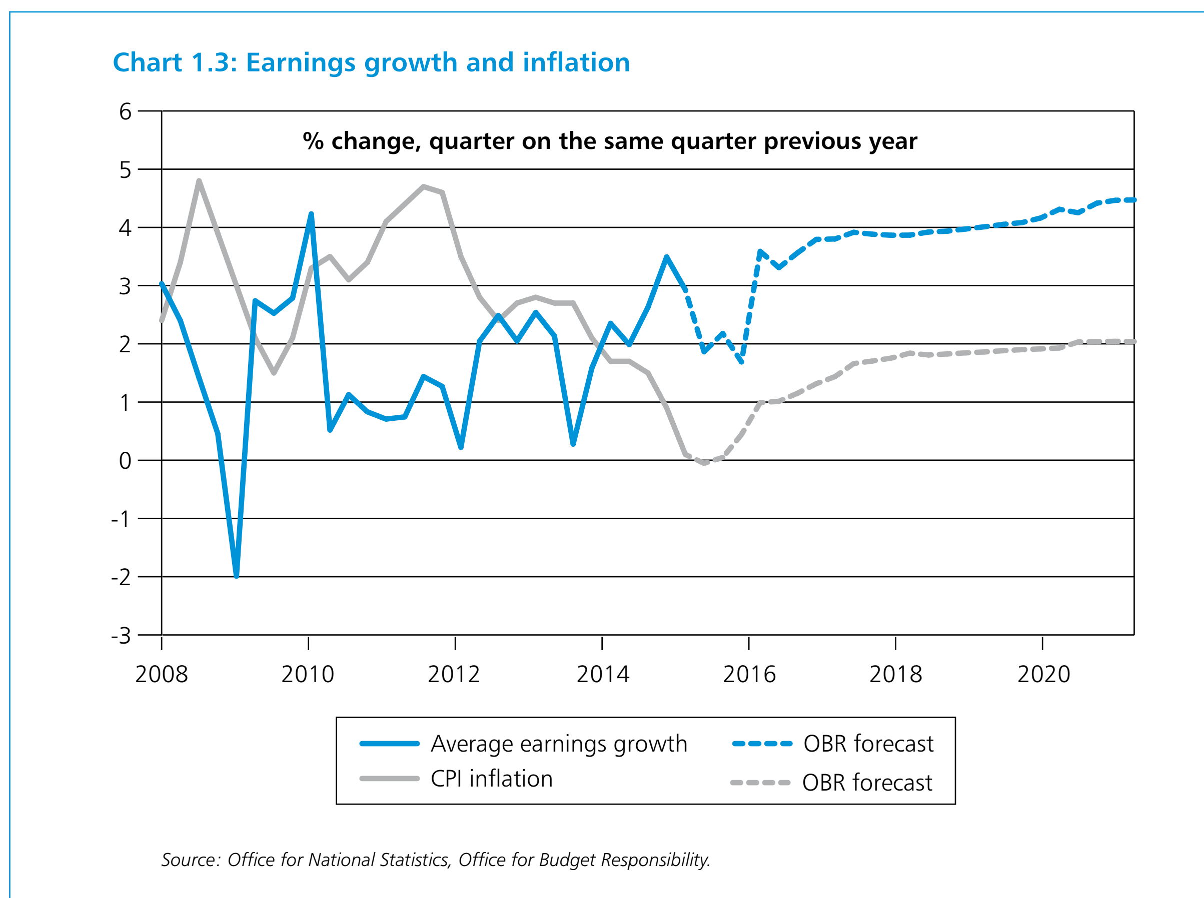


Chart 1.3: Earnings growth and inflation

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

1.8 Real Household Disposable Income (RHDI) per capita is the most up to date and comprehensive measure of living standards as it takes into account employment levels, the effects of tax and benefits, as well as inflation. Living standards, as measured by RHDI per capita, are forecast to be higher in 2015 than they were in 2010 and to continue to grow over the forecast period.

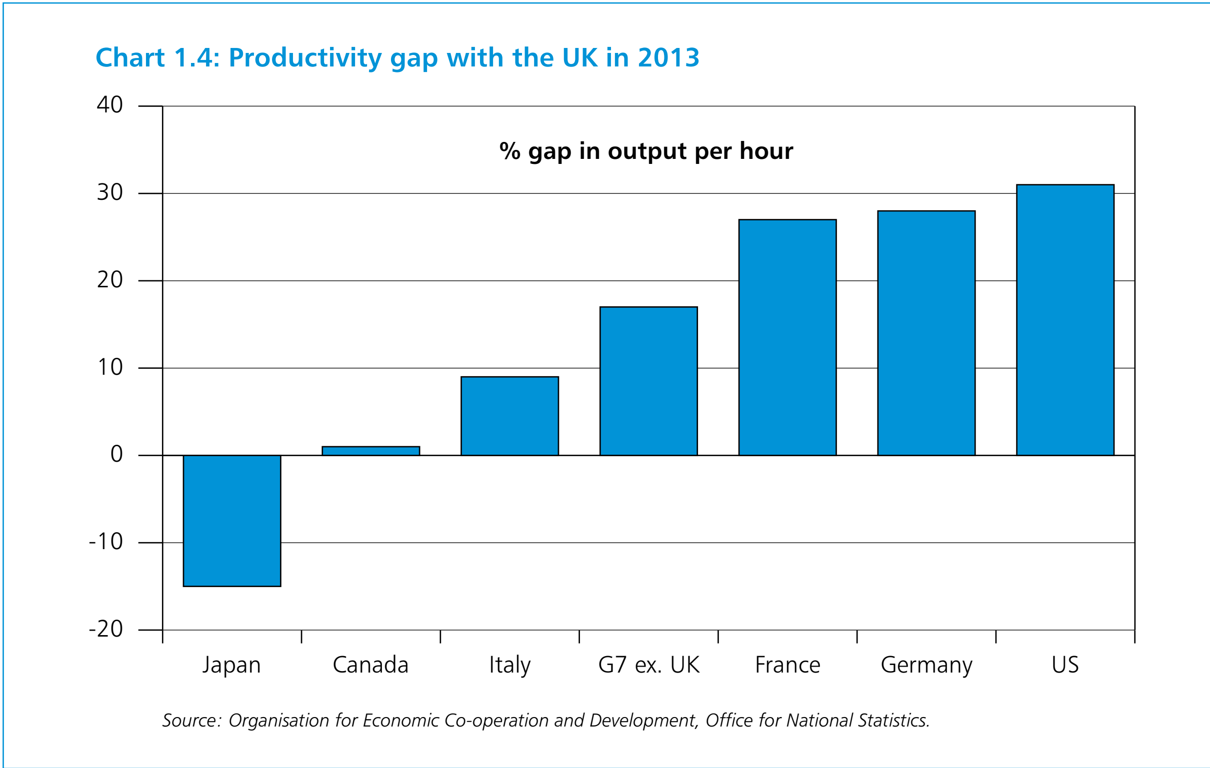
The UK's productivity challenge

1.9 A sustained improvement in productivity growth is critical to delivering the OBR's forecast for the economy. It is also the single most important determinant of average living standards and is tightly linked to the differences in wages across countries.

1.10 A large and long-standing productivity gap exists between the UK and other major advanced economies. Output per hour in the UK was 17 percentage points below the G7 average, 27 percentage points below France, 28 percentage points below Germany and 31 percentage points below the US in 2013, as shown in Chart 1.4.[7] This gap existed prior to the financial crisis but, whilst the UK has not been alone in having weak productivity growth

[6] All forecasts refer to the Office for Budget Responsibility (OBR) 'Economic and fiscal outlook', July 2015, unless otherwise stated.
[7] 'International Comparisons of Productivity – Final Estimates, 2013', ONS, February 2015.

since the financial crisis and there are issues around the data, it is clear this gap has widened.[8] The recent weakness in productivity growth has also occurred alongside strong employment growth in the UK.



1.11 The government is committed to reforming the UK economy to make it more productive. The government is publishing a productivity plan which tackles the UK's serious long-term challenges, with major reforms to improve the UK's infrastructure, tackle failures in the skills system, improve the planning system, encourage long-term finance for productive investment and give cities the governance and powers they need to succeed. Further information on the government's plan to support productivity is set out below, in 'Backing business and improving productivity'.

Rebalancing the UK economy

Regional rebalancing

1.12 London is one of the world's greatest global cities and a huge asset for the national economy, but in recent decades the UK has relied too heavily on the capital to generate growth. The UK's continued national prosperity depends on regions and cities outside the capital doing well. The government has a comprehensive plan to rebalance the economy and strengthen every part of the UK, bringing together the great cities and counties of the north of England, and supporting other vital regional economies such as the Midlands and South West.

1.13 Since 2010 unemployment has fallen in every region and almost two-thirds of the UK-wide increase in private sector employment can be attributed to regions outside London and the South East. Output per head in the North West, North East, West Midlands and Wales grew faster than in London in 2013. The government will go further by supporting the resurgence of strong metro-wide areas through devolution, enabling cities to work together to take responsibility for their own economic success by the creation of an elected mayor. Further information on the government's plan is set out below, in 'Ensuring a truly national recovery'.

[8] 'International Comparisons of Productivity – Final Estimates, 2013', ONS, February 2015.

Sector rebalancing

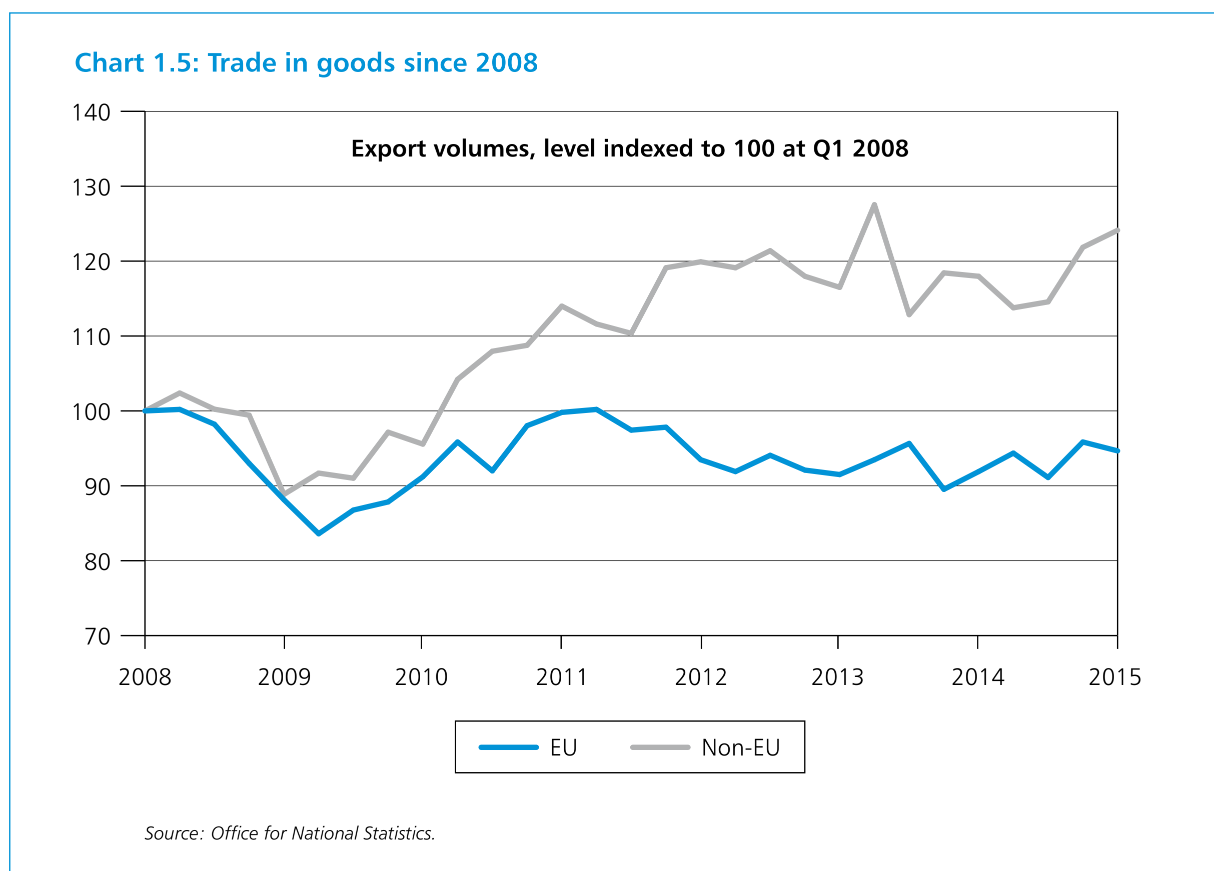
1.14 As the recovery has become established, growth has been more broadly balanced across sectors. There has been widespread growth across all major sectors since the start of 2013. Manufacturing, construction and services all grew by 3% or more in 2014, the first time since records began in 1990.

1.15 After falling during the crisis, recent UK growth has been more investment rich with business investment increasing as share of GDP. Real business investment has increased from 9.0% of GDP in 2010 to 10.6% of GDP in 2014 and is forecast to continue to do so. However, total investment as a share of output in 2014 was still lower in the UK than all other major advanced economies except Italy.[9] This is addressed in the productivity plan which will set out measures to encourage long-term investment in economic capital, including infrastructure, skills and knowledge.

External rebalancing

1.16 The UK is one of the most open economies in the world, with significant trade and financial links with other countries. Weak euro area growth has meant goods exports to EU countries have been subdued, falling by 5.3% since Q1 2008. However UK exports have continued to expand in other markets, as shown in Chart 1.5. The volume of goods exports to outside of the EU has increased by 24.1% since Q1 2008. The value of goods exports to the faster growing BRIC (Brazil, Russia, India, and China) economies has increased by 25.1% since Q1 2008.

Chart 1.5: Trade in goods since 2008



Source: Office for National Statistics.

1.17 The UK's trade balance as a share of GDP has improved slightly from -2.4% in 2010, to -2.0% in 2014 and is expected to improve further in 2015. The OBR's forecast for exports and imports over the forecast period reflects the slowdown in global trade volumes that has been seen since the early 2000s.[10] For any level of world GDP, world trade is now expected to be

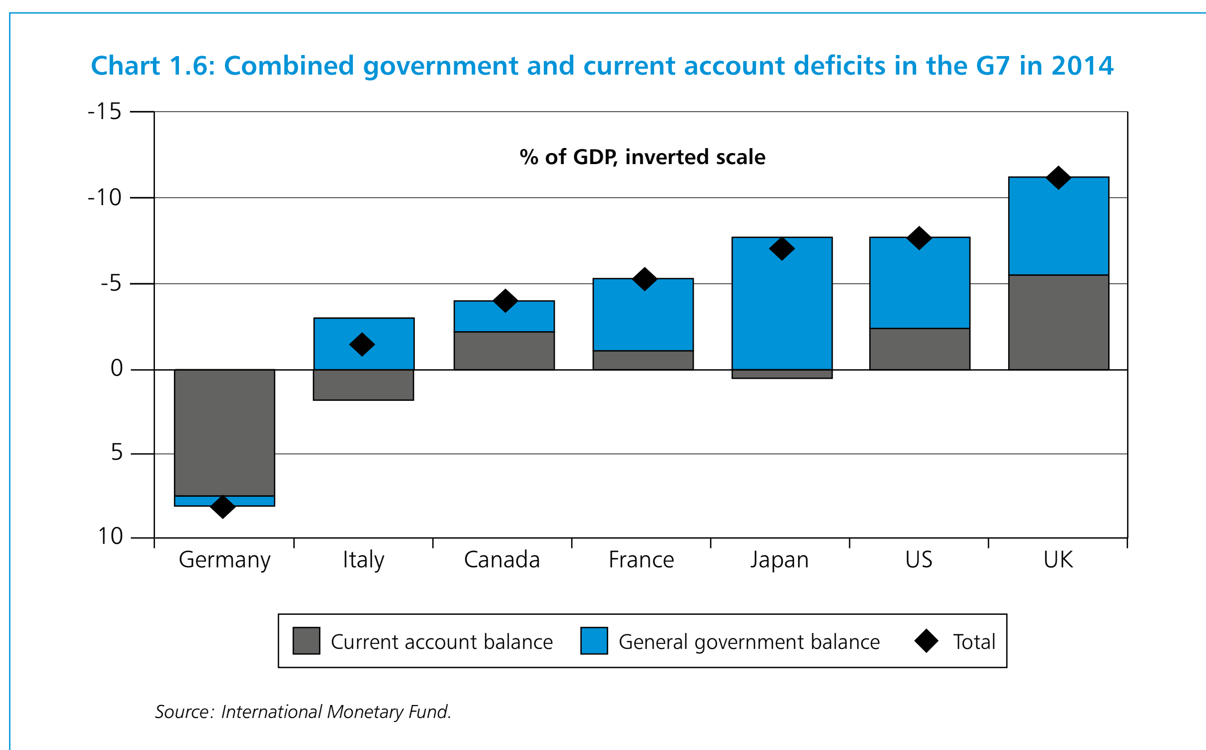
[9] 'Quarterly National Accounts', OECD, June 2015.
[10] 'World Economic Outlook', IMF, April 2015.

lower and this feeds into a weaker outlook for UK trade, with other advanced economies also expecting to see lower exports in the next few years.[11]

1.18 The current account deficit was 5.9% of GDP in 2014. The income balance component of the current account has declined since early 2012, reflecting lower income received from investment abroad. Weaker euro area growth and global prospects have seen UK investments abroad yield lower returns while, in contrast, as the UK economy has continued to recover, the payments made on foreign investments in the UK have increased. The authorities remain vigilant to any risks that may emerge.

1.19 The UK's large current account deficit contributes to the UK running the largest combined government and current account deficits in the G7, as shown in Chart 1.6. A current account deficit means the UK is a net foreign borrower and is acquiring more foreign liabilities than assets. The UK has run a persistent current account deficit for 30 years and a small deficit is sustainable with continued capital inflows. The UK's budget deficit and debt position is in part financed by these capital inflows through purchases of UK government gilts. In comparison, countries that have higher levels of public debt but run small current account surpluses, such as Italy and Japan, are less exposed to financing risks from a shift in overseas invester sentiment. The government's fiscal plan to complete the repair of the public finances should support a gradual narrowing of the current account deficit and reduce this exposure.

Chart 1.6: Combined government and current account deficits in the G7 in 2014



Source: International Monetary Fund.

Housing market and households

1.20 House price growth has moderated over the past year, having grown strongly during early 2014, with annual house price growth slowing to 5.5% in April 2015. Meanwhile, property transactions fell during the second half of 2014 and were 3.1% lower in May 2015 than a year earlier. The OBR forecasts house prices to grow by 5.7% in 2015, followed by 4.1% in 2016, before rising to 5.6% in 2020. Property transactions are forecast to fall by 1.7% in 2015 before growth picks-up, peaking at 5.5% in 2018.

1.21 Household balance sheets have continued to normalise as households have reduced their debt as a proportion of income to 145% in Q1 2015, having peaked at 169% in Q1 2008. While households take on debt over the forecast period they also accumulate assets, meaning

[11] 'World Economic Outlook', IMF, April 2015.

household net wealth as a proportion of income is forecast by the OBR to increase from 8.3 times income in 2014 to 8.6 times income in 2020.

Global developments

1.22 The strength and sustainability of the global economic recovery is key to UK economic prospects. The global economic recovery remains uneven and the risks from the world economy, not least from within the euro area, demonstrate the need to continue to fix the economy to ensure the UK can deal with risks from abroad.

1.23 In June 2015 the OECD revised down its global growth forecast for 2015 from 3.7% (forecast in November 2014) to 3.1%, with the global recovery gaining momentum but slowly.[12] The OECD revised down its forecast for US growth in 2015 from 3.1%, forecast in its March interim forecast, to 2.0%, while the euro area growth forecast was left unchanged at 1.4% in 2015. China's growth is expected to moderate and to fall below 7% in 2015 to 6.8%.

1.24 The IMF last updated its economic forecast in April 2015 and forecast global growth at 3.5% in 2015.[13] The IMF's forecast included a marked shift in prospects across countries, with upward revisions in the euro area, Japan and India, and downward revisions for some emerging markets and the US. The IMF will publish its revised global growth forecast on 9 July and the forecast will reflect developments over Q1 2015. Euro area growth in Q1 2015 was 0.4%, though the recovery remains vulnerable.[14] The US 2015 growth forecast was revised down in the IMF's June Article IV review to 2.5%, in light of weak Q1 2015 data.[15]

1.25 A number of other downside risks to the global recovery remain, including:

- the clear risk that the ongoing situation in Greece spills over, causing renewed instability
- the risk of renewed weakness in growth and inflation in the euro area
- the risks posed to emerging markets with weak fundamentals from US rate rises and dollar appreciation
- an escalation of geopolitical risks
- the challenge for China in undertaking reform while maintaining financial stability

1.26 The financial crisis in Greece is the biggest single external risk to the UK economy. It is vital that the current uncertainty is resolved, to ensure economic and financial stability across Europe. Britain will be more affected the longer the Greek crisis lasts, and the worse it gets. The government will do whatever is necessary to protect the UK's economic security at this uncertain time.

1.27 To deliver prosperity and security for all, the EU needs to be dynamic and outward focused, putting its resources to the most effective use. It must empower businesses to compete more effectively internationally by accelerating the integration of the single market, especially in services, and the financial, digital and energy sectors. Part of this would be the strengthening of the regulatory framework for business, improving the quality of regulation, and reducing excessive regulatory burdens on business. The EU also needs to be open to international trade and complete free-trade agreements with the US, Japan, and other developed economies, whilst also looking towards important new trading partners in Asia and South America.

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[12] 'OECD Economic Outlook', OECD, June 2015.
[13] 'World Economic Outlook', IMF, April 2015.
[14] 'Quarterly National Accounts', Eurostat, June 2015.
[15] '2015 Article IV Consultation with the United States of America Concluding Statement of the IMF Mission', IMF, June 2015.

1.28 The government has a clear plan of reform, renegotiation and referendum, to make the EU a source of growth, jobs, innovation and success. The EU must make sure the interests of both those inside and outside the euro area are fairly balanced. The single currency is not for all member states in the EU, but the single market and the EU as a whole must work for all.

1.29 The UK has joined the Asian Infrastructure Investment Bank (AIIB) as a founding member, following the announcement in March that the UK would be the first G7 member to apply to join. The UK's involvement from the outset will help ensure that the AIIB embodies the best standards in accountability, transparency and governance, and help maximise the opportunities for British businesses and British jobs.

Economic outlook

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

	Percentage change on a year earlier, unless otherwise stated						
		Forecast					
	2014	2015	2016	2017	2018	2019	2020
GDP growth	**3.0**	**2.4**	**2.3**	**2.4**	**2.4**	**2.4**	**2.4**
Main components of GDP							
Household consumption[2]	2.5	3.0	2.5	2.4	2.4	2.3	2.0
General government consumption	1.6	1.2	0.5	0.3	0.1	0.3	2.6
Fixed investment	8.6	5.6	5.6	5.5	5.4	5.4	4.1
Business	8.0	6.0	7.2	6.9	6.6	6.5	4.7
General government[3]	3.4	2.4	-0.1	0.9	2.4	2.3	2.0
Private dwellings[3]	13.1	6.3	4.8	4.4	4.0	3.9	3.3
Change in inventories[4]	0.3	-0.2	0.0	0.0	0.0	0.0	0.0
Net trade[4]	-0.6	-0.5	-0.4	-0.2	-0.2	-0.2	-0.2
CPI inflation	**1.5**	**0.1**	**1.1**	**1.6**	**1.8**	**1.9**	**2.0**
Employment (millions)	**30.7**	**31.2**	**31.5**	**31.6**	**31.7**	**31.9**	**32.1**
ILO unemployment (% rate)[5]	**6.2**	**5.4**	**5.1**	**5.2**	**5.3**	**5.4**	**5.4**

[1] All figures in this table are rounded to the nearest decimal place. This is not intended to convey a degree of unwarranted accuracy. Components may not sum to total due to rounding and 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.

[5] International Labour Organization.

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

1.30 The OBR forecasts GDP growth of 2.4% in 2015 and 2.3% in 2016. Growth is revised up in 2017 and 2018 from 2.3% to 2.4% in both years and is unchanged in 2019 at 2.4%. The output gap represents the amount of spare capacity in the economy. The OBR forecasts the remaining spare capacity in the economy to be used up by mid-2018, half a year later than forecast in March 2015.

1.31 The OBR forecasts employment to be 31.2 million in 2015, rising each year to 32.1 million in 2020. Unemployment is forecast to be 5.4% in 2015, falling to 5.1% in 2016 and 5.2% in 2017. Thereafter, unemployment is forecast to be 5.3% in 2018 and 5.4% in 2019 and 2020.

1.32 The OBR has revised up business investment growth in 2015 to 6.0%. Business investment is forecast to grow by 7.2% in 2016 and by 6.5% or more in 2017, 2018 and 2019. The OBR expects private dwelling investment to grow by 6.3% in 2015 and 4.8% in 2016. Exports are forecast to grow by 3.8% in 2015 and 2016. Export growth over the forecast period is offset by import growth.

1.33 CPI inflation is forecast to be below target in 2015 and remain below the 2% inflation target before returning gradually to 2.0% in 2020.

Monetary policy

1.34 Monetary policy has a critical role to play in supporting the economy as the government delivers on its commitment for necessary fiscal consolidation, a policy strategy which has served the UK well since 2010. The government has ensured that monetary policy can continue to play that role fully by updating the UK's monetary policy framework and remit for the Monetary Policy Committee (MPC) at Budget 2013. The MPC has full operational independence to set policy to meet the 2% inflation target as measured by the 12-month increase in the CPI.

1.35 Inflation was 0.0% in March, triggering the second open letter for inflation falling more than 1 percentage point below target, published on 13 May 2015.[16] The low inflation recently experienced in the UK has mostly been driven by global factors, notably the sharp fall in oil prices and the decline in food prices during the second half of 2014. The Governor of the Bank of England's open letter to the Chancellor explained that lower contributions from movements in food, energy and other goods prices accounted for around three-quarters of the shortfall in inflation from target in March.

1.36 Inflation was -0.1% in April and 0.1% in May 2015. The MPC's view is that inflation is likely to remain close to its current rate over the next few months. At the time of the last open letter, the MPC judged it likely that, conditional on interest rates following the path currently implied by market yields, slack in the economy will be absorbed and inflation will return to the 2% target within 2 years.[17]

1.37 The Governor of the Bank of England has been clear that "a temporary period of falling prices, driven by large one-off adjustments in a few specific components of the CPI should not be mistaken for the potentially damaging process of 'deflation'".[18] The Chancellor has welcomed that the MPC remains vigilant to both upside and downside risks to its forecast and stands ready to act if these risks materialise, to ensure inflation remains likely to return to target in a timely fashion.[19]

Credit easing

1.38 Credit conditions for businesses have continued to improve, supported by policy action the government has taken, such as through the Funding for Lending Scheme (FLS) and the British Business Bank. Gross lending to businesses has increased by 18% in the 5 months to May 2015 compared to the same period last year.[20] Gross lending to small and medium-sized enterprises (SMEs) has grown by a similar amount, while net lending to SMEs is also positive so far in 2015, having increased by £0.5 billion since January 2015.[21] Survey evidence also continues to point towards improving conditions. In response to the Federation of Small Businesses Voice of Small Business Survey, more SMEs reported that credit was affordable and available than at any time since the beginning of 2012.[22]

1.39 The FLS will continue to provide support for bank lending to SMEs into 2016. Since its introduction in July 2012, the scheme has contributed to a significant fall in bank funding costs and helped support the improvement in credit conditions. Net lending to SMEs by participants in the scheme was £0.6 billion in Q1 2015.[23] This was higher than the quarterly average of -£0.3 billion over 2014 and consistent with the improvement in lending across the wider market.[24]

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[16] Open letter from the Governor of the Bank of England to the Chancellor of the Exchequer, May 2015.
[17] Open letter from the Governor of the Bank of England to the Chancellor of the Exchequer, May 2015.
[18] Open letter from the Governor of the Bank of England to the Chancellor of the Exchequer, May 2015.
[19] Open letter from the Chancellor of the Exchequer to the Governor of the Bank of England, May 2015.
[20] 'Money and Credit: May 2015', Bank of England statistical release, June 2015.
[21] 'Money and Credit: May 2015', Bank of England statistical release, June 2015.
[22] 'FSB Voice of Small Business Index, Quarter 2 2015', Federation of Small Businesses, June 2015.
[23] 'Funding for Lending Scheme – usage and lending data – Q1 2015', Bank of England news release, May 2015.
[24] 'Funding for Lending Scheme – usage and lending data – Q1 2015', Bank of England news release, May 2015.

The government's fiscal plan

1.40 Since 2010, the government has made significant progress on reducing the deficit and repairing the public finances. Over the course of the last Parliament, the deficit was more than halved as a percentage of GDP from its post-war peak of 10.2% to reach 4.9% in 2014-15.[25] Debt is forecast to have peaked as a share of GDP at the end of 2014-15.[26] However, risks remain to the recovery, including from events in Greece and a slowing global economy. Debt stands at its highest share of GDP since the late 1960s, and the deficit remains among the highest in advanced economies.[27]

1.41 The government is taking further action to complete the repair of the public finances. Running a surplus on the headline measure of borrowing is the most reliable way to bring down debt as a share of GDP in the long term.

1.42 In the last Parliament, the headline measure of public sector net borrowing (PSNB) was reduced by around 1.1% of GDP a year on average.[28] The government has decided to maintain the same average pace of reduction in the headline measure of PSNB in this Parliament to reach an overall surplus in 2019-20.

1.43 Table 1.2 sets out the key fiscal aggregates at the Budget. Public sector net debt (PSND) as a share of GDP is forecast to fall in every year of the Parliament. Debt as a share of GDP in 2019-20 is now forecast to be lower than expected in the March Budget.

Table 1.2: Comparison of key fiscal aggregates to March Budget 2015

	Estimate	Forecast					
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Public sector net borrowing (£ billion)							
Summer Budget 2015	89.2	69.5	43.1	24.3	6.4	-10.0	-11.6
March Budget 2015[1]	90.2	75.3	39.4	12.8	-5.2	-7.0	–
Change compared to March Budget 2015	-1.0	-5.8	3.7	11.5	11.6	-3.0	–
Public sector net borrowing (% GDP)							
Summer Budget 2015	4.9	3.7	2.2	1.2	0.3	-0.4	-0.5
March Budget 2015[1]	5.0	4.0	2.0	0.6	-0.2	-0.3	–
Change compared to March Budget 2015	-0.1	-0.3	0.2	0.6	0.5	-0.1	–
Public sector net debt (% GDP)							
Summer Budget 2015[2]	80.8	80.3	79.1	77.2	74.7	71.5	68.5
March Budget 2015[1]	80.4	80.2	79.8	77.8	74.8	71.6	–
Change compared to March Budget 2015	0.4	0.0	-0.6	-0.6	-0.1	-0.1	–

[1] Figures for 2014-15 were forecast at March Budget 2015.

[2] Debt at end March 2015 is outturn; GDP centred on end March 2015 reflects the latest GDP forecast from the OBR. Therefore, the figure differs from the June Public Sector Finances release.

Source: Office for Budget Responsibility.

1.44 Tables 1.3 and 1.4 set out the changes between the OBR's March 2015 forecast and Summer Budget 2015 forecast for PSNB and PSND. This shows that, following the in-year savings that the government announced in June and higher tax receipts, borrowing is forecast to be £6 billion lower in 2015-16. Increased asset sales strengthen the fiscal position over the forecast period, lowering the path of debt. This has allowed the government to increase

[25] 'Public Sector Finances', ONS, May 2015.
[26] 'Economic and fiscal outlook', OBR, July 2015.
[27] 'Three Centuries of Data on the UK Economy', Bank of England data; 'IMF Fiscal Monitor', IMF, April 2015.
[28] HMT analysis based on 'Public Sector Finances', ONS, May 2015.

departmental spending and smooth the path of borrowing over the Parliament, while delivering a larger surplus in 2019-20 than expected in March. Borrowing will be higher in the years 2016-17 to 2018-19 by an average of £9 billion a year, but the surplus of £10 billion in 2019-20 will be £3 billion higher than was forecast in March. Debt as a share of GDP will be lower in 2019-20 than forecast in March.

Table 1.3: Changes to public sector net borrowing since March Budget 2015

			£ billion		
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
March Budget 2015 public sector net borrowing	**75.3**	**39.4**	**12.8**	**-5.2**	**-7.0**
Total forecast change	-3.0	1.3	3.4	5.4	7.4
Total scorecard policy decisions (tax and welfare)	-3.6	-9.1	-11.0	-15.1	-17.1
Total indirect effects of scorecard policy decisions	0.6	-3.4	-4.6	-4.6	-2.2
Changes to OBR implied departmental spending[1]	0.1	14.9	23.7	25.9	8.9
Summer Budget 2015 public sector net borrowing	**69.5**	**43.1**	**24.3**	**6.4**	**-10.0**
Total change to public sector net borrowing since March Budget 2015	*-5.8*	*3.7*	*11.5*	*11.6*	*-3.0*

[1] For consistency with the OBR's Economic and Fiscal Outlook, this is presented on a PSCE in RDEL and PSGI in CDEL basis, and includes changes to DEL not captured by the lines above.

Source: Office for Budget Responsibility, HM Treasury policy costings and HM Treasury calculations.

Table 1.4: Changes to public sector net debt since March Budget 2015

			% GDP		
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
March Budget 2015 public sector net debt	**80.2**	**79.8**	**77.8**	**74.8**	**71.6**
Change in public sector net debt as a result of change in borrowing	-0.4	-0.2	0.4	0.9	0.8
Other changes including asset sales[1]	0.4	-0.5	-1.0	-1.0	-0.9
Summer Budget 2015 public sector net debt	**80.3**	**79.1**	**77.2**	**74.7**	**71.5**
Total change to public sector net debt since March Budget 2015	*0.0*	*-0.6*	*-0.6*	*-0.1*	*-0.1*

[1] Includes impact of change in nominal GDP.

Source: Office for Budget Responsibility and HM Treasury calculations.

1.45 To achieve the surplus in 2019-20 the government will undertake around £37 billion of further consolidation measures. As shown in Table 1.5, this Budget sets out around £17 billion of measures that will reduce the deficit, including £12 billion by 2019-20 from welfare reform and £5 billion by 2019-20 from tackling tax avoidance and tax planning, evasion and non-compliance, and imbalances in the tax system. In the autumn, the government will set out plans to deliver the remaining £20 billion of consolidation measures required to achieve the surplus following a rigorous Spending Review process.

Table 1.5: Consolidation plans over this Parliament

	£ billion			
	2016-17	2017-18	2018-19	2019-20
Discretionary consolidation[1]	**9**	**20**	**31**	**37**
of which announced at this Budget[2]	**6**	**9**	**13**	**17**
of which welfare reform	5	7	9	12
of which tax avoidance and tax planning, evasion and compliance, and imbalances in the tax system	1	2	4	5
Further consolidation	**3**	**11**	**18**	**20**

[1] Discretionary consolidation is calculated as the sum of: receipts from avoidance and tax planning, evasion and compliance and imbalances in the tax system and welfare policy decisions announced at Summer Budget 2015 and set out in Table 2.1; and the additional reduction in spending (or equivalent increase in taxes) needed to meet the government's overall fiscal path, compared to a counterfactual in which RDEL excluding depreciation grows in line with the whole economy inflation from its 2015-16 level (excluding the OBR's Allowance for Shortfall) and all other spending (and receipts) follows the OBR's latest fiscal forecast.

[2] Total welfare policy decisions and total receipts from avoidance and tax planning, evasion and compliance, and imbalances in the tax system as set out in Table 2.1.

Source: Office for Budget Responsibility, HM Treasury policy costings and HM Treasury calculations.

1.46 The Spending Review will identify further reductions, while confirming increased spending on the NHS and ensuring the UK spends 2% of GDP a year on defence. The government will also look to do more to tackle avoidance and tax planning, evasion and compliance, and imbalances in the tax system, and will continue to consider sensible welfare reform.

The long-term debt challenge

1.47 High debt means a high burden of interest costs on future generations. Even with interest rates at historically low levels, central government gross debt interest spending equates to the budgets of the Ministry of Defence and Home Office combined in 2015-16, as set out in Table 2.3.[29] Reducing debt from its current high levels will also help prepare the UK to deal with future pressures from an ageing population.

1.48 High debt increases the UK's vulnerability to future shocks. Evidence suggests that at higher debt levels, the scope for fiscal policy to stabilise the economy is reduced.[30] A higher starting level of debt also increases the risk that a further shock to the public finances could increase debt to a level that the markets would view as potentially unsustainable, increasing interest rates.

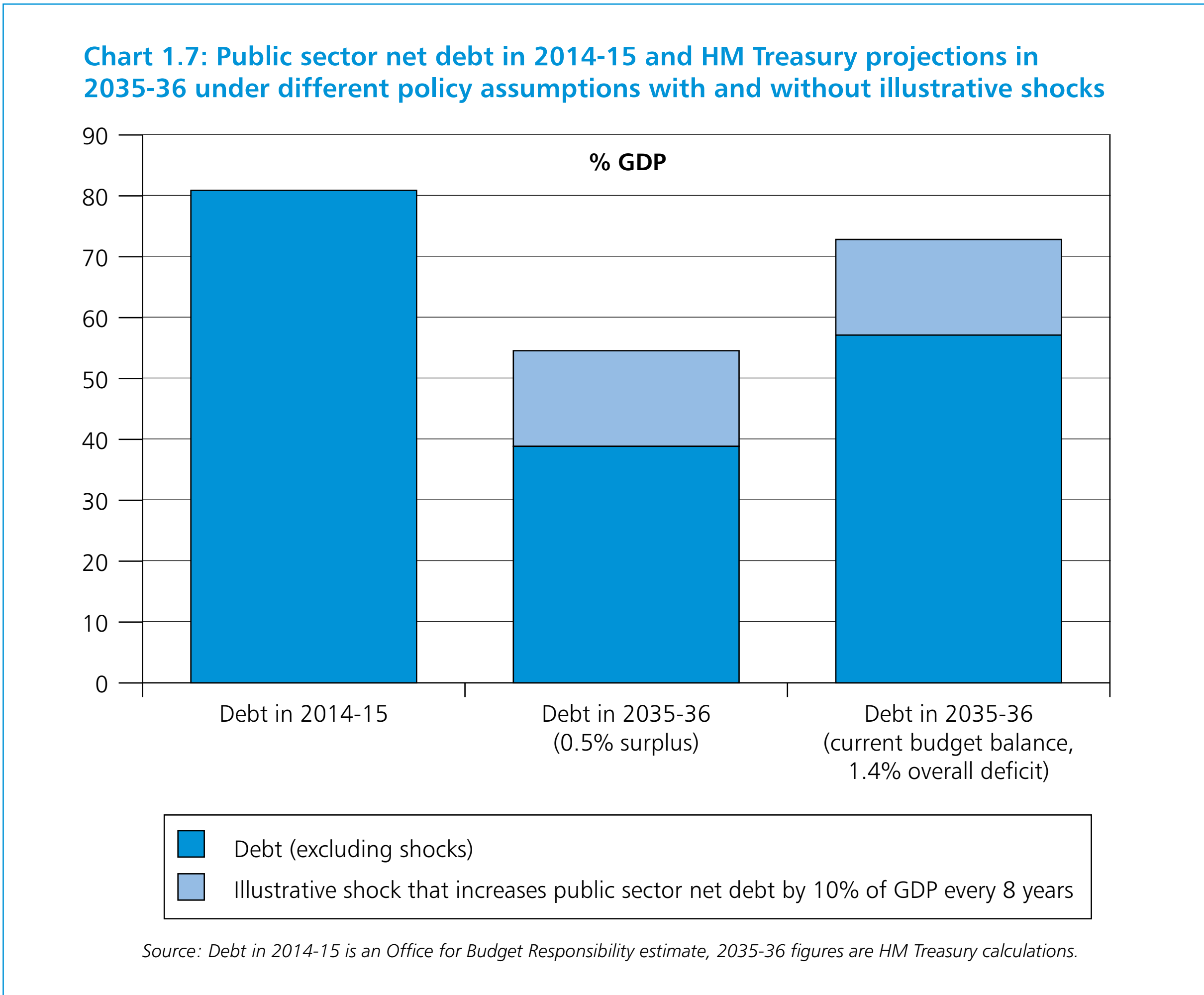
1.49 The evidence suggests that negative effects of debt are likely to start to dominate with gross debt in the region of 70-90% of GDP. Without further debt reduction, a future economic shock on the scale of the Great Recession of 2008 would take debt to well over 100% of GDP.[31] This risk can be exacerbated by country-specific factors, such as potential vulnerabilities from the UK's large current account deficit, large financial centre, and any negative feedback of high debt on growth.[32]

1.50 A strategy for debt reduction must take into account the possibility of future economic shocks. The UK economy has been subject to relatively frequent shocks in the past and though the nature and timing are unpredictable, prudent fiscal policy should allow for them. Any analysis is necessarily illustrative, but Chart 1.7 below shows the impact on debt by 2035-36 of

[29] Interest rate data from DMO daily gilt prices (1996-present), and Bank of England yield curve archive (1976-1996); central government gross debt interest in 2015-16 as in 'Economic and fiscal outlook', OBR, July 2015.
[30] See, e.g., 'New Evidence on the Private Saving Offset and Ricardian Equivalence', Rohn, O., OECD Economics Department Working Papers, No. 762, 2010; 'Fiscal Policy Reaction to the Cycle in the OECD: Pro- or Counter-cyclical?', Egert, B., OECD Economics Department Working Papers, No. 763, 2010; 'Fiscal stimulus in times of high debt: reconsidering multipliers and twin deficits', Nickel, C. and A. Tudyka, ECB Working Paper No 1513, February 2013.
[31] 'Prudent debt targets and fiscal frameworks', Fall, F. et al., OECD Economic Policy Paper No. 15, July 2015.
[32] 'Fiscal Monitor', IMF, April 2013; 'Prudent debt targets and fiscal frameworks', Fall, F. et al., OECD Economic Policy Paper No. 15, July 2015, and references therein.

a simple scenario in which the economy is hit once every 8 years by a shock that increases PSND by 10% of GDP.[33] In this illustrative scenario, running a permanent 1.4% deficit (equivalent to a balanced current budget) after 2020-21 means debt only falls by 8% of GDP between its peak in 2014-15 and 2035-36. In comparison, continuing to run an overall surplus of 0.5% beyond the forecast period reduces debt by 28% of GDP.

Chart 1.7: Public sector net debt in 2014-15 and HM Treasury projections in 2035-36 under different policy assumptions with and without illustrative shocks



Source: Debt in 2014-15 is an Office for Budget Responsibility estimate, 2035-36 figures are HM Treasury calculations.

1.51 Any strategy for long-term debt reduction must also take into account the UK's low inflation environment. Independent monetary policy now delivers low and stable medium-term inflation, to the benefit of the whole economy. This contrasts with the experience after World War II, when very high inflation, together with financial repression, played a major role in reducing debt.[34] Substantial debt reduction in future will depend on responsible management of the public finances and sustainable economic growth.

1.52 The only reliable way to bring debt down to safer levels is to run a surplus in normal times.[35] Running a surplus will mean that debt falls rapidly when the economy is growing normally – ensuring that long-term debt reduction will not be knocked off-course by periodic shocks.

[33] 8 – 9 years is average gap between technical recessions in the UK since 1955 (HM Treasury calculation based on ONS data), though past recessions have not been evenly spaced; a 10% increase in debt is less than the peak increase following the 1990s recession.
[34] 'The liquidation of government debt', Reinhart, C. and M. Sbrancia, 2011; 'Fiscal sustainability report', OBR, 2013.
[35] This approach is formalised in the updated Charter for Budget Responsibility: once a surplus is achieved, the government should maintain a surplus unless and until real GDP growth falls below 1% on a rolling 4 quarter-on-4 quarter measure.

Charter for Budget Responsibility

1.53 The government has published a draft Charter for Budget Responsibility (the "Charter") to entrench this commitment to reach an overall surplus and maintain it in normal times. The draft Charter sets out:

- a target for a surplus on public sector net borrowing in 2019-20, and a supplementary target for public sector net debt to fall as a share of GDP in each year from 2015-16 to 2019-20
- a target, once a surplus is achieved in 2019-20, to run a surplus each subsequent year as long as the economy remains in normal times

1.54 These targets will apply as long as the economy is not hit by a significant negative shock that reduces real GDP growth to less than 1% (on a rolling 4 quarter-on-4 quarter basis). If the OBR judge that the economy has been hit by a shock, the surplus rule will be suspended. This will allow the automatic stabilisers to support the economy when they are needed. The framework therefore supports fiscal discipline in normal times, while ensuring that future governments will have the flexibility to respond appropriately to shocks.

1.55 Following a shock, the government of the day will be required to set a plan to return to surplus. This plan must include appropriate fiscal targets. The framework does not prescribe what the targets should be, allowing the government of the day to respond to the circumstances. However, the targets will be voted on by the House of Commons and assessed by the OBR. A surplus in normal times is necessary to provide the government of the day with the fiscal space to allow appropriate action to be taken in the face of these shocks. The end goal must be to return the public finances to surplus, ensuring that long-term debt reduction continues.

1.56 The Charter will be laid before Parliament and voted on by the House of Commons in the autumn of 2015.

The OBR's fiscal forecast

1.57 As a result of the government's plan, the OBR is forecasting that the public finances will return to surplus in 2019-20. The surplus in 2020-21 would be the largest structural surplus in 40 years.

1.58 Table 1.4 sets out the OBR forecast for key fiscal aggregates over this Parliament, based on the strategy defined in this Budget.

1.59 From its post-war peak of 10.2% of GDP in 2009-10[36], PSNB is forecast to fall to:

- 3.7% of GDP in 2015-16
- a surplus of 0.4% of GDP in 2019-20 and 0.5% of GDP in 2020-21

1.60 PSND is forecast to peak at 80.8% of GDP in 2014-15, before falling each year and reaching 68.5% of GDP in 2020-21.

[36] 'Public Sector Finances', ONS, May 2015.

Table 1.6: Overview of the OBR's central fiscal forecast

	% GDP, unless otherwise stated						
	Estimate	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Fiscal mandate							
Cyclically-adjusted current budget deficit	2.4	1.7	0.5	-0.3	-1.1	-1.8	-1.9
Deficit							
Public sector net borrowing	4.9	3.7	2.2	1.2	0.3	-0.4	-0.5
Public sector net borrowing (£ billion)	89.2	69.5	43.1	24.3	6.4	-10.0	-11.6
Cyclically-adjusted net borrowing	4.1	3.2	2.0	1.1	0.3	-0.5	-0.5
Current budget deficit	3.2	2.2	0.8	-0.2	-1.1	-1.8	-1.9
Primary balance	-3.4	-2.1	-0.4	0.8	1.7	2.4	2.3
Cyclically-adjusted primary balance	-2.6	-1.7	-0.2	0.9	1.7	2.4	2.3
Treaty deficit[1]	5.1	4.0	2.3	1.4	0.5	-0.3	-0.4
Cyclically-adjusted Treaty deficit	4.3	3.6	2.1	1.2	0.4	-0.3	-0.4
Debt							
Public sector net debt[2, 3]	80.8	80.3	79.1	77.2	74.7	71.5	68.5
Treaty debt[4]	88.5	87.6	86.8	85.2	82.8	79.8	76.4
Memo: Output gap	*-0.8*	*-0.6*	*-0.3*	*-0.1*	*0.0*	*0.0*	*0.0*
Memo: Total policy decisions[5]		*0.2*	*0.5*	*0.5*	*0.7*	*0.8*	*0.8*

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

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

[3] Debt at end March 2015 is outturn; GDP centred on end March 2015 reflects the latest forecast from the OBR. Therefore, the figure differs from the June Public Sector Finances release.

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

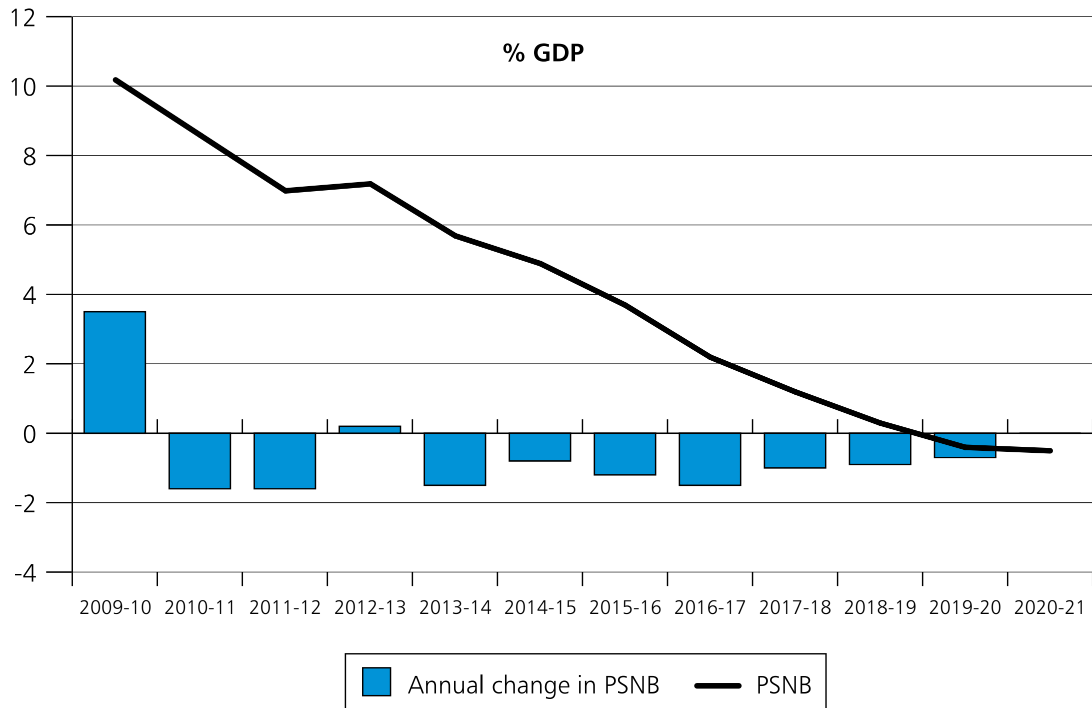
[5] Equivalent to the 'Total policy decisions' line in Table 2.1.

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

1.61 The plan to reach a surplus involves a sustained improvement in the fiscal position over the years to 2019-20. The government's preferred measure of the deficit (PSNB) will fall by around 1.1% of GDP a year on average. This is the same rate as over the last Parliament.

1.62 The OBR forecasts that this fiscal path will lead to a significant reduction in PSND as a share of GDP over the course of this Parliament. As shown in Chart 1.9 debt is forecast to fall in every year of the Parliament, reaching 71.5% of GDP in 2019-20 (a lower level than forecast in March) and 68.5% of GDP in 2020-21.

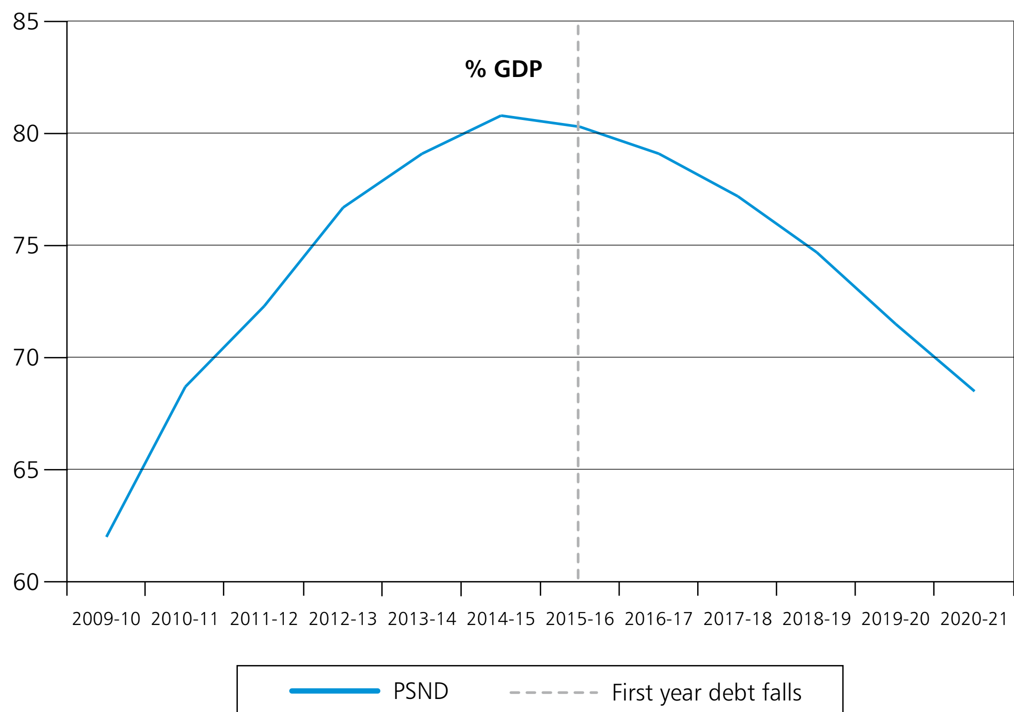
Chart 1.8: Public sector net borrowing, level and annual change from 2009-10 to 2020-21



Note: PSNB in 2012-13 includes a one-off £9.5bn increase due to transfers from the Royal Mail Pension plan. This accounts for the PSNB increase in this year shown; adjusting for this PSNB falls in all years.

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

Chart 1.9: Public sector net debt



Note: Public sector net debt in 2014-15 is an Office for Budget Responsibility estimate, for the period from 2015-16 to 2020-21 it is an Office for Budget Responsibility forecast.

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

Fixing the public finances and returning a surplus

1.63 The government has set out its fiscal plan, to consolidate at the same pace on average as the last Parliament to reach a surplus in 2019-20. This is a smoother path of consolidation than was planned in March, but will still require action in order to achieve the surplus.

1.64 The sections below set out the measures the government will undertake over this Parliament to repair the public finances. These measures also deliver by 2019-20 the planned contributions of £5 billion from avoidance and tax planning, evasion and compliance, and imbalances in the tax system, and £12 billion from welfare. Plans to deliver the remaining consolidation will be set out in the autumn following a rigorous Spending Review process.

Tax

1.65 The government believes in lower taxes, and is committed to eliminating the deficit in a way that is fair to taxpayers. The cornerstone of this commitment is to introduce into legislation a tax lock to rule out increases in the main rates of income tax, VAT or National Insurance over the course of this Parliament.

1.66 This Budget addresses imbalances in the tax system in order to pay for tax reforms to support individuals and businesses. By 2017-18, 8 out of 10 working households will be better off as a result of the income tax Personal Allowance, living wage and welfare (including tax credits) changes in this Budget. On average, these households will be £130 per year better off.

1.67 The majority of individuals and businesses pay their fair share of tax. However, there are some who fail to pay what they owe due to error or a failure to comply with their obligations as a taxpayer, and a small minority who try to evade or aggressively avoid paying the tax they should. As part of its consolidation plans, the government will raise at least an additional £5 billion a year by 2019-20 by tackling avoidance and tax planning, evasion and compliance, and by addressing imbalances in the tax system.

1.68 Further details of measures to ensure that individuals and businesses pay what they owe, and to address imbalances in the tax system, are set out later in this chapter.

Welfare

1.69 The government's welfare cap is a firm limit on welfare spending, applying to spending in Annually Managed Expenditure with the exception of the state pension and the automatic stabilisers.

1.70 Consistent with the Charter for Budget Responsibility, the government is setting the welfare cap for this Parliament in this Budget. The welfare cap is set at the level of the OBR's forecast for spending in scope of the cap. The cap therefore reflects the welfare savings announced at this Budget, and improvements in the forecast since the cap was last set at Budget 2014. By setting the cap at the level of the new forecast, the government is committing to deliver the welfare savings set out at this Budget. The forecast margin will be set at 2% of the new cap.

Table 1.7: Welfare cap

	£ billion				
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Welfare cap	115.2	114.6	114.0	113.5	114.9
Forecast margin (2%)	2.3	2.3	2.3	2.3	2.3

Source: HM Treasury, based on Office for Budget Responsibility forecast.

1.71 In the last Parliament, the government legislated for over £21 billion of welfare savings.[37] As the recovery takes hold, it is right that welfare savings continue to play a role in the deficit reduction plan.

1.72 The government's plans for reducing the working-age welfare bill are set out below. The government is reforming the welfare system to make it more affordable and fairer to taxpayers, while continuing to support the most vulnerable. As a result of measures announced in this Budget, welfare spending will be £12 billion lower in 2019-20 than would otherwise have been the case. Working-age welfare spending is now forecast to grow at -2.3% annually in real terms over the Parliament, compared to -0.6% over the last Parliament and 4.0% over the 2005-10 Parliament.[38]

Public spending

1.73 The government has already identified a further £3 billion of departmental savings in 2015-16.[39] The departmental savings have been achieved through efficiency savings, tighter control of budgets to drive underspends in-year, and through asset sales.

1.74 The government will set out how the remaining consolidation will be delivered in the autumn following a rigorous Spending Review process.

1.75 The Spending Review will look at all elements of public spending in order to create a more efficient public sector, whilst continuing to prioritise growth-promoting expenditure and spending on public services for those who need them the most.

Funding for healthcare

1.76 The NHS 'Five Year Forward View' outlines a plan for a more sustainable, integrated health service that cares for people closer to home.[40]

1.77 The Budget protects spending on the NHS in England and backs its 5-year plan. The government will continue to spend more on the NHS in real terms every year, as it has in every year since 2010. It will fully fund the NHS plan which called for £8 billion more by 2020-21. This additional funding comes on top of the £2 billion announced at Autumn Statement 2014.

1.78 The Budget therefore commits to increase NHS funding in England by £10 billion in real terms by 2020-21, above 2014-15 levels. This additional investment will support the NHS in England to go further than its plan and to deliver a step change in safety, quality and access.

1.79 The Five Year Forward View set out how, with the additional funding confirmed in this Budget, the NHS will deliver £22 billion in efficiency savings by 2020-21. This will come through improvements to quality of care and staff productivity, and better procurement.

1.80 The government will ensure the NHS becomes a 7-day service by 2020-21. Hospitals will be appropriately staffed at weekends to ensure people can obtain the care they need every day of the week. Everyone will be able to access GP services from 8am – 8pm seven days a week. These improvements will allow people to better balance work, health and family and will be a key to a more productive economy.

Funding for defence and security

1.81 The first duty of government is to ensure the safety and security of the country and its people. The government remains committed to ensuring real growth of the Ministry of Defence equipment plan of 1% per year and maintaining the size of the Army at 82,000. The government will go further, and **this Budget commits to raise the entire Ministry of Defence budget by 0.5% a year in real terms.** This Budget also **protects overall counter**

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[37] HMT analysis, based on OBR's policy measures database.
[38] HMT analysis using DWP benefit expenditure and caseload tables, OBR forecast, GDP deflators from ONS (outturn) and OBR (forecast).
[39] 'Chancellor announces £4 billion of measures to bring down debt', HM Treasury, 4 June 2015, available on gov.uk.
[40] 'Five Year Forward View', NHS, October 2014.

terrorism spending across government, a total of more than £2.0 billion spent by a range of departments, agencies, and the police.

1.82 The threats the UK faces are diverse and require coordinated responses from the armed forces, security and counter terrorism agencies. In addition to the annual increase in the defence budget, **this Budget announces up to an additional £1.5 billion a year by the end of the Parliament to fund increased spending on the military and intelligence agencies by an average of 1% a year in real terms.**

1.83 The final allocation of this additional funding will be determined by the Strategic Defence and Security Review and Spending Review, and is conditional on the armed services and agencies producing further efficiencies within their existing budgets to ensure continued investment in the most important capabilities.

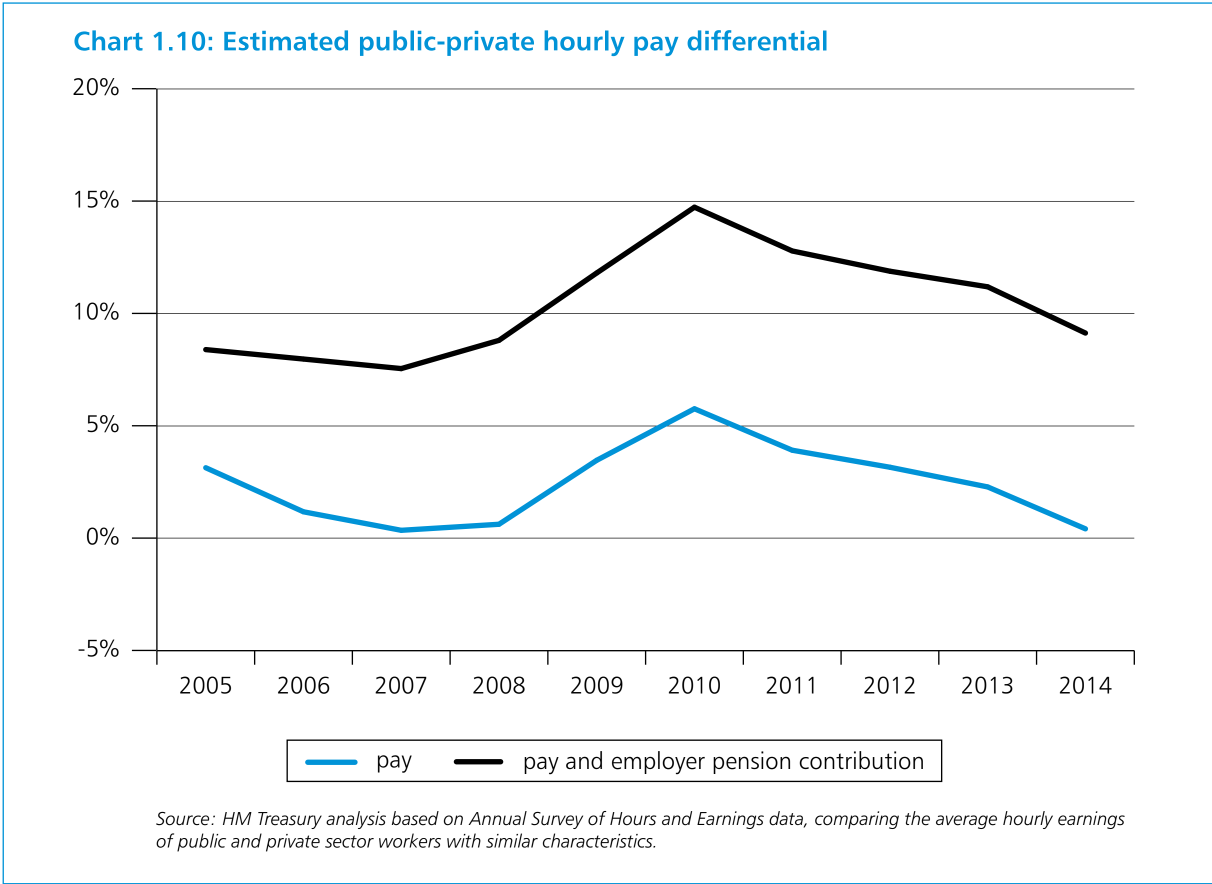
1.84 Allowing for all of the public spending that supports the Ministry of Defence and the contribution made by the secret intelligence agencies, **this Budget commits the government to meet the properly measured NATO pledge to spend 2% of national income on defence every year of this decade.**

Public sector pay and pensions

1.85 In the last Parliament, the government exercised firm restraint over public sector pay to deliver reductions to departmental spending, saving approximately £8 billion.[41] As set out by the Chancellor at Autumn Statement 2014, the government will need to continue to take tough decisions on public sector pay in order to deliver reductions to departmental spending and protect the quality of public services.

1.86 Overall, levels of pay in the public sector are now, on average, comparable to those in the private sector. However, public sector workers continue to benefit from a significant premium once employer pension contributions are taken into account, as shown in Chart 1.10.

Chart 1.10: Estimated public-private hourly pay differential



Source: HM Treasury analysis based on Annual Survey of Hours and Earnings data, comparing the average hourly earnings of public and private sector workers with similar characteristics.

[41] HM Treasury analysis.

1.87 In light of this and continued low inflation, **the government will therefore fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards.** This will save approximately £5 billion by 2019-20.[42] The government expects pay awards to be applied in a targeted manner within workforces to support the delivery of public services.

1.88 As part of the forthcoming Spending Review, the government will continue to examine pay reforms and modernise the terms and conditions of public sector workers. This will include a renewed focus on reforming progression pay, and considering legislation where necessary to achieve the government's objectives.

1.89 The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance.

Efficiency and reform

1.90 The government will continue to pursue more efficient ways of working and further reform to public services. **The government will provide funding for the Cabinet Office to explore a number of cross-cutting savings proposals. The Treasury, working with Cabinet Office, will develop specific proposals to inform the Spending Review.**

1.91 At Spending Round 2013, the government announced a control total would limit payments under PFI and PF2 contracts in nominal terms in each future Parliament. As reported by the OBR, the Treasury is on track to meet this target, with forecast cumulative spending from 2015-16 to 2019-20 for payments on all PFI contracts funded by central government standing at £51.9 billion.[43]

BBC

1.92 The BBC has agreed to take on responsibility for funding the over-75s licence fee concession, which will help contribute to reductions in public spending. This will be phased in from 2018-19, with the full liability being met by the BBC from 2020-21. As part of these new arrangements, the government will ensure that the BBC can modernise the licence fee to cover public service broadcast catch-up television and anticipates that the licence fee will rise in line with CPI over the next Charter period, subject to Charter Review conclusions on the purposes and scope of the BBC, and the BBC demonstrating that it is undertaking efficiency savings at least equivalent to those in other parts of the public sector.

Financial sector and other state-owned asset sales

1.93 The government is committed to returning the financial sector assets that were acquired in 2008 and 2009 to the private sector. The government will seek to dispose of other commercial and financial assets, which there is no policy reason for the government to hold, in order to maximise value for taxpayers and reduce the level of public debt. Significant progress towards this goal has already been made.

1.94 As set out in the OBR's July 2015 'Economic and fiscal outlook', to date the government has made the following recoveries from financial sector interventions:

- over £40 billion through selling shares in Lloyds Banking Group, and repayments from the Royal Bank of Scotland (RBS), UK Asset Resolution (UKAR) and the estates of failed banks
- almost £20 billion in other fees received from Lloyds, RBS, UKAR and other financial institutions relating to government support and participation in government intervention schemes – all of which are no longer required

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[42] HM Treasury analysis.
[43] 'Fiscal sustainability report', OBR, June 2015.

1.95 The government has also completed disposals of Eurostar (£757 million) and Royal Mail shares (£750 million) in 2015-16.[44]

1.96 In light of independent advice, the government will begin to sell off its stake in RBS in the next few months.[45] **Over the course of this Parliament, the government will dispose of at least three-quarters of its stake in RBS, starting with a sale in the coming months.** The government expects to raise at least £2 billion in 2015-16. All options for near-term disposals will be considered.

1.97 Through the ongoing Lloyds Banking Group trading plan, which was extended on 1 June 2015 for a further six months, the government has sold over £5 billion of shares, reducing the taxpayer's stake to under 16%.[46] The government will launch a further share sale which will be open to retail investors in the next 12 months. Further details will be set out in due course.

1.98 UKAR are also on track to complete the sale of assets announced at Budget 2015 from the forced nationalisation of Northern Rock and Bradford & Bingley plc, and in parallel are exploring options for the sale or outsourcing of its mortgage servicing activities.

1.99 The government intends to complete the sale of its remaining 14% shareholding in Royal Mail by the end of 2015-16, subject to achieving value for money**.** This is expected to raise around £700 million.

1.100 The government is exploring options to move the Green Investment Bank into private ownership. This will ensure the future sustainability of the bank as well as increasing its impact by freeing it from the constraints of state aid and competition for public funding.

1.101 By the end of 2015-16 and subject to value for money, the government intends to sell its shareholding in the Kings Cross property development (valued at £345 million in the Department for Transport's accounts) and expects to sell the first tranche of the pre-Browne income contingent repayment student loan book.[47] There is a central estimate of £12 billion for total proceeds from tranches to be sold up to 2020. The government is also continuing to work towards a sale of its 33% shareholding in Urenco.

1.102 In 2013, the government set a target of selling £20 billion of corporate and financial assets between 2014 and 2020. With sales to date this target is over two thirds of the way to being met.[48] Sales planned for the remainder of the year mean the government expects to significantly exceed the target during 2015-16.

1.103 Taken together, the government's central estimate, certified by the OBR, is that these sales of financial and commercial assets will raise approximately £31 billion in 2015-16, achieving value for money for the taxpayer and further reducing public debt.

1.104 Overall, planned sales for 2015-16 amount to the largest privatisation proceeds in a single year ever. This is over £10 billion higher in real terms than the previous record in 1987-88.[49]

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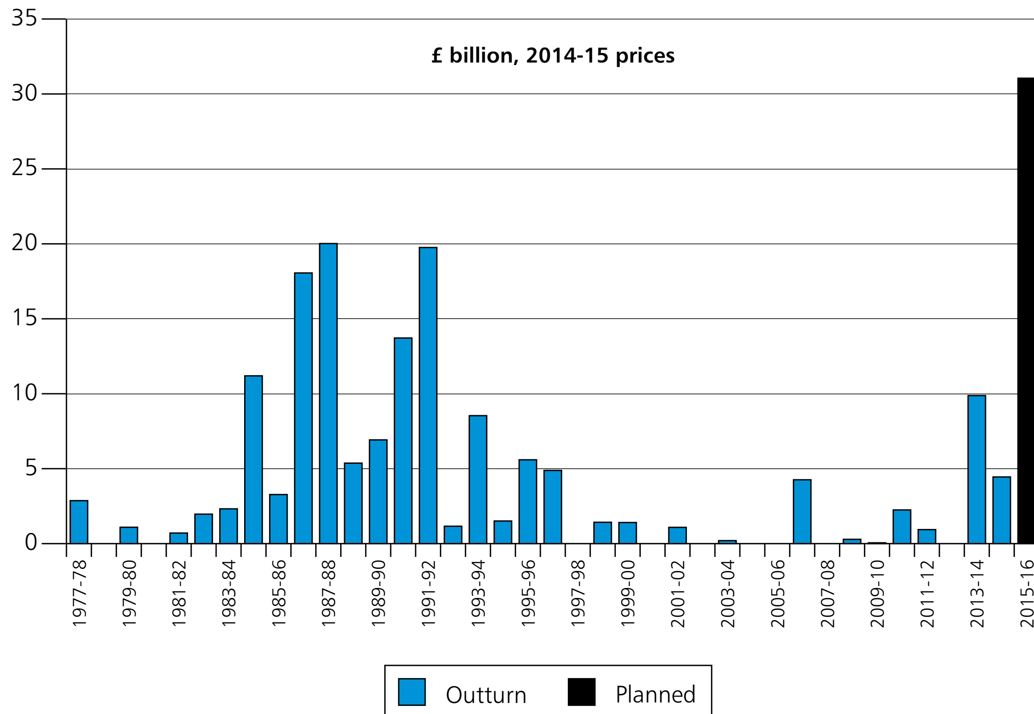
[44] 'UK Government reaches agreement on the sale of its entire interest in Eurostar for £757.1m', HM Treasury, 4 March 2015; 'Government sells 15% of shares in Royal Mail at 500p per share', Department for Business, Innovation & Skills, 11 June 2015; both available on gov.uk.
[45] 'Exchange of letters on the government's shareholdings in Royal Bank of Scotland', HM Treasury, 10 Jun 2015; 'Rothschild report on the government's shareholdings in the Royal Bank of Scotland (RBS)', HM Treasury, 10 Jun 2015; both available on gov.uk.
[46] 'Lloyds share sales have now raised over £12.5bn for the taxpayer', HM Treasury, 2 July 2015, available on gov.uk.
[47] Kings Cross property development valuation in 'Annual Report and Accounts 2013 to 2014', Department for Transport, June 2014.
[48] Published sales of corporate and financial assets since January 2014 (Lloyds Banking Group (multiple sales), UK Asset Resolution Ltd mortgage portfolio, ConstructionLine, Greencoat UK Wind, Food and Environment Research Agency, Defence Support Group, Eurostar, Royal Mail) total around £13.7 billion, of which £4.8 billion since Budget 2015.
[49] HMT analysis. Data prior to 2010 from 'Privatisation', House of Commons Library Research Paper 14/61, November 2014. Data for 2010 to 2015 from published announcements.

Chart 1.11: Real value of corporate and financial asset sales since 1977-78 including plans for 2015-16



Source: HM Treasury analysis.

Performance against the fiscal mandate

1.105 The government's fiscal strategy, as set out in the current Charter for Budget Responsibility published during the last Parliament, is underpinned by the forward-looking mandate to balance the cyclically-adjusted current budget by the end of the third year of the rolling 5-year forecast period. The government remains on course to meet the current fiscal mandate, with the OBR forecast indicating that cyclically-adjusted current budget balance will be achieved a year early in 2017-18.

1.106 The government's fiscal mandate is supplemented by a target for PSND as a percentage of GDP to be falling in 2016-17. The OBR forecasts PSND falls 1.1% of GDP between 2015-16 and 2016-17. Additionally, PSND as a share of GDP will start to fall one year earlier in 2015-16. This will be the first time that PSND has fallen as a share of GDP since 2001-02.[50]

1.107 The OBR forecasts that the government is on course to meet the new fiscal mandate proposed in the Budget to reach an overall surplus in 2019-20, and the new supplementary target for debt as a share of GDP to be falling in every year to 2019-20.

Performance against EU deficit targets

1.108 The government remains committed to bringing the UK's Treaty deficit in line with the 3% target set out in the Stability and Growth Pact (SGP). The current forecast indicates that this target will be met in 2016-17.

[50] 'Public Sector Finances', ONS, May 2015.

Debt and reserves management

1.109 The government's revised financing plans for 2015-16 are summarised in Annex A. The debt management framework was set out in the 'Debt and Reserves Management Report 2015-16', published alongside the March Budget 2015, and this framework remains in place.

1.110 National Savings and Investments (NS&I) have a net financing target which remains at £10.0 billion in 2015-16, within a range of £8.0 to £12.0 billion.

1.111 The net financing requirement for the Debt Management Office (DMO) is projected to fall by £14.0 billion to be £123.9 billion. It is planned that this will be met through gilt issuance of £127.4 billion and a reduction of £3.5 billion in the stock of Treasury bills.

1.112 The financing arithmetic provides for £5.3 billion of sterling financing for the Official Reserves in 2015-16, as set out in the Revision to the DMO's Financing Remit 2015-16 on 23 April 2015.[51] The government is planning on the basis of sterling financing for the Official Reserves of £6 billion per year on average, over the 4 years from 2016-17 up to and including 2019-20; thereafter the government has adopted a neutral assumption.

[51] 'CGNCR Outturn 2014-15: Revision to the DMO's Financing Remit 2015-16', Debt Management Office, April 2015.

Rewarding work and backing aspiration

1.113 Underpinning the government's approach is a commitment to reward work and back aspiration, while continuing to support the most vulnerable in society. This Budget builds an economy where people get a fair day's pay for a fair day's work by earning more and keeping more of what they earn. It ensures that welfare expenditure is controlled and that the welfare system is fair to taxpayers who pay for it.

1.114 The Budget will support working people by introducing a new National Living Wage (NLW) to lift the wages of the lowest paid, while setting out the path to a tax-free National Minimum Wage (NMW). The Budget cuts taxes so working families can keep more of what they earn by raising the personal allowance and delivering a real terms increase in the higher rate threshold of income tax for the first time since 2010. And it will take the family home out of inheritance tax for all but the wealthiest.

1.115 The Budget reforms welfare so that it is fair both to those who need it, and those who pay for it. It makes the whole system more sustainable and rewards work.

1.116 The Budget ensures the deficit is cut in a fair way by taking significant action to tackle tax avoidance and aggressive tax planning, tax evasion and compliance, and address imbalances in the tax system.

1.117 The UK's strong labour market has resulted in a substantial fall in income inequality, with inequality in original incomes (before taxes and benefits) now at its lowest point for 25 years. In addition, as a result of the decisions of this government and the previous government, the poorest fifth of households receive the same proportion of public spending (24%) as they did before consolidation. However, tax decisions have shifted the burden onto the rich: before consolidation, the richest fifth paid 49% of tax; this has increased to 52%.

A higher wage, lower tax, lower welfare society

1.118 The government wants to move from a low wage, high tax, high welfare society to a higher wage, lower tax, lower welfare society. Over the last Parliament, those on the lowest wages saw their pay steadily rise, with the NMW now standing at £6.50. Tax reforms took millions of people out of income tax and reduced income tax for millions more. Flagship welfare reforms have started to bring expenditure under control and ensure that the system rewards work. And the government is delivering on its pledge to create full employment. In the last Parliament, the Jobseeker's Allowance claimant count reached its lowest ever level, 2 million new jobs were created and the UK recently overtook Canada to have the third highest employment rate in the G7.

1.119 With a record high of 31.1 million people now in employment, record levels of vacancies, and an economy that was the fastest growing in the G7 in 2014 and is forecast by the OECD to be the fastest growing again in 2015,[52] the government will take further steps towards the vision of an economy and society where people are better paid and keep more of what they earn, instead of relying on an ever increasing benefit system.

A higher wage society: the National Living Wage

1.120 The UK has a higher incidence of low pay than other advanced economies: 1 in 5 UK workers is low-paid, compared to an average of only 1 in 6 among OECD countries.[53] With a strengthening economy, the government believes that now is the right time to take action to

[52] 'OECD Economic Outlook' OECD, June 2015.
[53] 'OECD Employment Outlook' OECD, September 2014.

tackle low pay and ensure that lower wage workers can take a greater share of the gains from growth.

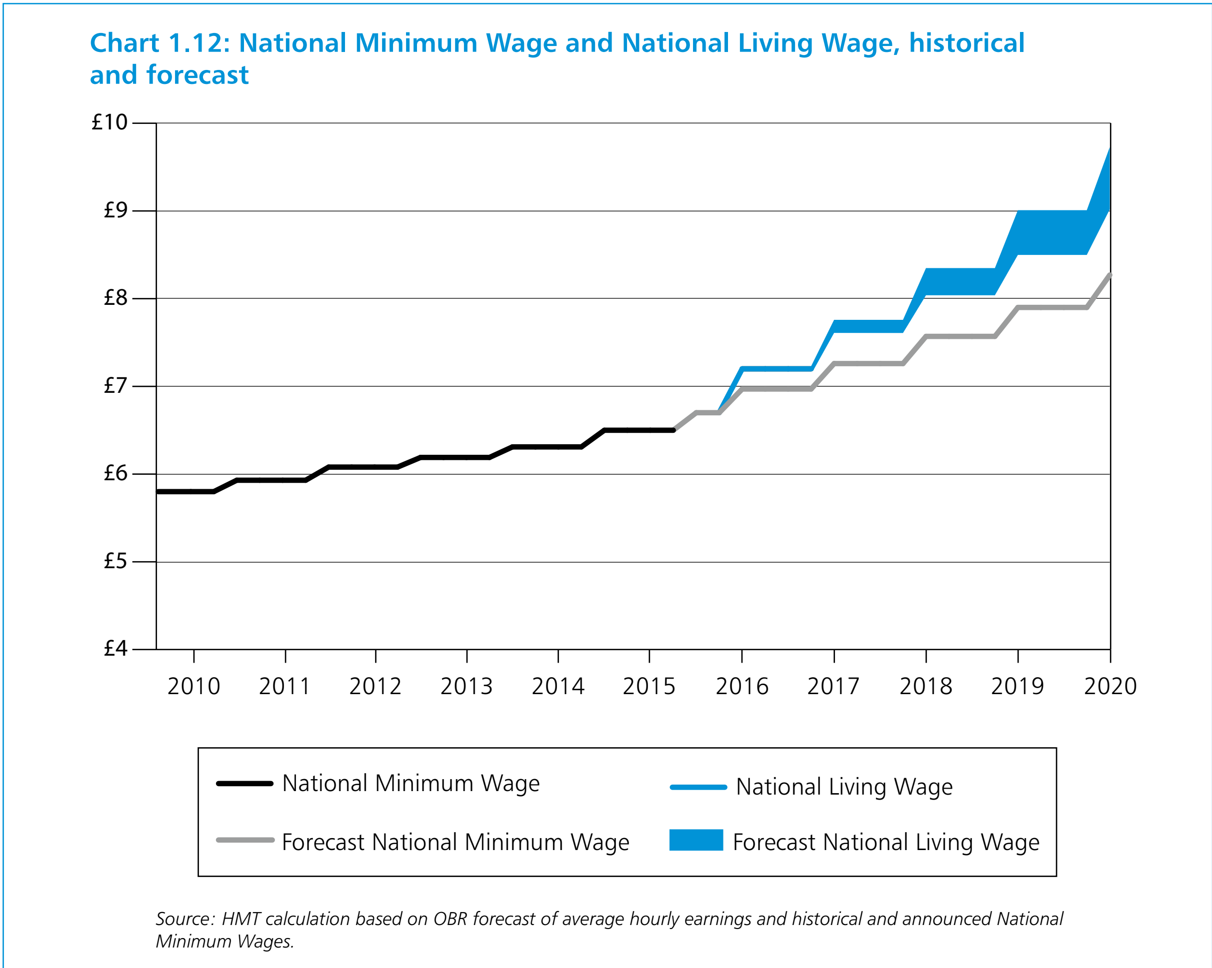
1.121 The government will therefore introduce a new National Living Wage (NLW) for workers aged 25 and above, by introducing a new premium on top of the NMW. From April 2016, the new NLW will be set at £7.20 – a rise of 70p relative to the current NMW rate, and 50p above the NMW increase coming into effect in October 2015.

1.122 The government will ask the Low Pay Commission (LPC) to set out how the new NLW will reach 60% of median earnings by 2020. Based on the OBR's earnings forecasts, this means that the NLW will reach the government's target of over £9 by 2020. 60% of median earnings is in line with the approach suggested by Professor Sir George Bain, the first chair of the LPC, in a 2014 report on the future on the NMW.

1.123 This will mean a direct boost in earnings for 2.7 million low wage workers, and the OBR have indicated that knock-on effects further up the wage distribution could mean a further 3.25 million people also see an increase in wages as a result of the NLW. By the end of the Parliament, an individual aged over 25 working 35 hours a week and previously earning the NMW will see their gross wages increase by around a third compared to 2015-16, or £5,200 in cash terms. This is equivalent to an extra £2,000 per year from the premium alone, £4,000 for a couple.

1.124 The chart below sets out the expected profile of the NLW, based on OBR forecasts.

Chart 1.12: National Minimum Wage and National Living Wage, historical and forecast



Source: HMT calculation based on OBR forecast of average hourly earnings and historical and announced National Minimum Wages.

1.125 Alongside the Budget, the government has published an entirely new remit for the LPC.[54] To ensure that the rate of the NLW is set at a sustainable level and continues to take account of

[54] [Detail].

broader economic conditions, the LPC's remit will require it to set the NLW in a way that reflects the growth in median earnings. The LPC's remit in relation to the NMW will remain unchanged.

1.126 For younger workers, the priority is to secure work and gain experience, which is already reflected in the existing NMW rate structure. In order to maximise the opportunities for younger workers to gain that experience, the NLW will only apply to workers aged 25 and over. The wages of younger workers will continue to be underpinned by the core NMW.

1.127 The government recognises that this new NLW may increase costs for some businesses. Therefore on top of other reductions in business tax, from April 2016, **the government will increase the National Insurance contributions (NICs) Employment Allowance from £2,000 to £3,000 a year**. This will help all businesses and charities, particularly smaller ones, with additional wage costs. As a result, up to 90,000 employers will see their employer NICs liability reduced to zero. When introduced in 2014, the Employment Allowance offset the NICs costs of employing 4 workers full time on the NMW. The increase in the Employment Allowance will mean firms will be able to continue to employ 4 workers full time on the new NLW next year, without paying any NICs.

1.128 The further reduction in the rate of corporation tax will also cut costs for businesses, as will reforms to the Annual Investment Allowance (set out in more detail in 'Backing business and improving productivity'). The OBR estimate that the increased cost to businesses from the NLW could amount to only just over 1% of corporate profits by 2020.

The economic impact of a National Living Wage

The concept of setting a minimum wage target based on 60% of median earnings was set out in a recent report by the Resolution Foundation, authored by the first chair of the LPC Professor Sir George Bain, along with others including Professor Alan Manning, as part of a more ambitious approach to low pay with additional focus on the longer term impacts.[4]

The introduction of a NLW will reduce the incidence of low pay and increase the returns to entering work. There may also be an increase in costs for businesses, which could affect employment. The OBR assessment of the impact of the introduction of a National Living Wage, given the continued strong employment growth seen in the UK, is to have "revised up fractionally" their forecast for unemployment rate. They estimate that even after the introduction of the new NLW, employment is forecast to rise by 1.1 million in 2021 – only 60,000 lower than it would have risen without the NLW. While some empirical studies have found reductions in employment from increases in the minimum wage, these have generally been modest.[5] Other studies have been unable to find robust evidence of any negative employment effect.[6]

Indeed, in 2001, the adult minimum wage increased by 10.8% in a single year. Further strong rises in 2003 and 2004 resulted in the minimum wage increasing by 31.1% over four years. Here, the evidence suggests that there was not a large impact on employment.

Summarising the existing research, the LPC stated in 2011 that, "The consensus of the research findings on the impact of the NMW in the UK is that it has not significantly adversely affected employment but that it may have had a small negative impact on hours." Instead firms have adjusted through other channels, by adjusting profits and pricing strategies, changing pay differentials and, in low paying sectors, boosting productivity.[7] Employers' costs are also being lowered by other measures in the Budget, including reductions in the rate of Corporation Tax, and an increase in the Employment Allowance.

[55] 'More than a minimum', Resolution Foundation, March 2014.
[56] For example, Papps, K. and Gregg, P. (2014) and Galinda-Rueda, F. and Pereira, S. (2004).
[57] For example, Stewart, M., (2004) and Bryan et al., (2013).
[58] For example, research undertaken by *Riley, R. and C. Rosazza Bondibene, (2015)* suggests that amongst low paying firms, increases in labour costs may have been met by increases in labour productivity, associated with increases in total factor productivity.

A lower tax society: cutting taxes for working people

1.129 Alongside action on wages, the government is supporting working people by ensuring that they can keep more of the money they earn by cutting taxes.

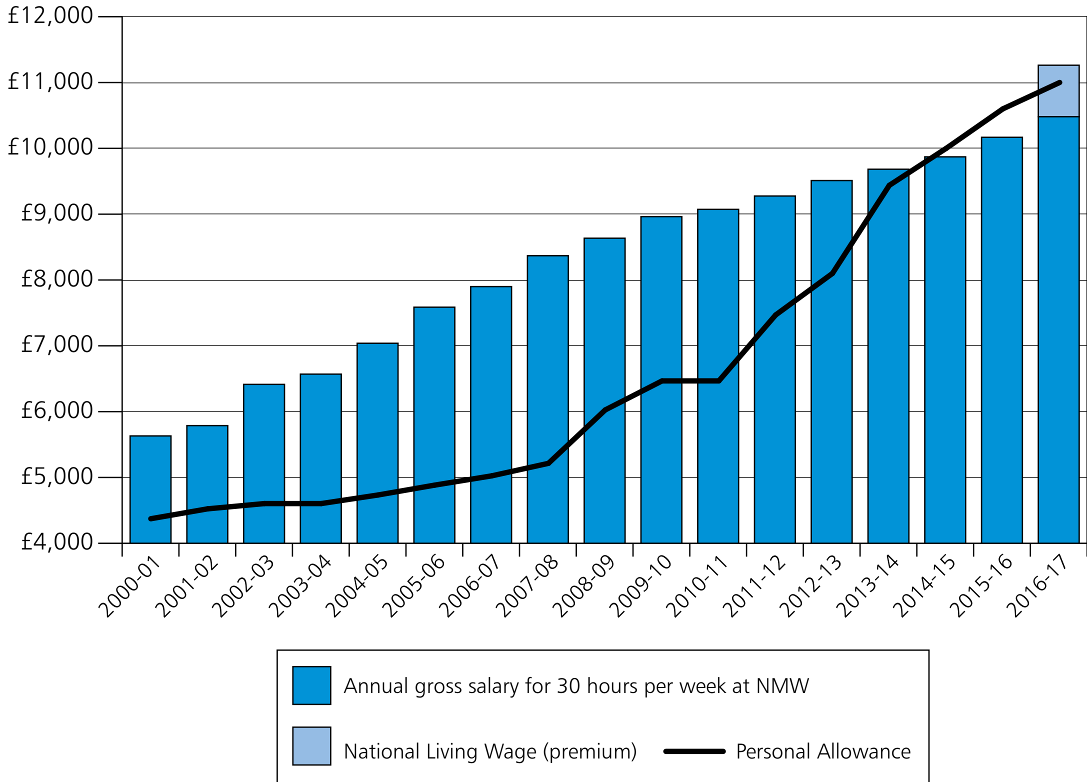
Income tax

1.130 In the last Parliament, the personal allowance increased by more than 60%, from £6,475 in 2010-11 to £10,600 in 2015-16. It is delivering a tax cut for over 27 million individuals, with basic rate taxpayers being £825 better off in 2015-16 compared with 2010. As a result, 3.8 million individuals on the lowest incomes were removed from income tax altogether, addressing the merry-go-round of taking taxes off people only to repay them in benefits.

1.131 The government wants to continue to reward work by reducing taxes and taking more people out of income tax. **The government has therefore pledged to raise the personal allowance to £12,500 by the end of this parliament.** This Budget takes the first step towards this commitment. **In 2016-17, the personal allowance will increase by £400 to £11,000.** As a result, a basic rate taxpayer will be £80 better off in 2016-17 compared to 2015-16, and £905 better off compared with 2010.

1.132 The government believes that people working 30 hours a week on the lowest pay (the NMW) should not pay income tax. **The government will therefore legislate to ensure that once the personal allowance has reached £12,500, it will always be set at least at the equivalent of 30 hours a week on the NMW.** This will ensure that those working up to 30 hours on the NMW will not pay income tax in the future.

Chart 1.13: Annual gross salary for 30 hours per week at National Minimum Wage and Personal Allowance



Source: HM Treasury calculation. Assumes the prevailing National Minimum Wage and National Living Wage at the beginning of the tax year applies for the whole year.

1.133 The government wants to encourage those who aspire to progress in work. That is why the government has pledged to **raise the level at which the higher rate of income tax is applied, the higher rate income threshold, to £50,000 by the end of this parliament.**

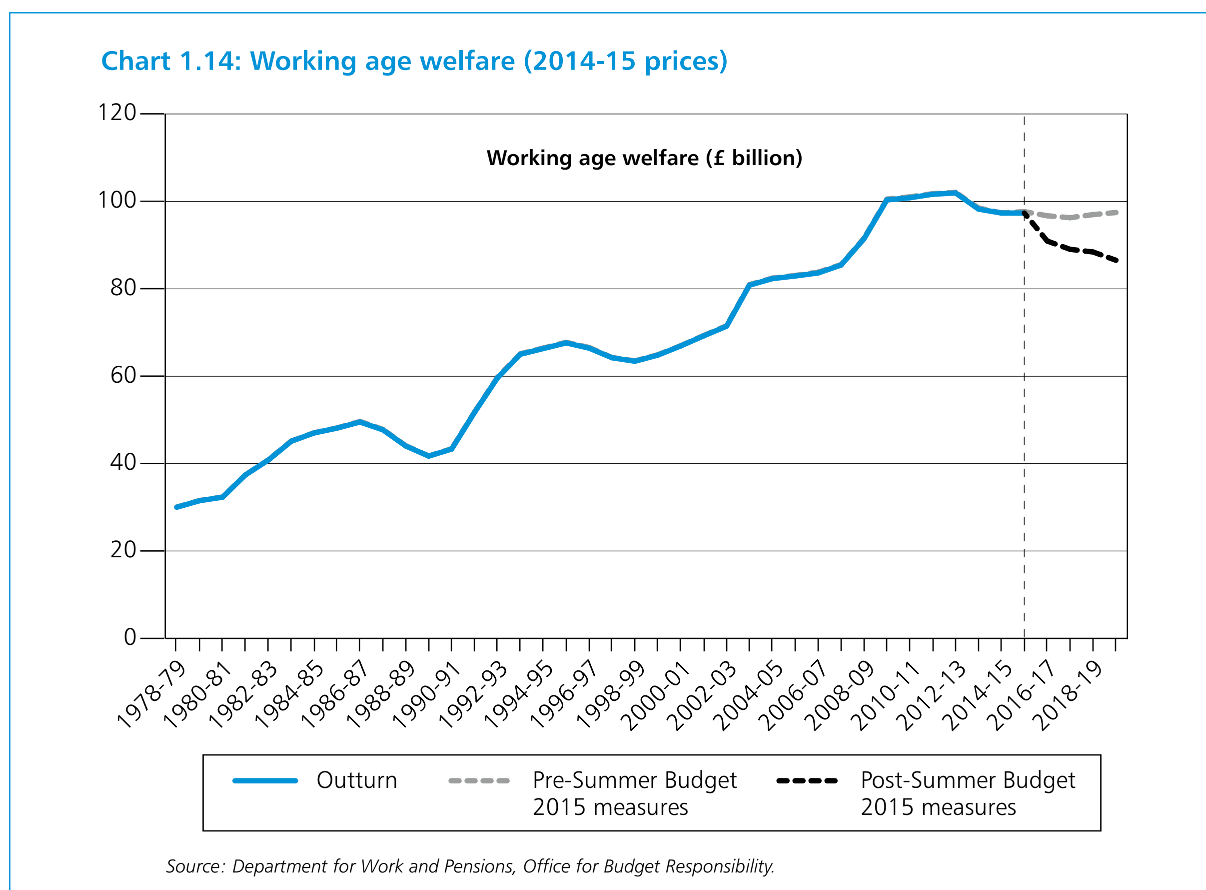
1.134 This Budget confirms the first step towards this commitment by increasing the higher rate threshold from £42,385 to £43,000 for 2016-17. This is the first time since 2010 that the higher rate threshold will go up by more than inflation alone. These changes will lift 130,000 individuals out of higher rate tax by 2016-17, compared to 2015-16. A typical higher rate taxpayer will benefit by £142 in 2016-17, and will be £818 better off compared to 2010.

A lower welfare society: reforming the system to make it fairer and more affordable

1.135 In the last Parliament, the government started reforming the welfare system to make it fairer and more affordable, legislating for £21 billion of savings. Universal Credit, which brings together 6 benefits into 1, represents the most fundamental reform of welfare since its inception and will mark a turning point towards a system where work will always pay more than a life on benefits. Universal Credit is due to expand to over 500 jobcentres by the end of this year.

1.136 However, despite progress during the last Parliament there is still more to do. Taxpayers are still being asked to pay for welfare expenditure that remains disproportionately high. 7% of global expenditure on social protection is spent in the UK, despite the fact that the UK produces 4% of global GDP and has only 1% of the world's population. As chart 1.14 shows, spending on working-age welfare has increased significantly in real terms over the last few decades. Too many families continue to be trapped on benefits. **The Budget sets out the next stage of welfare reform, delivering on the government's commitment to save £12 billion from the working age welfare bill.**

Chart 1.14: Working age welfare (2014-15 prices)



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

Freezing working-age benefits

1.137 Since the financial crisis began in 2008, average earnings have risen by 11%, whereas most benefits, such as Jobseeker's Allowance, have risen by 21%. To ensure that it always pays to work, and that earnings growth overtakes the growth in benefits, **the government will legislate to freeze working-age benefits, including tax credits and the Local Housing Allowances, for 4 years from 2016-17 to 2019-20.** This is forecast to save £4 billion a year by 2019-20.

1.138 Statutory payments, including Maternity Allowance, Maternity Pay, Paternity Pay and Statutory Sick Pay will continue to be indexed by CPI. Disability benefits will also continue to be indexed by CPI, including Personal Independence Payment, Attendance Allowance, Disability Living Allowance and Employment and Support Allowance (Support Group).

1.139 The government will continue to protect benefits which are specifically for pensioners. The 'triple lock' on the State Pension will be maintained; and other benefits for pensioners including the Winter Fuel Allowance and free TV licences for over 75s will be protected in this Parliament. Pensioners have paid into the system throughout their working lives, and are the group least able to increase their income in response to welfare reform.

1.140 Alongside the freeze in working-age benefits, the government will reduce rents in social housing in England by 1% a year for 4 years, requiring Housing Associations and Local Authorities to deliver efficiency savings, making better use of the £13 billion annual subsidy they receive from the taxpayer. Rents in the social sector increased by 20% over the 3 years from 2010-11. This will allow social landlords to play their part in reducing the welfare bill. This will mean a 12% reduction in average rents by 2020-21 compared to current forecasts.

Making Tax Credits and Universal Credit fairer

1.141 Tax credit expenditure more than trebled in real terms between 1999-00 and 2010-11, with total expenditure in 2014-15 estimated to be around £30 billion – an increase of almost £10 billion in real terms over the last 10 years. UK expenditure on family cash benefits is the highest in the OECD, and was double the OECD average in 2011. 9 out of 10 families with children were eligible for tax credits in 2010. As a result of the reforms undertaken in the last Parliament, 6 out of 10 are eligible currently.

1.142 The government believes that now is the best time to address this growing expenditure if the welfare system is to be put on a sustainable footing. Tackling tax credit spending is part of properly addressing the root causes of low pay, with the new NLW and a more generous tax system to help people earn more and keep more of what they earn, rather than addressing only the symptoms of the problem by subsidising low pay through the benefit system.

1.143 The Budget will therefore reform the tax credits system (and its successor, Universal Credit) to protect existing families on the lowest incomes while favouring support to working families through the tax system and earnings growth, rather than the benefit system.

1.144 From April 2016, the government will reduce the level of earnings at which a household's tax credits and Universal Credit award starts to be withdrawn for every extra pound earned. In tax credits, this point (known as the income threshold) will be reduced from £6,420 to £3,850. The equivalents in Universal Credit (work allowances) will be reduced to £4,764 for those without housing costs, £2,304 for those with housing costs, and removed altogether for non-disabled claimants without children. **The government will also increase the rate at which a person's or household's tax credit award is reduced as they progress in work**, by increasing the taper rate in tax credits from 41% to 48%.

1.145 The Budget will also reform tax credits to make them fairer and more affordable. On top of Child Benefit for every child, an out of work family with 5 children can currently claim over £14,000 a year in tax credits alone. The government believes that those in receipt of tax credits should face the same financial choices about having children as those supporting themselves solely through work.

1.146 The Budget will therefore limit support provided to families through tax credits to 2 children, so that any subsequent children born after April 2017 will not be eligible for further support. An equivalent change will be made in Housing Benefit to ensure consistency between both benefits. This will also apply in Universal Credit to families who make a new claim from April 2017.

1.147 In addition, **those starting a family after April 2017 will no longer be eligible for the Family Element in tax credits. The equivalent in Universal Credit, known as the first child premium, will also not be available for new claims after April 2017. In Housing Benefit, the family premium will be withdrawn for new claims from April 2016,** to ensure fairness between those who receive Housing Benefit and those who do not.

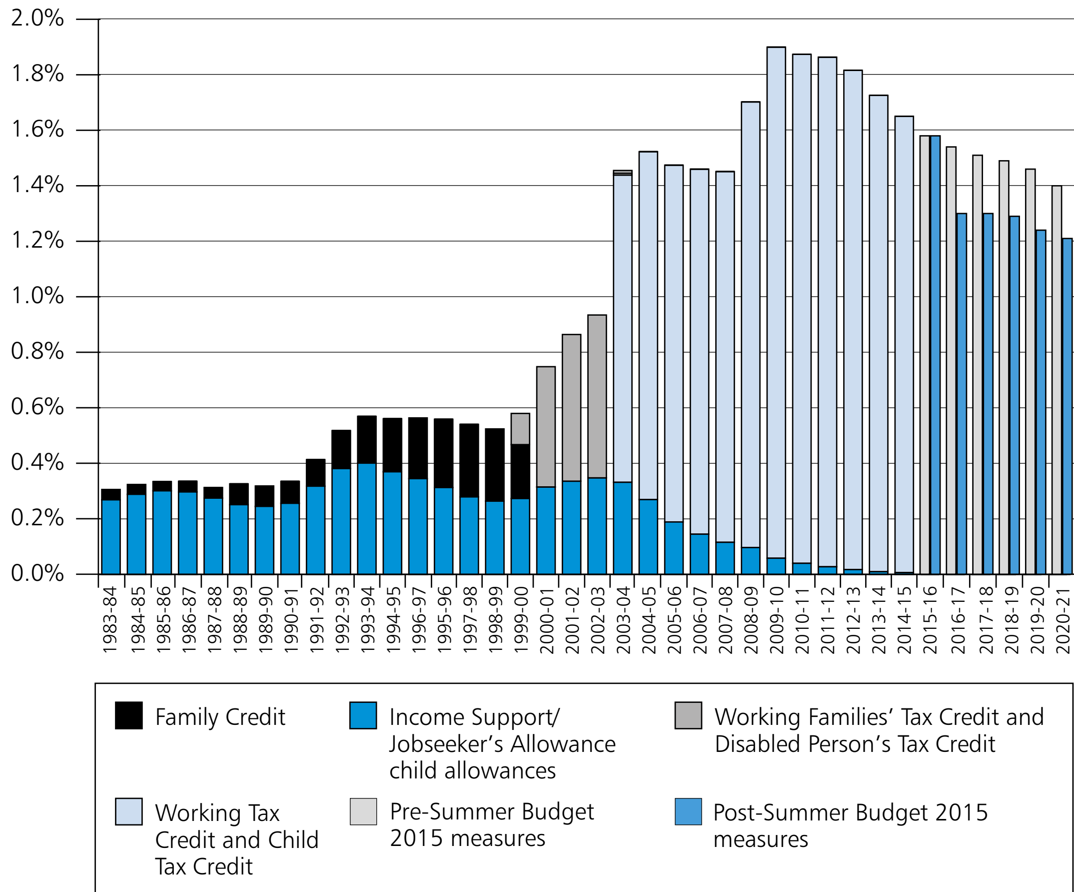
1.148 Child Benefit will continue to be paid at the same level for all children. The existing entitlement of families who remain in receipt of tax credits and Universal Credit will be unaffected by the reforms to limit support to 2 children and the abolition of the family premium. This will mean that those who already have larger families and have made plans on the basis of the current system will not lose out. The disabled child premia in tax credits and UC will also continue to be paid to all children with a disability.

1.149 These changes will see expenditure on tax credits return to 2007-08 levels in real terms. In 2016-17, 5 in 10 families with children will be supported through tax credits, down from 6 in 10 today and 9 out of 10 in 2010.[59] Chart 1.15 compares past and forecast expenditure on tax credits and predecessor benefits as a proportion of GDP, and illustrates the impact of these reforms.

1.150 Taking the welfare changes together with the introduction of the NLW and record increases in the income tax personal allowance, this will mean that 8 out of 10 working households will be better off in 2017-18 by an average of £130. A couple over 25 working full time on the NMW and who benefit from the NLW, with 2 children, will take home a higher net income by 2020-21 than they did in 2015-16. Chart 1.16 illustrates the picture across the decade.

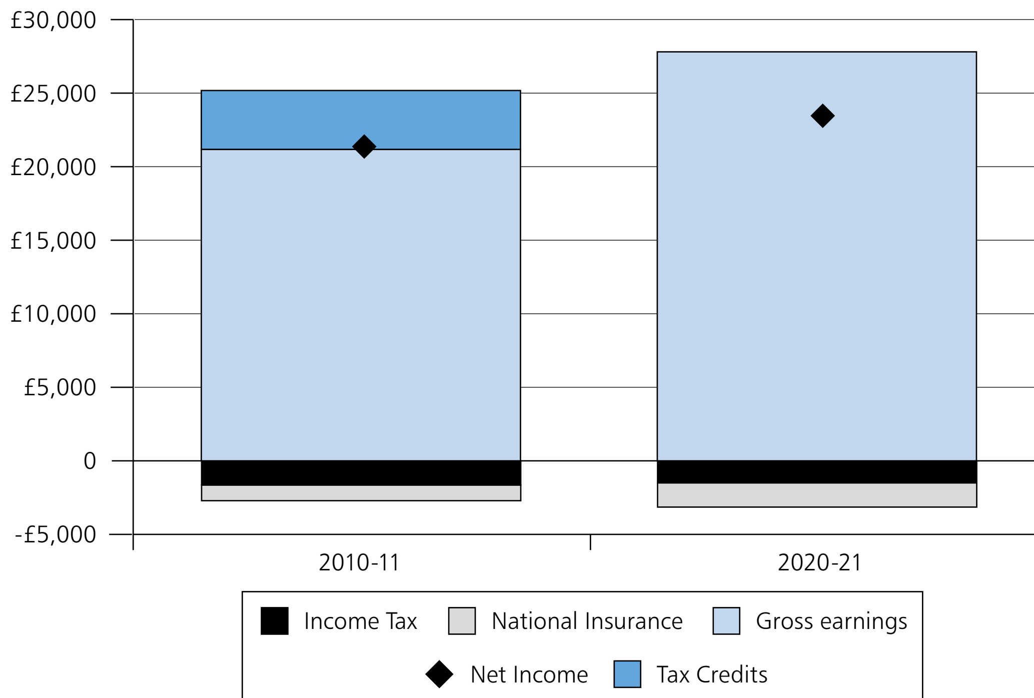
[59] HM Treasury Microsimulation Model.

Chart 1.15: Expenditure on tax credits and equivalents as a percentage of GDP



Source: HMRC, DWP, ONS.

Chart 1.16: Income of a typical household on National Minimum Wage and National Living Wage



Source: HMT calculations, OBR earnings projection. Based on a couple, both working 35 hours a week at National Minimum Wage, then National Living Wage, with 2 children, in 2010-11 prices. Assumes household does not receive housing benefit. Excludes child benefit. Includes government pledge to raise the Personal Allowance to £12,500 by 2020-21.

1.151 The table below sets out the combined impact of the Budget changes to welfare, the personal allowance and NLW on individual households. A typical renting household with two children and two full-time earners currently at the minimum wage will see their net income rise by 12% in real terms over the Parliament. Over the Parliament, a typical renting household with one child, and one adult in work currently at the minimum wage, is expected to see their net income rise by 6% in real terms, whereas the same household with no one in work is expected to see their income fall in real terms by 4%.

Table 1.8: Illustrative impact on households of personal tax, welfare and National Minimum Wage/National Living Wage changes 2010-11 to 2020-21

	net income (cash)			Change since 2015-16 (cash terms)	% change since 2015-16 (cash terms)	% change since 2015-16 (real terms)
	2010-11	2015-16	2020-21			
Dual earner family: Couple, 2 children, 2x35hrs on NLW	£24,850	£28,160	£33,730	£5,570	20%	12%
Part-time second earner: Couple, 2 children, 1st earner earns median salary, 2nd earner 16hrs on NLW	£27,020	£29,130	£35,480	£6,350	22%	14%
Single earner family: Couple, 2 children, 1x35hrs on NLW	£23,060	£26,040	£28,510	£2,480	10%	3%
Working lone parent: 1 child, 35hrs on NLW	£18,850	£21,110	£22,650	£1,550	7%	1%
Single person: no children, 35hrs on NLW	£11,560	£13,060	£15,170	£2,110	16%	9%
Out of work couple, 1 child	£15,600	£17,690	£18,030	£350	2%	-4%
Out of work couple with children, living outside London, subject to benefit cap	£28,300	£26,000	£20,000	-£6,000	-23%	-28%

Households are assumed to be renting at the average LHA rate. Benefit cap example is based on a higher rent and 3 children. Legacy benefits system is used for 2010-11 and 2015-16; UC system for 2020-21. Excludes council tax and Council Tax Benefit/Council Tax Support.
2020-21 includes the Government's ambition to raise Personal Allowance to £12,500
All working households earn the NMW (NLW in 2020-21) unless stated otherwise. Minimum wage rates used are those in effect at the beginning of the fiscal year. Individuals' earnings above the NMW/NLW are assumed to rise with average earnings.
Figures may not sum due to rounding.
Source: HM Treasury calculations, ONS earnings data, OBR earnings and inflation forecasts.

Fairness between benefit claimants and taxpayers

1.152 The government believes that those out of work should not receive more from benefits than many working families earn. Given the success of the household benefit cap in encouraging households to look for work, **the government will lower the cap on the total amount of benefits an out of work family can receive**, from £26,000 to £20,000, except in London where higher rents will be recognised through a £23,000 cap. Households subject to the cap still receive substantial support: a cap at £23,000 is equivalent to typical pre-tax earnings of around £29,000, and a cap at £20,000 is equivalent to typical pre-tax earnings of around £25,000. Those who find a job will continue to be exempt from the household benefit cap, creating a clear incentive to move into work. Exemptions will continue to apply for the most vulnerable disabled people.

1.153 To help ensure Local Authorities are able to protect the most vulnerable housing benefit claimants, **the government will provide £800 million of funding for Discretionary Housing Payments over the next 5 years**.

1.154 The government believes that those on higher incomes should not be subsidised through social rents. Therefore, **social housing tenants with household incomes of £40,000 and above in London, and £30,000 and above in the rest of England, will be required**

to "Pay to Stay", by paying a market or near market rent for their accommodation. This will ensure they pay a fair level of rent, or make way for those whose need is greater. Local Authorities will repay the rent subsidy that they recover from high income tenants to the Exchequer, contributing to deficit reduction. Housing Associations will be able to use the rent subsidy that they recover to reinvest in new housing. This could raise up to hundreds of millions of pounds in additional rental income for Housing Associations. The government will consult and set out the detail of this reform in due course.

1.155 The government will review the use of lifetime tenancies in social housing to limit their use and ensure that households are offered tenancies that match their needs, and ensure the best use is made of the social housing stock.

1.156 Currently, those who receive benefits to help to pay their mortgage interest are able to do so indefinitely with no need to pay anything back. **This Budget takes action to convert the Support for Mortgage Interest scheme into a loan, so that homeowners repay the financial support they receive**.

Employment support

1.157 The government is committed to achieving full employment: it has already set out its ambition for the UK to have the highest employment rate in the G7 and will introduce a statutory duty on the government to report progress against this ambition. Achieving full employment means backing business, reforming welfare and rewarding work. But it also means ensuring that all groups in society are given the support they need to find and keep a job.

1.158 To help young people move into and get on in work, **the Budget will introduce a new Youth Obligation for 18 to 21 year olds on Universal Credit**. From April 2017, young people will participate in an intensive regime of support from day 1 of their benefit claim, and after 6 months they will be expected to apply for an apprenticeship or traineeship, gain work-based skills, or go on a mandatory work placement to give them the skills they need to move into sustainable employment.

1.159 To prevent young people slipping straight into a life on benefits, **from April 2017 the Budget will also remove the automatic entitlement to housing support for new claims in Universal Credit from 18-21 year olds who are out of work**. This will ensure young people in the benefits system face the same choices as young people who work and who may not be able to afford to leave home. There will be exemptions, including for vulnerable young people, those who may not be able to return home to live with their parents, and those who have been in work for 6 months prior to making a claim, who will continue to be able to receive housing support for up to 6 months while they look for work.

1.160 Increasing employment levels amongst people with disabilities and health conditions are a key part of the government's aim to achieve full employment. The current system creates a financial incentive to claim sickness benefits over Jobseeker's Allowance. **From April 2017, new claimants of Employment and Support Allowance (ESA) who are placed in the Work-Related Activity Group will therefore receive the same rate as those claiming Jobseeker's Allowance**, alongside additional support to help them take steps back to work. This will ensure the right incentives and support are in place for those closer to the labour market to help them make this transition when they are ready, while maintaining the extra financial support ESA provides for those in the ESA Support Group who are furthest from work. Existing ESA claimants will be unaffected.

1.161 The government will also consider where employers and insurers should play a greater role in providing support for those who suffer from industrial injuries in the workplace. The government will report at the Spending Review.

1.162 While progress has been made in women's employment, inequalities remain – the female employment rate is around 10 percentage points lower than for men. Much of this relates to childcare: according to the 2012-13 Department for Education childcare and early years survey of parents, over half (54%) of non-working mothers agreed that they would like to go out to work if they could arrange good quality childcare that was convenient, reliable and affordable.

1.163 This Budget confirms that, from September 2017, the free childcare entitlement will be doubled from 15 hours to 30 hours a week for working parents of 3 and 4 year olds. This will support those who choose to go out to work. The government will implement this extension of free hours early in some local areas from September 2016. This free childcare is worth around £5,000 a year per child.[60] To support delivery, the government has committed to raise the average hourly rate providers receive and is undertaking a review of childcare costs in order to set a rate that is fair for providers and delivers value for money for the taxpayer.

1.164 The government also reaffirms its commitment to deliver Tax-Free Childcare to support parents in the decision to go out to work, or work more, and provide security for their families. As announced on 1 July, the government welcomes the Supreme Court's judgment that its proposals for delivering the scheme are clearly lawful and **Tax-Free Childcare will now be introduced from early 2017**.

1.165 In the meantime, **the government is taking action to support parents with childcare costs by holding open the existing Employer Supported Childcare scheme to new entrants until Tax-Free Childcare is launched**. Parents who wish to remain in Employer Supported Childcare once Tax-Free Childcare is launched will be able to, while their current employer continues to offer the voucher scheme. The new scheme will support up to 1.8 million working families by providing up to £2,000 of childcare support per year per child.

1.166 In the context of the extensive childcare support offered to parents of 3 and 4 year olds, the government will also change the conditions for parents claiming out of work benefits. **Parents with a youngest child aged 3 or older (including lone parents) who are able to work will be expected to look for work if they are claiming Universal Credit. These parents will receive support from Jobcentre Plus**. This is a further step in a process of reform which has helped lift the proportion of lone parent families in work to its highest level since 1996.

1.167 The government will also provide £30 million to further speed up the adoption process while paving the way for the introduction of regional adoption agencies.

Eliminating the deficit in a fair way

1.168 The government is committed to eliminating the deficit in a fair way, while supporting working people through the tax system and higher wages. The cornerstone of this commitment is to introduce legislation for a "tax lock" to rule out increases in the main rates of income tax, VAT and National Insurance for the duration of this Parliament, providing certainty to working people.

1.169 Instead, the government will continue to target those who evade or avoid paying taxes to ensure that all businesses and individuals make a fair contribution towards reducing the deficit. This will build on the government's crackdown on tax avoidance, aggressive tax planning and evasion over the last Parliament, which achieved £7 billion of annual savings. The government has also identified a number of imbalances in the tax system where support disproportionately benefits certain groups or types of business structure, and this Budget addresses those imbalances.

[60] HMT calculation.

Ensuring individuals and businesses pay what they owe

1.170 The majority of individuals and businesses pay their fair share of tax. However, there are some who fail to pay what they owe due to error or a failure to comply with their obligations as a taxpayer. There are also a small group who deliberately try to evade paying the tax they should.

1.171 This Budget **announces significant additional investment in HMRC's work on non-compliance and tax evasion covering a range of areas**. The government will invest £800 million over this Parliament.

1.172 This includes **tripling the number of criminal investigations that HMRC can undertake into serious and complex tax crime, focusing particularly on wealthy individuals and corporates**, with the aim of increasing prosecutions in this area to 100 a year by the end of the Parliament.

1.173 As well as announcing additional resource for the measures announced today on evasion and non-compliance, the government is committed to providing HMRC with the funding it needs to maintain its current level of compliance performance, while making efficiencies. HMRC's compliance yield targets will increase to reflect the impact of the Budget measures.

Businesses

1.174 To improve tax compliance among large businesses, **the government will introduce legislation to improve transparency of tax strategies and give HMRC new powers to tackle those businesses who persistently engage in aggressive tax planning**.

1.175 To improve tax compliance among small businesses, **the government will legislate to give HMRC the power to acquire data from online business intermediaries and electronic payment providers to help identify businesses that are trading but not declaring or paying tax**. HMRC will consult on these proposals in July 2015.

1.176 From 8 July 2015, the government will change the tax rules to stop the use of losses against tax that should be paid through the Controlled Foreign Companies (CFC) rules. This will improve the effectiveness of the UK CFC regime in countering aggressive tax planning by multinational companies while maintaining the overall competitiveness of the UK Corporation Tax regime.

1.177 The government will stop investment fund managers from using tax loopholes to avoid paying the correct amount of capital gains tax (CGT) on the profits of the fund payable to them (known as carried interest). This measure will have immediate effect by requiring taxpayers who receive carried interest to pay the full 28% CGT charge on their award. Asset managers will no longer be able to use tax planning to reduce the value of the gain. The government continues to support the asset management industry in the UK, and considers that carried interest should be subject to CGT, as it reflects the underlying long term performance of a fund's investments.

1.178 The government will also launch a consultation on the circumstances in which fund managers' performance-related returns are to benefit from CGT treatment. The consultation will set out and clarify the circumstances in which performance fees arising to fund managers from management activities will be capital in nature.

Employment taxes

1.179 Employment taxes contribute over 40% of HMRC receipts. However, there are many different mechanisms that employers and individuals use to reduce taxes paid on earnings. This is not fair. Two individuals doing the same job, in the same way, can end up paying very different levels of tax. The government wants to take steps to address this.

1.180 The government recognises that many individuals choose to work through their own limited company. However, where people would have been employees if they were providing their services directly, anti-avoidance legislation commonly known as IR35 introduced in 2000 requires that they pay broadly the same tax and National Insurance as other employees. As highlighted by reports from the Office of Tax Simplification and the House of Lords, it is clear that IR35 is not effective enough. Non-compliance in this area is estimated to cost over £400 million a year.

1.181 The government has asked HMRC to start a dialogue with business on how to improve the effectiveness of existing IR35 legislation. The government wants to find a solution that protects the Exchequer and improves fairness in the system.

Wealthy individuals

1.182 To improve tax compliance among wealthy individuals, **the government will consult on enhancing the information reported to HMRC by wealthy individuals and trustees, and is extending HMRC's use of dedicated Customer Relationship Managers to individuals with net wealth between £10 million and £20 million.** Together, these proposals will help ensure HMRC has an in-depth understanding of wealthy individuals' tax affairs and the risks they present.

Serial offenders

1.183 For those individuals who continue to avoid paying the correct level of tax, the government will strengthen the penalty for doing so, which will also act as a wider deterrent from such activities. **The government will consult on the technical details of introducing tougher measures for those who persistently enter into tax avoidance schemes that fail, including a surcharge on those whose latest tax return is inaccurate due to use of a failed scheme and publishing the names of such avoiders.** Following the announcement at Budget 2015, **the government will also consult on the detail of a new General Anti-Abuse Rule (GAAR) penalty.** The GAAR penalty will be proportional to the amount of tax recovered by the GAAR.

Addressing imbalances in the tax system

1.184 The government has identified a number of areas of the tax system where imbalances have developed over time and where certain reliefs are disproportionately benefiting certain groups of individuals. This Budget seeks to make the tax system fairer and better at supporting a productive economy.

Individuals

Dividends

1.185 The current system of tax credits on dividends was designed over 40 years ago when corporation tax was more than 50% and the total tax bill on dividends for some was more than 80%. Since then, tax rates including corporation tax have fallen, leaving the Dividend Tax Credit as an arcane and complex feature of the tax system.

1.186 Alongside further cuts to corporation tax rates for all businesses, the government will reform and simplify the system of dividend taxation, while maintaining the extensive tax reliefs for investments held in ISAs and pensions. **From April 2016 the government will remove the Dividend Tax Credit and replace it with a new tax-free Dividend Allowance of £5,000 a year for all taxpayers.** This will ensure that ordinary investors with smaller portfolios and modest dividend income will see no change in their tax liability – and some will pay less tax.

1.187 Combined with the increases the government has made to the personal allowance and the introduction of the Personal Savings Allowance, **from April 2016 individuals will be able to receive up to £17,000 of income per annum tax-free, and separately invest up to £15,240 per annum through an ISA tax-free.**

1.188 The government will set the dividend tax rates at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. While these rates remain below the main rates of income tax, those who receive significant dividend income – for example due to very large shareholdings (typically more than £140,000) or as a result of receiving significant dividends through a closed company – will pay more.

1.189 These changes will also start to reduce the incentive to incorporate and remunerate through dividends rather than through wages to reduce tax liabilities. This will reduce the cost to the Exchequer of future tax motivated incorporation (TMI) by £500 million a year from 2019-20. The tax system will continue to encourage entrepreneurship and investment, including through lower rates of Corporation Tax.

Landlords

1.190 The current tax system supports landlords over and above ordinary homeowners. Landlords can deduct costs they incur when calculating the tax they pay on their rental income. A large portion of those costs are interest payments on the mortgage. Mortgage Interest Relief was withdrawn from homeowners 15 years ago. However, landlords still receive the relief. The ability to deduct these costs puts investing in a rental property at an advantage. Tax relief for finance costs is particularly beneficial for wealthier landlords with larger incomes, as every £1 of finance cost they incur allows them to pay 40p or 45p less tax. The Bank of England has also noted in its recent Financial Stability Report that the rapid growth of buy to let mortgages could pose a risk to the UK's financial stability.[61]

1.191 The government will restrict the relief on finance costs that landlords of residential property can get to the basic rate of income tax. The restriction will be phased in over 4 years, starting from April 2017. This will reduce the distorting effect the tax treatment of property has on investment and mean individual landlords are not treated differently based on the rate of income tax that they pay. It will also shift the balance between landlords and homeowners.

1.192 The government will also reform how landlords of residential property can account for the costs they incur in improving and maintaining rental property. Currently, landlords of furnished properties can deduct 10% of their rent from their profit to account for wear and tear, irrespective of their expenditure. This means landlords can reduce their tax liability even when they have not improved the property. **From April 2016, the government will replace this allowance with a new system that enables all landlords of residential property to only deduct costs they actually incur.**

1.193 The government will increase the Rent-a-Room relief from £4,250 to £7,500 a year from April 2016. The value of this relief has been frozen since 1997, so this increase will allow individuals who rent a room in their main residence to do so tax free on income up to £7,500 to reflect increases in rent.

Non-domiciled individuals

1.194 Within a controlled immigration system, the government wants the UK to be a destination that will attract talented people to work and to do business. Having a tax system that is internationally competitive brings in talent and investment which contributes to the growth of the economy. The UK's rules for those who are not domiciled here are important in attracting people to live and to work here. The government remains committed to that aim.

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[61] 'Financial Stability Report', Bank of England, July 2015.

However, the government also wants the system to be fair. It believes that those who choose to live in the UK for a long time should pay taxes here like everybody else.

1.195 From April 2017, anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed UK-domiciled for tax purposes. Furthermore, it will no longer be possible for somebody who is born in the UK to parents who are UK domiciled to claim non-domicile status if they leave but then return and take up residency in the UK. These changes will bring an end to the permanent non-domicile status. They create a fairer system while protecting the ability of the UK to continue to attract individuals to come to the UK to work and invest.

1.196 From April 2017 the government will also introduce new rules so that everybody who owns residential property in the UK and would otherwise pay inheritance tax on that property cannot avoid paying it by holding it in an offshore structure. These changes will limit abuses of the rules by people with non-domicile status who use complicated structures to make their UK homes look like offshore assets.

National Insurance contributions

1.197 Salary sacrifice arrangements can allow some employees and employers to reduce the income tax and National Insurance that they pay on remuneration. They are becoming increasingly popular and the cost to the taxpayer is rising. **The government will actively monitor the growth of these schemes and their effect on tax receipts**.

1.198 To ensure that the NICs Employment Allowance is focussed on businesses and charities that support employment, **from April 2016, companies where the director is the sole employee will no longer be able to claim the Employment Allowance.**

Businesses

1.199 The government wants a more simple tax system that enables UK businesses to compete, and this Budget sets out a number of steps to achieving this. However, a tax system that is fair for all taxpayers means ensuring a fair contribution from businesses.

Banking tax reform

1.200 While the government considers that banks and building societies should make an additional contribution to reflect their unique risks, it recognises the need to balance this with considerations around UK competitiveness and banks' ability to support the broader economy.

1.201 This Budget therefore sets out a long-term roadmap for the taxation of banks, designed to maintain this balance and take account of the very significant improvements in banking sector regulation and underlying profitability since the bank levy was first introduced. This involves three steps:

- **the introduction of a new tax on banking sector profit from 1 January 2016, set at a permanent rate of 8%**
- **a phased reduction of the bank levy rate, from the existing rate of 0.21% to 0.18% from January 2016, 0.17% from January 2017, 0.16% from January 2018, 0.15% from January 2019, 0.14% from January 2020 and 0.10% from January 2021**
- **a change in the bank levy's scope from 1 January 2021, meaning that UK headquartered banks are levied on their UK balance sheet liabilities**

1.202 This plan is forecast to increase banks' additional contribution by around £2 billion across the forecast period, helping to ensure banks make a fair contribution. However, it also sets a path towards a more competitive and sustainable model for raising revenue from the

banking sector over the longer-term, which is a 26% rate of tax on profit – the lowest among G7 nations – and a 0.1% levy on UK balance sheet liabilities.

1.203 This means that banks' contributions will be increasingly aligned with profit and capital accumulation, reducing the risk of tax constraining lending or influencing banks' decisions on the location of internationally mobile activities. It also means that banks' contributions will be increasingly linked to activities within the UK, helping to reduce the impact of tax on the competitiveness of UK banks' overseas operations and helping to reflect the ongoing impact of regulatory reform and resolution planning in reducing the risk of these operations to the UK economy.

1.204 Finally, by allowing tax receipts to respond naturally to changes in banks' balance sheets and profitability, these changes will introduce stability into the banking tax regime and ensure that banks can incorporate tax into their business plans with greater certainty. This is reinforced by the government's decision to legislate the bank levy rate, out to and including 2020-21, in the upcoming Finance Bill.

1.205 As part of this banking tax roadmap, this Budget also announces that **relief will be provided against the UK bank levy for payments made to the Eurozone Resolution Fund**, consistent with the government's general policy on avoiding double imposition. Affected banks will be able to claim relief from 1 January 2016.

1.206 Companies are currently entitled to deduct the costs of compensation payments in calculating their profits liable for Corporation Tax. As announced at Budget 2015, **the government is legislating to make compensation payments paid by banks in relation to widespread misconduct in the sector non-deductible for Corporation Tax purposes, effective from 8 July 2015**. This is forecast to increase bank's Corporation Tax payments by around £1 billion over the next 6 years.

Insurance

1.207 The government remains committed to ensuring customers can purchase insurance at a fair price. The cost of home contents insurance has fallen by 8% since last year, and the cost of comprehensive private motor insurance has fallen by 10% in the last 3 years. The government will reform the regulation of the claims management sector to help to drive out further unnecessary costs from insurance premiums. This Budget announces a **fundamental review of the regulation of claims management companies (CMCs), led by the Chairman of the Chartered Trading Standard Institute Board Carol Brady, which will report to HM Treasury and the Ministry of Justice in early 2016.** In addition, there is also a case for reform of the fees that CMCs charge consumers, particularly in those instances where consumer complaints fall within the remit of the Financial Ombudsman Service. Therefore, **the government will bring forward proposals for the introduction of a cap on the charges that CMCs can apply to their customers, and will consult on how this will work in practice.**

1.208 This builds on the success of previous measures including the ban on referral fees and action to address fraudulent whiplash claims. The Insurance Fraud Taskforce will report by the end of 2015 on what can be done to reduce the impact of fraud on insurance premiums. To further assist car owners, the government will **extend the deadline for new cars and motorcycles to have a first MOT test from 3 years to 4**, saving motorists more than £100 million per year, subject to public consultation and cost-benefit evaluation. If people compare the different options available for their insurance they can generally get a much better deal, but many people simply renew with their existing insurer without checking the price they could get elsewhere. **The Financial Conduct Authority (FCA) will review what more can be done to ensure that people are encouraged to shop around when they renew their insurance.**

1.209 From 1 November, the standard rate of Insurance Premium Tax will be increased from 6% to 9.5%. The Insurance Premium Tax standard rate will remain lower than that of many other EU Member States. It will, for example, continue to be much lower than the 19% tax rate that applies in Germany. **Seperately, the government will also introduce VAT provisions to level the playing field for insurers.** This will deter insurers from routing costs via offshore associates and ensure UK VAT is accounted for an all repair services on UK insurance contracts.

Corporation tax

1.210 The government will reform the corporation tax rules to stop companies claiming an annual deduction from their taxable profits for the acquisition cost of assets linked to the business' reputation and customer relationships. This is consistent with the rules in other major economies. The government continues to support company growth and expansion, and believes this will remove a distortion in the market which is artificially altering the way companies choose to expand. This change has immediate effect and will only impact future purchases of assets.

1.211 Currently, large companies in the UK pay tax in instalments, but they do not start paying tax until the seventh month of their accounting period. This means that large UK companies pay tax later than in most other G7 countries, and later than most individuals. This lag creates a cost to the Exchequer. **The government will bring forward payment dates for the largest companies in the UK – those with profits in excess of £20 million – so payments are made closer to the point when a company earns a profit. From April 2017 these companies will be required to make corporation tax payments in the third, sixth, ninth and twelfth months of their accounting period.**

Tobacco and alcohol

1.212 The consultation launched at Autumn Statement 2014 on introducing a tobacco levy has now ended. Analysis of the responses shows that the impact of a tobacco levy on the tobacco market would be similar to a duty rise, with tobacco manufacturers and importers passing the levy onto consumer prices.

1.213 HMRC analysis shows that a levy of £150 million would only raise £25 million after behavioural effects. The methodology used to calculate the impact of a levy on the public finances has been verified by Ulrike Hotopp, the Chief Economist at the Department of Environment, Food and Rural Affairs. As tobacco duties have already increased this year and will continue to increase by more than inflation each year in this Parliament, the government has decided not to introduce a levy on tobacco manufacturers and importers. The consultation responses will be published shortly.

1.214 This Budget also announces **additional resource for HMRC to tackle the organised crime gangs behind the illicit tobacco and alcohol markets.**

1.215 The government is also committed to supporting small cider makers given their important role in rural communities. **The government will retain the current duty exemption until and unless a replacement scheme is established**.

Supporting Savers

1.216 The government is committed to supporting savers at all stages of their lives to help them secure a better financial future for themselves and their family. Over the last Parliament, the government took significant action to give people greater freedom and control over their pensions, and to reduce taxes for savers. This Budget continues this support by ensuring that people can pass on assets built up over their lifetime to their family without worrying about inheritance tax, and that people have access to high quality advice to help make financial decisions.

Inheritance tax

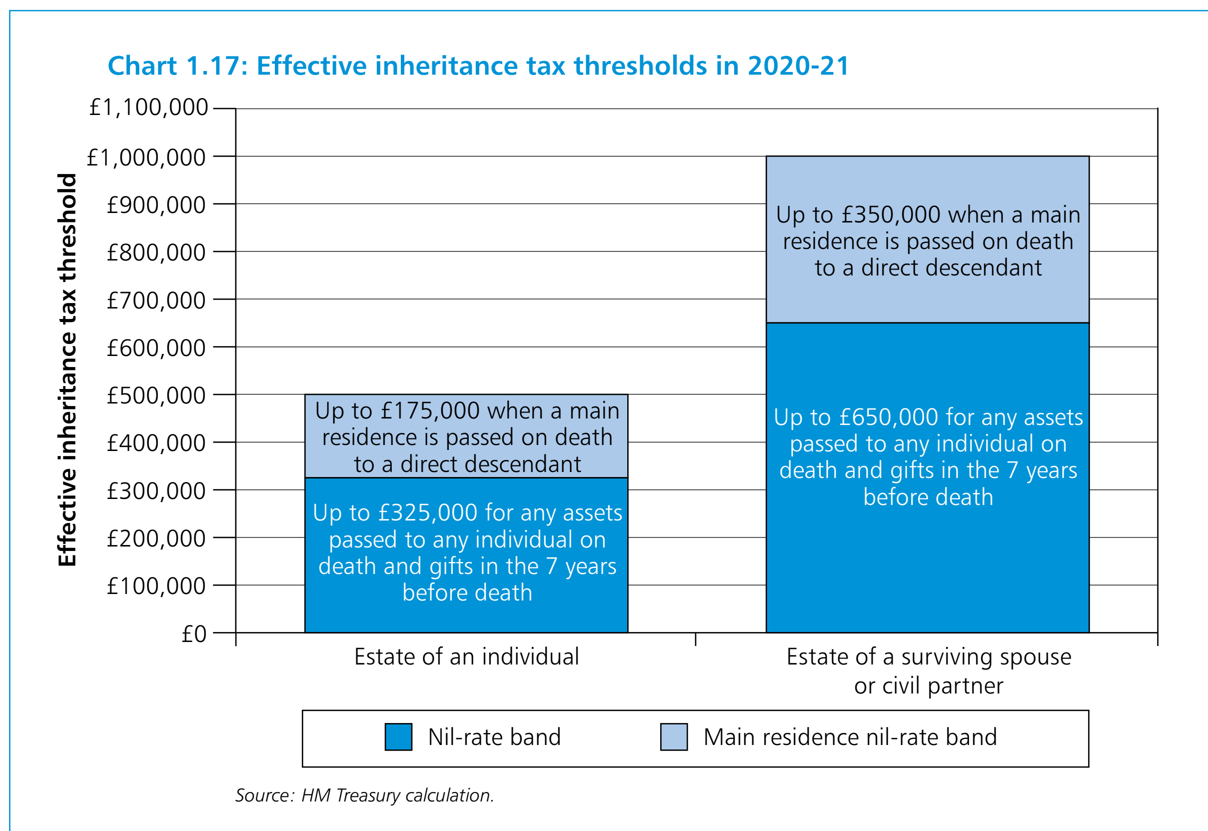
1.217 The government understands that people aspire to build up assets with the aim of passing them on to the next generation in their family, and believes that working families should be able to pass on those assets to their children and grandchildren without needing to worry about inheritance tax. Only the very wealthiest in our society should be asked to pay tax on the assets built up over their lifetime.

1.218 However, rising house prices are contributing to nearly double the number of estates facing an inheritance tax bill by 2020-21. 63,000 estates are forecast to have a tax liability in 2020-21, which is more than at any time since inheritance tax was introduced. **The government's reforms will reduce the number of estates forecast to have a tax liability in 2020-21 to 37,000, around the same levels as in 2014-15**.

1.219 The government will achieve this by **taking the family home out of inheritance tax for all but the wealthiest with a new transferable nil-rate band, introduced from April 2017. This will apply when a main residence is passed on death to direct descendants, such as a child or grandchild. The allowance will be up to £100,000 in 2017-18, up to £125,000 in 2018-19, up to £150,000 in 2019-20, and up to £175,000 in 2020-21**. This is in addition to the inheritance tax nil-rate band, which is set at £325,000 for the estates of individuals. This creates an effective £500,000 inheritance tax threshold for estates in 2020-21. As with the current nil-rate band, any unused main residence nil-rate band will be transferred to a surviving spouse or civil partner and **means the effective inheritance tax threshold will rise to £1 million** in 2020-21.

1.220 The new main residence nil rate band will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to £175,000 in 2020-21, are passed on death to direct descendants. For example, an individual might choose to downsize from a home worth £200,000 to a home worth £100,000. They could still benefit from the maximum allowance of £175,000 in 2020-21 if they leave the home and £75,000 of other assets to direct descendants. They will only be liable to inheritance tax if the total estate exceeds £500,000. The new thresholds are illustrated in chart 1.17.

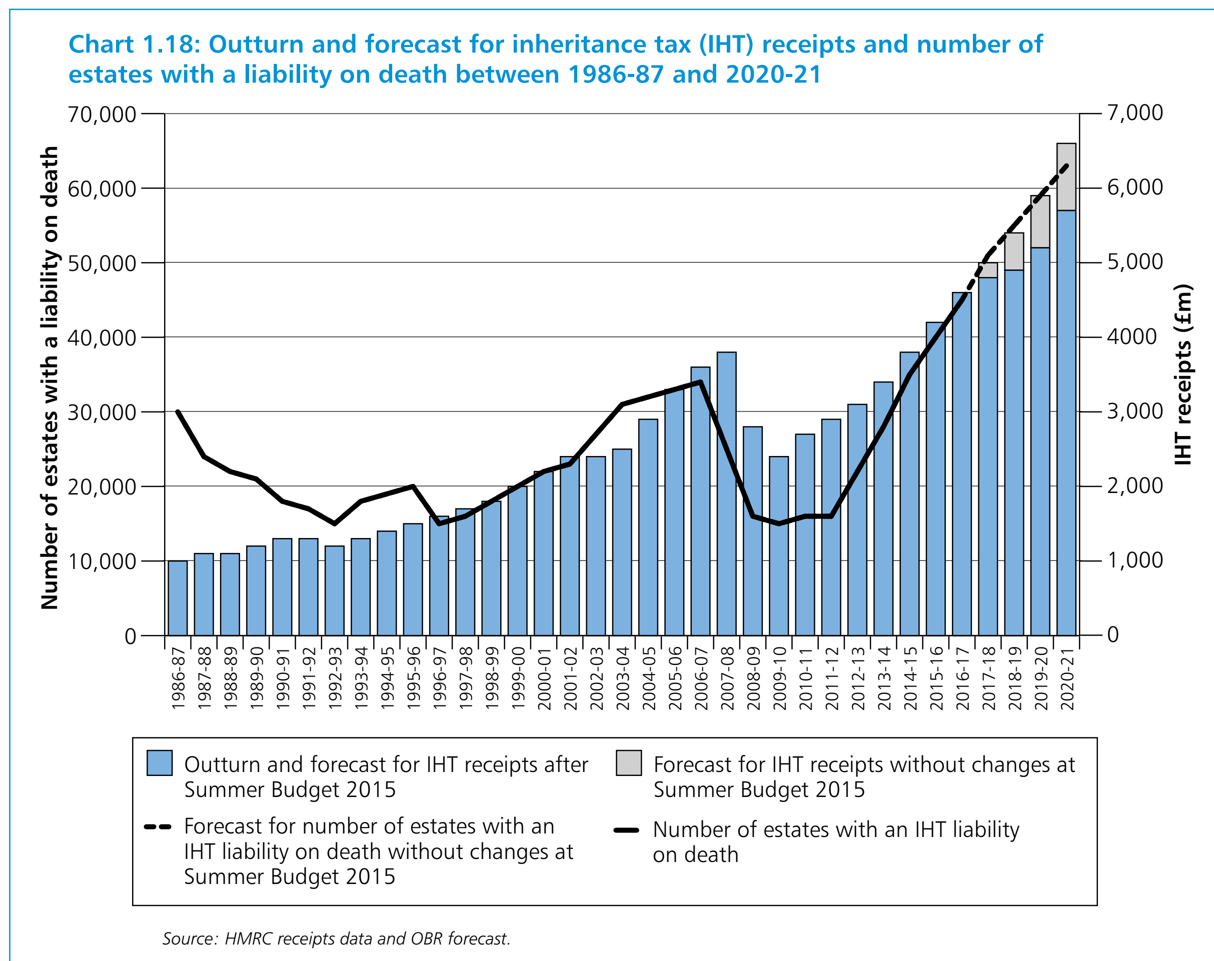
Chart 1.17: Effective inheritance tax thresholds in 2020-21



Source: HM Treasury calculation.

1.221 To ensure that the wealthiest estates continue to make a greater contribution to inheritance tax receipts, **there will be a tapered withdrawal of the main residence nil-rate band for estates with a net value of more than £2 million. The existing nil-rate band will also remain at £325,000 from 2018-19 until the end of 2020-2021**. This ensures the effective inheritance tax threshold will be up to £1 million by the end of the Parliament. The number of estates making a contribution to inheritance tax or its predecessor will continue to be higher at the end of the decade than in any year between its introduction and 2014-15. The chart below illustrates the number of estates liable for inheritance tax and cash receipts.

Chart 1.18: Outturn and forecast for inheritance tax (IHT) receipts and number of estates with a liability on death between 1986-87 and 2020-21



Source: HMRC receipts data and OBR forecast.

Pensions tax

1.222 To pay for the reforms to inheritance tax and to control the cost of pensions tax relief in the short term the government needs to make sure that the support provided to pension savers is affordable and targeted where it is needed most.

1.223 Therefore, from April 2016 the government will introduce a taper to the Annual Allowance for those with adjusted annual incomes, including their own and employer's pension contributions, over £150,000.[62] For every £2 of adjusted income over £150,000, an individual's Annual Allowance, the limit on the amount of tax relieved pension saving that can be made by an individual or their employer each year, will be reduced by £1, down to a minimum of £10,000.

1.224 To ensure this measure is focussed on the higher and additional rate tax payers who currently gain the most benefit from pensions tax relief, those with income, excluding pension contributions, below a £110,000 threshold will not be subject to a Tapered Annual Allowance.

[62] 'Adjusted income' includes taxable earnings and all pension contributions, but does not include charitable contributions.

Only 1% of taxpayers exceed this threshold and save into pensions, and even fewer will actually be affected by this measure.

1.225 The government also wants to make sure that the right incentives are in place to encourage saving into pensions in the longer term. **The government is therefore consulting on whether there is a case for reforming pensions tax relief** to strengthen incentives to save, offering savers greater simplicity and transparency, or whether it would be best to keep the current system. The government is interested in views on the various options that have been suggested for how the system could be reformed. These range from a fundamental reform of the system (for example moving to a system which is "Taxed-Exempt-Exempt" like ISAs and providing a government top-up on pension contributions) to less radical changes (such as retaining the current system and altering the lifetime and annual allowances), as well as options in between.

1.226 Any reform to pensions tax relief would build on the reforms to the pension and savings tax systems announced in the last Parliament, which have already given individuals greater freedom with their money and flexibility over how they hold their savings.

Pension and savings flexibilities

1.227 Over 85,000 people have taken advantage of the new flexibilities for accessing pensions that were introduced in April 2015. The government believes it is important that all consumers can access free, high quality guidance on their choices. **Following the successful launch of Pension Wise in April 2015, the government is extending access to this free and impartial guidance service to those aged 50 and above, and is launching a comprehensive nationwide marketing campaign to further raise awareness of the service**.

1.228 The government also wants to ensure that people can access the new flexibilities easily, and at reasonable cost. **The government will consult before the summer on options aimed at making the process for transferring pensions from one scheme to another quicker and smoother, including in relation to any excessive early exit penalties**. If there is evidence of such penalties, the government will consider imposing a legislative cap on these charges for those aged 55 or over.

1.229 The government wants existing annuity holders to have the freedom to sell their annuity income. The government will set out plans for a secondary annuities market in the autumn, and agrees with respondents to the recent consultation that implementation should be delayed until 2017 to ensure there is an in-depth package to support consumers in making their decision.

1.230 The government is committed to supporting savers at every stage of their life. From April 2016 the government will deliver a major reduction in the level of tax on savings with the introduction of the Personal Savings Allowance, which will exempt the first £1,000 of savings income from tax for basic rate taxpayers and the first £500 for higher rate taxpayers, and as detailed above, this Budget announces the creation of a new £5,000 dividend allowance.

Help to Buy: ISA

1.231 To help as many people as possible realise their aspirations of home ownership, the Help to Buy: ISA was announced at Budget 2015. This supports people saving up for their first home by providing them with a maximum government bonus of £3,000 on £12,000 of savings. **The government is today announcing that Help to Buy: ISAs will be available for first time buyers to start saving into from 1 December 2015.** First time buyers will be able to deposit £200 per month into their Help to Buy: ISA at participating banks and building societies. **First time buyers will be able to open their Help to Buy: ISA accounts with an additional one off deposit of £1000 so that they can start saving now**.

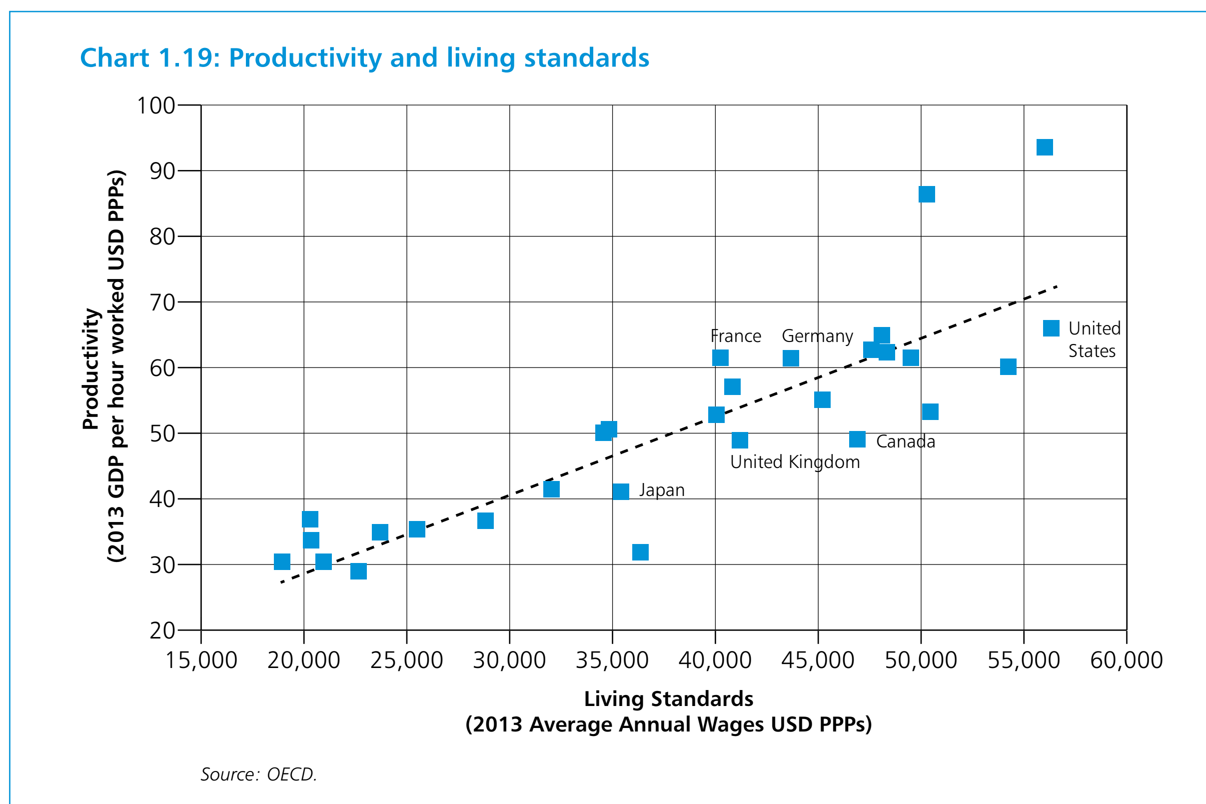
Equitable Life Payment Scheme

1.232 The Equitable Life Payment Scheme, which began making payments in 2011, has paid out over £1 billion to around 87% of eligible policyholders. The government is announcing today that **the Equitable Life Payment Scheme will close to new claims on 31 December 2015.** As part of this, the government will undertake a further effort to trace remaining policy holders due £50 or more. With Profits Annuitants will continue to receive annual payments under the Scheme for their lifetimes. **This Budget also announces that eligible policyholders in receipt of Pension Credit will see their lump sum payment doubled, with payments made in early 2016.**

Backing business and improving productivity

1.233 Productivity is the most important determinant of living standards. The UK was the fastest growing economy in the G7 in 2014 and is forecast by the OECD to be the fastest again in 2015.[63] However, productivity remains too low – output per hour is 17% below the G7 average and is still behind that of Germany, France and the United States.[64] Boosting productivity presents a once in a generation opportunity to find an extra gear for the British economy, underpinning the UK's growth and living standards for years to come. In every member country of the OECD where average wages are above UK levels, productivity is also higher.[65]

Chart 1.19: Productivity and living standards



Source: OECD.

1.234 If the UK matched the productivity of the US, GDP would be 31% higher – equating to an extra £21,000 for each household.[66] This Budget addresses the productivity challenge head on to create a dynamic, open, enterprising economy supported by long-term public and private investment in skills, science and infrastructure. Full details will be set out in the government's productivity plan.

1.235 Productivity means creating a competitive environment in which businesses operate. This in turn allows businesses to create jobs and raise wages.

1.236 The government wants to go further to support business, enterprise and investment. That is why this Budget will:

- cut the UK's corporation tax rate to the lowest in the G20
- set the Annual Investment Allowance at its highest ever permanent level

[63] 'Quarterly National Accounts', ONS, June 2015; 'Economic Outlook no. 927', OECD, June 2015.
[64] 'International Comparison of Productivity', ONS, February 2015.
[65] OECD dataset: Average annual wages; OECD dataset: Level of GDP per capita and productivity
[66] HMT calculation: 2014 nominal GDP (YBHA) divided by 2014 ONS household estimates; 'Quarterly National Accounts', ONS, June 2015 and 'Families and Households', ONS, January 2015.
Note: GDP per household is not a household income metric as GDP also includes Gross Operating Surplus of corporations and other measures of domestic income/production.

- create a Roads Fund through reforming vehicle excise duty for new cars, restoring it to its pre-2013 value
- fund new apprenticeships through a levy on large employers
- put higher education funding onto a more sustainable footing, with maintenance loans replacing grants saving £2.5 billion by 2020-21
- build a Northern Powerhouse and ensure the productive potential of all parts of the UK is realised

Backing business

1.237 In the last Parliament the government backed business by cutting corporation tax from 28% to 20%. The Employment Allowance reduced the cost of employer National Insurance contributions (NICs) for over 1 million employers, and over £4 billion of support was announced to business rates payers, particularly small businesses and retailers.[67] Businesses have taken the opportunity to create more jobs. Since 2010, more than 5 jobs have been created in the private sector for every job lost in the public sector.[68] Earnings continue to rise, up 2.7% over the year in the 3 months to April, the fastest growth in real wages since 2007.[69]

1.238 The government wants to go further, making the tax system simpler and less distortive, while maintaining competitive rates and predictable rewards for investment.

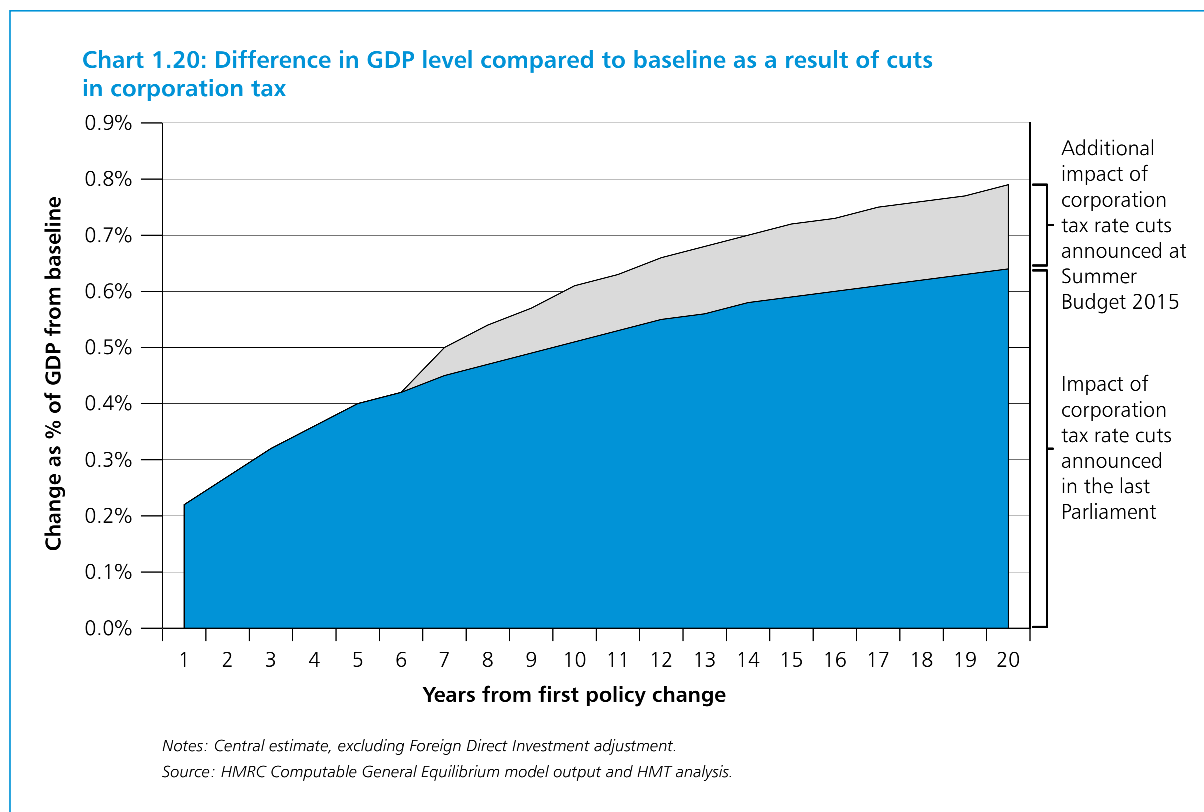
Competitive taxes

1.239 Overall the corporation tax cuts delivered since 2010 will save businesses £10 billion a year from 2016.[70] In this Parliament, the government will go further. **The corporation tax rate will be cut to 19% in 2017 and 18% in 2020**. These new cuts will save small and large businesses a further £6.6 billion by 2021, and will benefit 1.1 million businesses.[71] They will give the UK the lowest rate of corporation tax in the G20, making the country even more attractive to inward investors.[72]

1.240 In 2013, the government published analysis modelling the economic impact of the corporation tax cuts delivered during the last Parliament.[73] This analysis has been updated to reflect the additional benefit of the rate cuts announced today.[74] It suggests that cutting corporation tax from 20% to 18% could increase GDP in the long run by between 0.1% and 0.2% (£1.8 to £3.6 billion in today's prices) and that overall the cuts since 2010 could increase GDP by between 0.6% and 1% (£10.9 to £18.1 billion) in the long run. These numbers exclude the positive impact the cuts will have on inward investment. Adjusting for inward investment would mean that the overall cuts could boost GDP by between 0.7% to 1.1% (£12.7 to £19.9 billion).

[67] Employment allowance take up: 2014-15 full year estimates, HMRC publication, April 2015 and fiscal event documentation from across the last Parliament.
[68] Labour market statistics, ONS, June 2015.
[69] Labour market statistics, ONS, June 2015.
[70] HMRC analysis.
[71] HMRC analysis.
[72] Global tax rates online, KPMG .
[73] Analysis of the dynamic effects of corporation tax reductions', HMT and HMRC, December 2013.
[74] HMRC Computable General Equilibrium model output and HMT analysis. The range of GDP impacts shown reflects varying the assumed elasticity of substitution between labour and capital by +/-50% around the central scenario (elasticity of 0.8).

Chart 1.20: Difference in GDP level compared to baseline as a result of cuts in corporation tax



Notes: Central estimate, excluding Foreign Direct Investment adjustment.
Source: HMRC Computable General Equilibrium model output and HMT analysis.

1.241 With a strengthening economy, the government believes that now is the right time to take action to tackle low pay and ensure that lower wage workers can take a greater share of the gains from growth by introducing a new National Living Wage (NLW). To support businesses, particularly smaller ones, **the government will raise the NICs Employment Allowance from £2,000 to £3,000 a year from April 2016.** As a result, up to 90,000 employers will be taken out of paying NICs. This increased allowance means that firms employing up to 4 workers full time on the new NLW next year will not see their contributions increased.

1.242 The government will further support investment by small- and medium-sized firms by **increasing the permanent level of the Annual Investment Allowance (AIA) to £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016, its highest ever permanent level**. The government commits to maintaining the AIA at this level for the rest of this Parliament, providing a cash flow benefit to companies who invest. Around 75% of the businesses who benefit are located outside of London and the South East, and the sectors with most companies benefitting will be manufacturing, wholesale and retail, and agriculture.[75]

1.243 This Budget also announces that **the government will make amendments to the tax-advantaged venture capital schemes** to ensure that the UK continues to offer significant and well-targeted support for investment into small and growing companies, with a particular focus on innovative firms.

1.244 The government recognises that businesses need certainty to enable them to plan and make long-term investments. To deliver this, **the government will publish a business tax roadmap by April 2016, setting out plans for business taxes over the rest of the Parliament**. **The government is also running a wide-ranging review of business rates**. This will be fiscally neutral and will be completed by the end of 2015. In addition, **the government has today published progress updates on action it is taking to improve the administration of business rates, including the appeals system, and on tackling business rates avoidance**.

[75] HMRC Analysis

Addressing complexity in the tax system

1.245 The government aims to have a tax system that is simple to understand and easy to comply with. **The government will establish the Office of Tax Simplification (OTS) on a permanent basis with an expanded role and capacity.** The new, expanded OTS will be put on a statutory footing in Finance Bill 2016, and will advise the government on how to deliver a simpler tax system, providing independent advice on options for addressing existing complexity in the tax system. **The terms of reference for the next OTS reviews on the closer alignment of income tax and NICs and the taxation of small companies will be published shortly**.

1.246 Following recommendations by the OTS, **the government will consult on simplifying the tax and NICs treatment of termination payments and the tax treatment of travel and subsistence**. **The government will also consult in autumn 2015 on abolishing Class 2 NICs and reforming Class 4 NICs.**

1.247 At March Budget 2015, the government announced it would transform tax administration for individuals and small businesses over this Parliament, leading to the end of the tax return. Small businesses will be able to manage their tax through a digital account linked to business software. HMRC will begin discussions with businesses and software providers about how best to integrate tax reporting and payment with everyday business activity, to inform **a roadmap the government will publish by the end of 2015 setting out the policy and administrative changes needed**.

Boosting productivity

1.248 A more productive economy requires the government to back competitiveness and prioritise investment in infrastructure and human capital. This Budget sets out reforms the government is making to achieve this. The full details of the government's actions will be set out in the productivity plan.

1.249 Supporting enterprise is a priority for the government. This year the government will lay final legislation requiring major UK banks both to share SME credit information with other lenders and to offer to share the details of SMEs rejected for a loan with online platforms that can match them to alternative finance providers. Alongside these reforms, the British Business Bank is increasing and diversifying the supply of finance available to SMEs, and aims to facilitate up to £10 billion of finance by 2019.

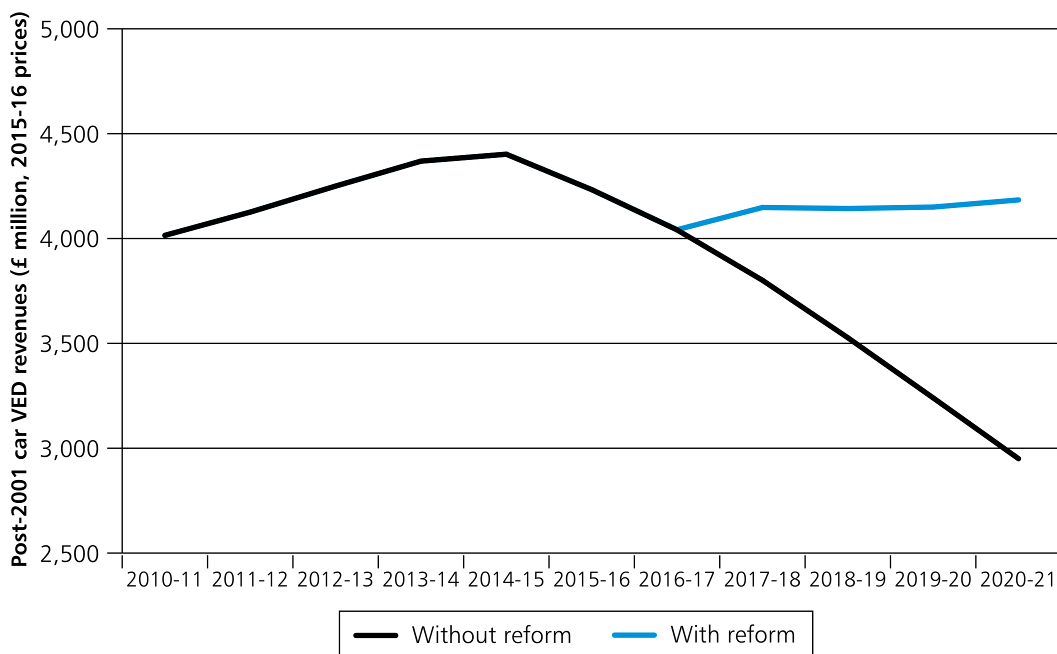
Modern transport infrastructure

1.250 The government believes that a modern infrastructure network is vital. By 2020-21, this government will have trebled investment in improvements to the national road networks compared to 2012-13 levels, investing over £28 billion in enhancements and maintenance of national and local roads.[76] To ensure that future roads investment is sustainable, **this Budget announces a reform to vehicle excise duty (VED) to create a new Roads Fund. VED will be reformed for cars registered from April 2017 to make it fairer for motorists and reflect improvements in new car CO_2 emissions.** The new VED system will be reviewed as necessary to ensure that it continues to incentivise the cleanest cars.

1.251 From 2020-21 the government guarantees that all revenue raised from VED in England will be allocated to a new Roads Fund and invested directly back into the strategic road network. Further details of the VED reform are set out in paragraph 2.145.

[76] 'Action for Roads', DfT, July 2013 and 'Investing in Britain's Future', HMT, June 2013

Chart 1.21: Stabilising car VED revenues through reform



Source: HMRC, drawing on data on scrappage rates and new cars sold provided by DfT.

1.252 Demonstrating an ongoing commitment to stable investment, **the government will publish a second Road Investment Strategy by the end of this Parliament**, building on the first published in December 2014.

1.253 Over the last 10 years, rail passenger journeys in Great Britain have increased by 57% and today over 4.3 million journeys are made by rail each day.[77] To support this level of growth, the government has committed to upgrading the railway and bringing this largely Victorian asset into the 21st century, including by spending £38 billion on the railways over the 5 years to 2019.[78] As problems at Network Rail have become clear, the government has acted to put the rail investment programme back on track.

1.254 Specifically, **the government has appointed Sir Peter Hendy, formerly the Commissioner of Transport for London, as the new Chairman of Network Rail**. The government has asked Sir Peter Hendy to bring to bear his experience and expertise and do what is necessary to ensure Network Rail can deliver effectively and operate the railways safely, and in particular to **report by autumn 2015 with a plan to get the rail investment programme back onto a sustainable footing**.

1.255 The government will also take further action to improve incentives and drive improvements in Network Rail and the wider rail industry:

- the government has asked Sir Peter Hendy and Mark Carne, Chief Executive of Network Rail to continue with the work started in Network Rail to **devolve more power to route managers closer to the front line**, so that the railways are more focussed on delivering what passengers need and to drive comparative benchmarking of the efficiency and effectiveness of individual routes – to drive up performance across the network
- the government will also **change the way it channels public money through the industry, directing it through the train operating companies**, so that Network Rail focuses firmly on the needs of train operators, and, through them, passengers – this will

[77] Passenger Rail Usage statistics, Office of Rail and Road, June 2015.
[78] 'Delivering a better railway for a better Britain', Network Rail, March 2014

put the customers of the railway back in the driving seat in demanding efficiency and improvements that matter to them, making the best use of scarce capacity on the rail network

- the government will **introduce a new approach to station redevelopment and commercial land sales on the rail network**, building on the experience of regenerating land around Kings Cross Station and Stratford in East London – the government will establish a dedicated body to focus on pursuing opportunities to realise value from public land and property assets in the rail network to both maximise the benefit to local communities and reduce the burden of public debt

1.256 Looking further ahead, **the government has also asked Nicola Shaw, Chief Executive of High Speed 1, to advise the government on how it should approach the longer-term future shape and financing of Network Rail**. Nicola Shaw will work closely with Sir Peter Hendy in conducting her work, which will be concluded before Budget 2016.

Reliable, affordable and low carbon energy

1.257 The government will continue to promote the low carbon investment and innovation needed to support global action on climate change, focussing on the best value for money policies to keep costs down for consumers. The government will push for a global climate deal later this year that keeps the goal of limiting global warming to 2 degrees firmly within reach.

1.258 The government also aims to develop a simple, fair and more efficient energy environment for business that minimises administrative burdens and improves incentives for business to invest and grow. **The government will review the business energy efficiency tax landscape and consider approaches to simplify and improve the effectiveness of the regime.** A consultation will be launched in autumn 2015.

1.259 To help reduce costs for energy consumers, **the government will publish proposals on extending competitive tendering to onshore electricity transmission assets.** This could save consumers around £390 million over the next 10 years.[79]

1.260 The government welcomes the provisional findings of the Competition and Markets Authority's energy market investigation. It is important that as many consumers as possible are on the best available deal, in order to save money on their energy bill. To help enable this, the government aims to introduce 24 hour switching by the end of 2018 and will also act to improve trust in the switching process.

1.261 The government believes in making the most of the UK's oil and gas resources, including the safe extraction of shale gas. Building on action set out in the March Budget 2015, **the government will expand the North Sea investment and cluster area allowances to include additional activities which will maximise economic recovery.** The government will also bring forward proposals for a sovereign wealth fund for communities that host shale gas development.

1.262 This Budget also announces the removal of the Climate Change Levy exemption for renewable electricity. This change will correct an imbalance in the tax system by preventing taxpayers' money benefitting renewable electricity generated overseas, and by helping ensure support for low carbon generation provides better value for money for UK taxpayers.

World class universities

1.263 Britain's universities are one of the jewels in the crown of the economy and are vital to the country's future. The UK has 4 of the world's top 10 universities, second only to the US.[80]

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[79] DECC internal management information.
[80] QS World University Rankings, 2014-15.

Since 2010 student participation has increased and there is now a higher proportion of students from disadvantaged backgrounds applying to and entering higher education than ever before. The government has also committed for the first time to remove the cap on student numbers, enabling thousands more students to enjoy the returns that higher education brings.

1.264 There is evidence that students are more concerned about the level of support they receive while studying than the long-term repayment of their income contingent loans.[81] **Maintenance loan support will rise for students from low and middle income backgrounds up to £8,200 a year** for those who are studying away from home, outside London. This is the highest level ever.

1.265 But the expansion of higher education relies on funding being put onto a sustainable footing. The government must therefore ask graduates to meet more of the cost of their degrees once they are earning. From the 2016-17 academic year, **maintenance grants will be replaced with maintenance loans for new students from England**, paid back only when their earnings exceed £21,000 a year, saving £2.5 billion by 2020-21. To ensure that the long term costs of the student loan book remain affordable and transparent, the government will **consult on freezing the loan repayment threshold for five years and review the discount rate applied to student loans and other transactions** to bring it into line with the government's long-term cost of borrowing.

1.266 Driving up the quality of higher education is also important, and this Budget announces a number of measures to address this. These include **allowing institutions offering high teaching quality to increase their tuition fees in line with inflation from 2017-18, with a consultation on the mechanisms to do this**.

1.267 Supporting the UK's research base to deliver continued excellence, as well as driving the commercialisation of findings, is a priority for this government. The government will deliver on the science capital commitment, investing £6.9 billion up to 2021 in infrastructure to investigate the great challenges of today, whether domestic, internatonal or in space.[82] **The government will invite universities, cities, LEPs and businesses to map strengths and identify potential areas of strategic focus for different regions through a series of science and innovation audits.** The government encourages universities to strengthen local collaboration and will continue to reward proposals which build on regional strengths, including through funding streams such as the Research Partnership Investment Fund. The government will set out further details on this at the Spending Review.

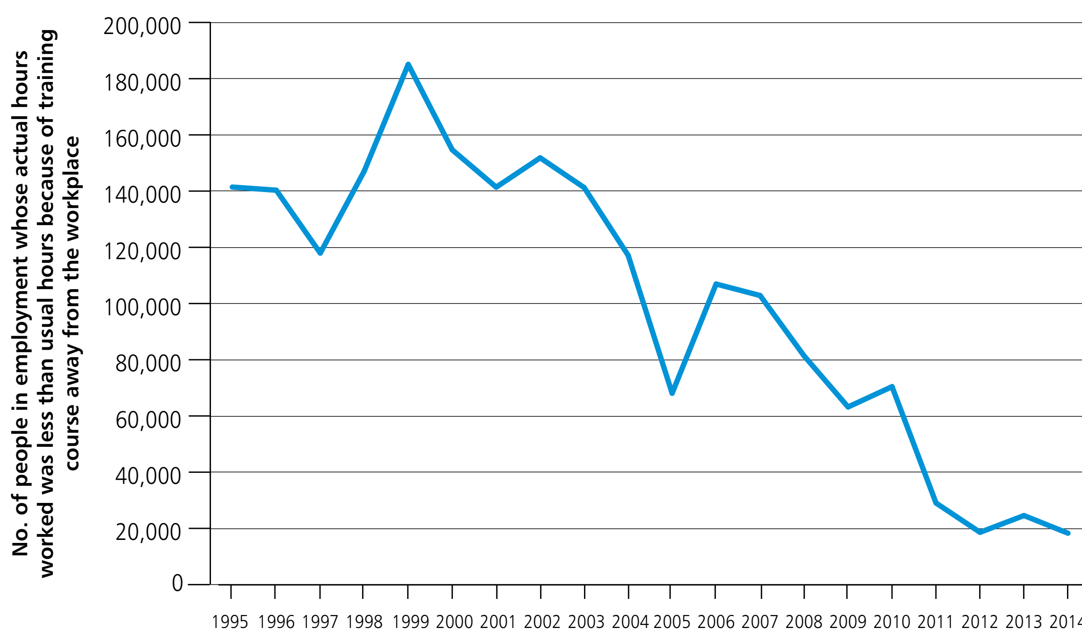
1.268 The government has also created an extensive network of Catapult centres bringing together businesses, scientists and engineers to drive the commercialisation of technology. Innovate UK, working with Research Councils, has now identified further areas where a Catapult might be the right way to ensure the UK is at the forefront of commercialising technologies which offer global opportunities, and will come forward with proposals shortly.

Apprenticeships

1.269 The most successful and productive economies in the world are committed to developing vocational skills. That is why **the government has committed to significantly increase the quantity and quality of apprenticeships in England to 3 million starts this Parliament**, putting control of funding in the hands of employers.

[81] 'Student Funding Panel: an analysis of the design, impact and options for reform of the student fees and loans system in England', Universities UK, June 2015
[82] 'Allocations of science and research funding 2015-16', BIS, May 2014

Chart 1.22: Number of employees attending training outside their workplace: Labour Force Survey



Source: Office for National Statistics, Labour Force Survey.

1.270 This goal will require funding from employers. In recognition of this, **the government will introduce a levy on large UK employers to fund the new apprenticeships.** This approach will reverse the long-term trend of employer underinvestment in training, which has seen the number of employees who attend a training course away from the workplace fall from 141,000 in 1995 to 18,000 in 2014.[83]

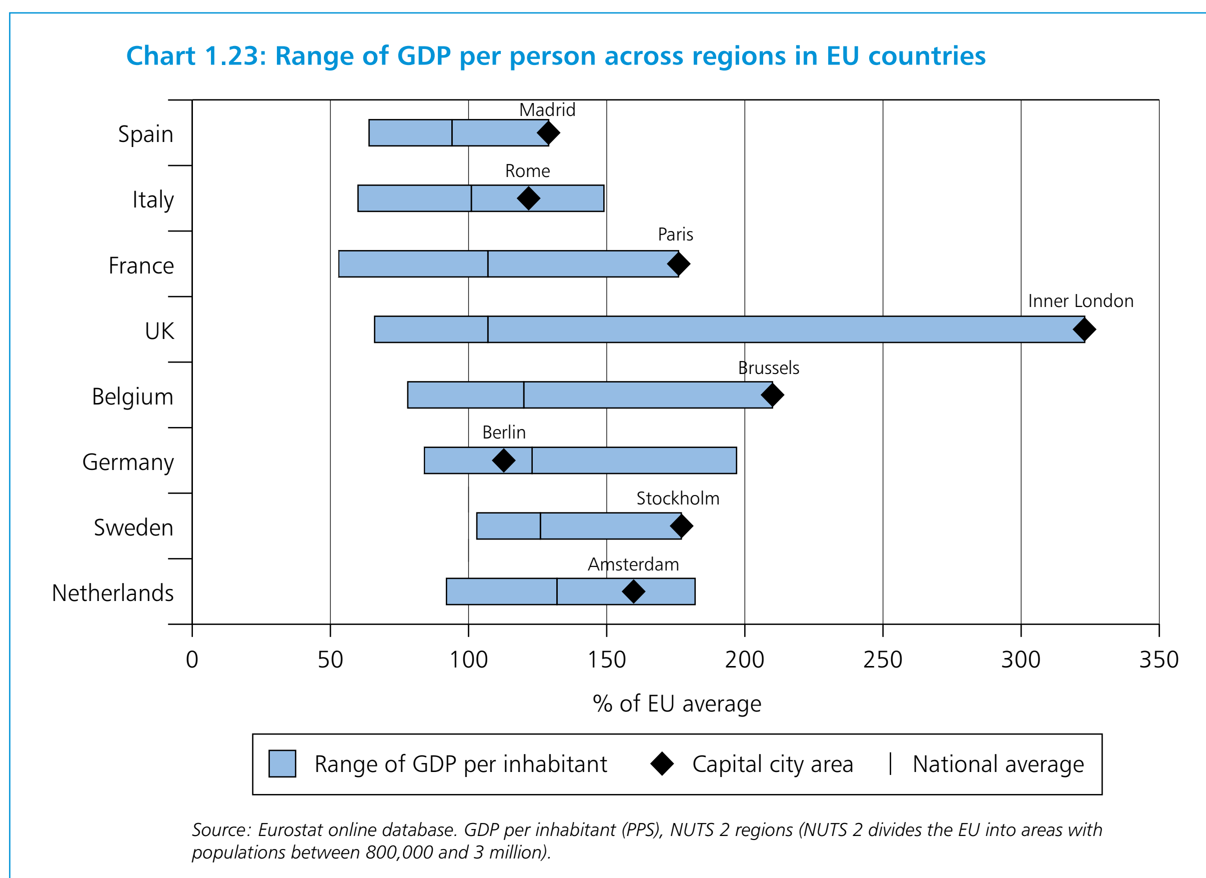
1.271 The levy will support all post-16 apprenticeships in England. It will provide funding that each employer can use to meet their individual needs. The funding will be directly controlled by employers via the digital apprenticeships voucher, and firms that are committed to training will be able to get back more than they put in. There will be formal engagement with business on the implementation of the levy, which will also consider the interaction with existing sector levy boards, and further details will be set out at the Spending Review.

[83] Labour Force Survey, ONS.

Ensuring a truly national recovery

1.272 The government is committed to delivering a truly national recovery. Over decades, the economy has become unbalanced. Economies like Germany and the US have economic power spread much more evenly. In 2010, London accounted for 28% of UK GDP, whilst Berlin and New York accounted for much smaller shares, at 5% and 7% of their respective national GDP.[84] The gap in labour productivity between the UK's two largest city economies, London and Manchester, is larger than in any other G7 country.[85] In fact, it is more than double the gap between the two largest city economies in both Germany and Japan. The government is determined to change this.

Chart 1.23: Range of GDP per person across regions in EU countries



Source: Eurostat online database. GDP per inhabitant (PPS), NUTS 2 regions (NUTS 2 divides the EU into areas with populations between 800,000 and 3 million).

Scotland, Wales and Northern Ireland

1.273 In Scotland, Wales and Northern Ireland, many of the levers available to promote and support economic growth are devolved responsibilities of the Scottish Government, Welsh Government and Northern Ireland Executive. Where responsibilities are retained at the UK level, the government will continue to deliver for the whole of the UK, ensuring the benefits of the union – a strong currency, the single UK market, and vital economic stability and security – are felt in every part of the country.

1.274 The government continues to deliver against its commitment to devolve further powers to Scotland, Wales and Northern Ireland, ensuring that each administration has the appropriate levers to take decisions to address their specific challenges and opportunities. It has also set out its plans for delivering English votes on key issues, including tax and spending powers.

[84] 'Metropolitan eXplorer', Organisation for Economic Co-operation and Development, October 2013.
[85] 'Metropolitan eXplorer', Organisation for Economic Co-operation and Development, October 2013.

1.275 Following the publication of the Smith Commission report, the Scotland Bill was introduced to Parliament on 28 May 2015. Discussions have also begun on a revised fiscal framework for the Scottish Government, with the aim of completion by autumn 2015. As a result, the Scottish Parliament will become one of the most powerful devolved legislatures in the world. The Bill ensures that Scotland and the rest of the UK will continue to benefit from the UK's successful single market, the pooling of resources and the sharing of risks.

1.276 The government is committed to taking forward the St David's Day agreement for Wales to the timetable set out in the Command Paper.[86] This includes implementing a funding floor at the Spending Review in the expectation that the Welsh Government holds a referendum on the devolution of income tax.

1.277 The devolution of Air Passenger Duty (APD) to the Welsh Assembly will continue to be considered alongside the review of options to mitigate the impacts of APD devolution on regional airports. **The government is publishing a discussion paper on regional airports alongside the Budget, setting out how some of the options could work**.[87]

1.278 Levels of public spending per head in Northern Ireland remain higher than any other UK country or region.[88] The government and the Northern Ireland Executive remain committed to the objective of rebalancing the Northern Ireland economy. Targeted support has been provided in recent years through the 2013 'economic pact' 'Building a Prosperous and United Community', and the significant financial package offered in December 2014 as part of the Stormont House Agreement. This offers £2 billion of additional spending power. It is critical that the Northern Ireland parties deliver on the commitments they made at Stormont House, to ensure that the potential of the Agreement to support recovery and growth is realised.[89]

1.279 This government is also committed to ensuring that where devolved and non-devolved responsibilities overlap and interact, local communities and their leaders play a key role in identifying opportunities for growth. Implementation of the City Deal for Glasgow and the Clyde Valley is now well under way, alongside early stages of work towards the City Deals for Cardiff, Aberdeen and Inverness announced in the March Budget 2015.

1.280 The government has announced that it will introduce 'English votes for English laws' to ensure a balanced settlement in which every part of the UK has a fair say. But English MPs will now have a veto in Westminster when debating matters that have been devolved to the Scottish Parliament or the Welsh or Northern Ireland Assemblies. The proposals will also give the decisive say over tax measures to MPs whose constituents are affected by those changes once further planned devolution to Scotland takes place. Subject to the approval of the House of Commons, this new process will be in place before the Budget in 2016.

Regional rebalancing

1.281 The government is committed to raising the long-term rate of growth throughout England. Good progress was made over the last Parliament. By 2015, there were 1.2 million more private sector jobs in England outside London and the South East than in 2010, supported by the government's investment in transport, science and skills.[90] According to the latest data, output per head grew faster in the North than in the South in 2013. The North East, North West, West Midlands and Wales all grew faster per head than London and the UK average.[91]

[86] www.gov.uk.
[87] www.gov.uk.
[88] www.gov.uk.
[89] www.gov.uk.
[90] Regional Labour Market, June 2015, ONS (excluding effects of major reclassifications).
[91] ONS (Regional Gross Value Added (Income Approach) NUTS 1) and HMT calculations.

Employment in the North West has risen faster than in any other region over the last year, adding almost 100,000 new jobs.[92]

1.282 In the last Parliament, the government set out regional Long Term Economic Plans. This Budget builds on those plans with further commitments.

Regional levers of growth

Devolution

1.283 To fulfil its commitment to rebalance the economy and further strengthen the Northern Powerhouse, the Budget announces that **the government is working towards further devolution deals with the Sheffield City Region, Liverpool City Region, and Leeds, West Yorkshire and partner authorities**, to be agreed in parallel with the Spending Review. If agreement is reached, including on an elected mayor working with local leaders to oversee new powers devolved from ministers, these city regions will be granted significant additional powers and the opportunity to take control of their own affairs to support economic growth.

1.284 Building on the ground-breaking devolution deal agreed in November 2014, **the government is making further progress on devolving powers to Greater Manchester**. This includes putting Fire Services under the control of the new directly-elected Mayor, establishing a Greater Manchester Land Commission, granting the city region more powers over planning subject to the agreement of the Cabinet member representing the district in which the power is used, and inviting discussion of how central government and the city region might collaborate further on children's services and employment programmes.

1.285 The government intends to support towns and counties to play their part in growing the economy, offering them the opportunity to agree devolution deals, and providing local people with the levers they need to boost growth. **The government is working with towns and counties to make these deals happen and is making good progress towards a deal with Cornwall.**

1.286 The government welcomes efforts by local areas to strengthen their governance, and strongly supports the recent publication of a West Midlands Statement of Intent for devolution, which sets out ambitious proposals for a strong and coherent West Midlands combined authority.[93] The government is also pleased to have received two Combined Authority proposals from local authorities in the East Midlands.

1.287 The government remains open to any further proposals from local areas for devolution of significant powers in return for a mayor, in time for conclusion ahead of the Spending Review.

Local economies

1.288 The government is inviting bids for a new round of Enterprise Zones. The existing Enterprise Zones have supported the creation of over 15,000 jobs throughout England.[94] This new round will focus on ensuring that all places in England can benefit, including rural areas where appropriate, and the government encourages towns and districts to work with LEPs to develop bids.

1.289 To ensure that local areas have a greater say over their own economies, **the government will consult on devolving powers on Sunday trading to city mayors and local authorities**. This will look at allowing mayors or councils to extend Sunday trading for additional hours within parameters that they would determine.

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[92] Regional Labour Market, June 2015, ONS
[93] www.westmidlandscombinedauthority.org.uk.
[94] http://enterprisezones.communities.gov.uk.

1.290 The government will continue to support community-led growth in coastal areas and **this Budget extends the Coastal Communities Fund by at least £90 million until 2020-21**. This is subject to confirmation of future funding arrangements which will be determined at Spending Review 2015.

Skills and infrastructure

Skills

1.291 The government will also introduce new Regius Professorships in order to recognise excellence in universities across the UK. The government will launch a competition later this year, with a view to making awards in early 2016 to celebrate the Queen's 90th birthday.

1.292 To support innovation throughout the country, **the government will invest £23m in 6 Next Generation Digital Economy Centres over 6 sites (London, Swansea, Newcastle, Nottingham, York and Bath),** leveraging £22 million of additional funding, and partnering with LEPs, regional councils, and local SMEs. These centres will exploit opportunities across sectors of the digital economy including the creative industries, finance, healthcare and education.

1.293 Innovation is key to the UK's high growth creative industries, where the UK leads the world in areas from cutting-edge visual effects technology to architectural experimental techniques now used globally. Creative industries are worth £76.9 billion of GVA and employ 1.8 million people. The government has introduced new tax reliefs to support the production of high-end television, animation, video games, theatre and children's television, and expanded the successful film tax relief. As announced at March Budget 2015, the government will introduce a new tax relief for orchestras at a rate of 25% on qualifying expenditure from 1 April 2016.

1.294 Furthermore, to provide specialist higher-level training in sectors that are critical to economic growth, **the government has committed to the establishment of a network of National Colleges.** Once established the National Colleges will provide high quality professional and technical routes into employment throughout the UK.

1.295 All regions of England have particular strengths in science and innovation. **The Budget announces that the government will invite universities, LEPs, businesses and cities to work with central government to map strengths and identify potential areas of strategic focus for different regions through a series of science and innovation audits.** The government invites universities to develop proposals for supporting local collaboration, building on successful university collaborative partnership models such as the N8, M6 and GW4, to be supported through funding streams such as the next £400 million round of the Research Partnership Investment Fund, and will set out further details at the Spending Review.

Transport

1.296 To support working people across the country, the govenment will cap regulated rail fares at RPI for the remainder of this Parliament.

1.297 The government invested over £40 billion in transport over the last Parliament, and has committed to over £56 billion in transport infrastructure this Parliament. In response to the recent problems at Network Rail, the government has appointed Sir Peter Hendy to get this Parliament's rail investment programme back on a sustainable footing, alongside other reforms to make Network Rail a more focussed commercial body. In the last Parliament, the government invested £259 million through the 'pinchpoints' fund.[95] **The government is now committing**

[95] www.gov.uk.

a further £3.5 million to address the remaining areas identified through this scheme, including £2 million for the Treluswell Junction improvement in Cornwall, and £1.5 million for the A4123 Birmingham New Road / Shaw Road Junction to help unlock the development of housing on 6 sites in Wolverhampton. **In addition, the government is committing £14 million to local road maintenance improvements; £5.5 million for maintenance and upgrade of the Swanswell Viaduct, £3 million for Tameside Metropolitan Borough Council to make structural improvements to walls around local roads and £5.8 million for the A666 Highways Maintenance Scheme in Bolton.**

1.298 The government will run a further round of the New Stations Fund with up to £20 million in total available for projects.

Northern Powerhouse

1.299 In the last parliament, the government committed to build a Northern Powerhouse. The Northern Powerhouse is a vision based on the solid economic theory that while the individual cities and towns of the north are strong, if they are enabled to pool their strengths, they could be stronger than the sum of their parts. In 2015, there were 320,000 more people in work in the North than in 2010, approximately equivalent to the population of Wigan, and there were 119,400 more businesses than in 2010.[96]

1.300 Cities require high-quality transport if they are to be successful, as well as the powers to deliver a fully integrated public transport system that truly serves the needs of their residents and businesses. The government also recognises that transport plays a vital role outside major city regions in meeting the needs of local communities as well as driving economic growth. **The government is committed to significant transport devolution in all of the country's city regions that elect a Mayor, as well as the country's counties.** This includes the roll-out of Oyster-style smart and integrated ticketing systems that will provide people with quicker and easier door-to-door journeys, greater choice, as well as simpler and more flexible fares.

1.301 Building on the government's commitments set out in Chapter 2 to improve transport connections throughout the country, **the government is launching an ambitious new transport devolution package for the North to take the Northern Powerhouse to the next stage** and create a single northern economy that is genuinely stronger than the sum of its parts. Building on the Northern Transport Strategy that was jointly published by the government and Transport for the North (TfN) earlier this year, the government is now committing to:

- **devolving far reaching powers over transport to the North's Mayor-led city regions** to deliver fully integrated public transport systems, supported by smart and integrated ticketing technology
- **establishing TfN as a statutory body with statutory duties** to set out its transport policies and investment priorities in a long-term transport strategy for the North, **underpinned by £30 million of additional funding** over three years to support TfN's running costs and enable them to advance their work programme
- **appointing an interim Chief Executive and executive team for TfN by autumn 2015** to accelerate TfN's work programme, and **appointing a Chair by the end of the 2015**, with an update on the Northern Transport Strategy to be published by Budget 2016
- **working with TfN to advance the introduction of Oyster-style smart and integrated ticketing across bus, tram, metro and rail services** throughout the region, making this one of the top priorities for TfN's newly accelerated work programme

[96] Regional Labour Market, June 2015, ONS; Mid-year population estimates 2014, ONS; Business population estimates 2014, ONS.

- **working with TfN to push forward plans to transform east-west rail and road connections via TransNorth and options for a new TransPennine Tunnel,** with a prioritised list of scheme options to be produced by Budget 2016, and an interim report in time for the Spending Review later in 2015

1.302 The government is improving road connectivity in the North by upgrading the A628 and dualling the A61, and by upgrading the final stretch of the M1/A1 route between Newcastle and London to motorway. **The government will look into the case for renaming the A1(M) north of Leeds as the M1. The A1 will be dualled north of Newcastle as far as Ellingham, and access to the Port of Immingham will be improved with upgrades to the A160/A180.**

1.303 The government is looking at extending Mersey Gateway bridge toll discounts to residents of Chester West & Chester and Warrington, with final decisions to be made in early 2016. In addition, the government will work with relevant local partners carrying out a review of the tolls on the Mersey tunnels.

1.304 The government is making good progress to deliver Health North, which will go live in autumn 2015. It is creating 'Connected Health Cities' across the North, assembling experts and technology to provide better care for patients promoting innovation through analysis of data on the effectiveness of different drugs, treatments and health pathways.

Midlands – Engine for Growth

1.305 The government is committed to backing the Midlands to ensure it is Britain's engine for growth. The government will build on the progress made in the Midlands during the course of the last Parliament when 83,300 more businesses were created in the Midlands, and the claimant count was halved.[97]

1.306 The government reaffirms its commitment to £5.2 billion of transport investment in the Midlands in this Parliament. To support the development of a pan-regional transport approach in the Midlands, **the government is committing £5 million of additional funding for Midlands Connect** to help develop its vision and strategy for transforming transport connectivity across the region in order to drive economic growth.

1.307 The extended round of the New Stations Fund will be used to support a local bid for stations on the Robin Hood Line to Edwinstowe and Ollerton, subject to a business case.

1.308 Andy Street, Chair of the Greater Birmingham and Solihull LEP (GBSLEP), has championed the opportunity to maximise the local benefits of HS2 for the area. This includes the extension of the Midlands Metro. Work on the next phase of the extension, taking it to New Street Station, is currently in construction and due to be completed by the end of the year. Further extensions to the east and west of New Street Station are in the programme for delivery over the next few years. The ambition to extend the Metro even further is a key part of the GBSLEP HS2 Growth Strategy and the government looks forward to considering proposals when they have been developed further.

1.309 In the Long Term Economic Plan for the Midlands, the Chancellor committed to working with the Midlands LEPs to support a regional approach to skills. The government will work with LEPs, the local partners and the emerging combined authorities to scale up this work across the Midlands, looking to agree a clear and detailed delivery plan in autumn 2015.

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[97] Business population estimates 2014, BIS; Regional Labour Market, June 2015, ONS.

Figure 1: Boosting investment across the UK

NORTHERN IRELAND

- Aiming to facilitate the rebalancing of the Northern Ireland economy alongside the Northern Ireland Executive
- Over £2bn of additional spending power as part of the Stormont House Agreement, if the parties deliver on their commitments
- Legislated for devolution of corporation tax rate setting powers to the Northern Ireland Assembly

SCOTLAND

- Strengthening the Scottish government's existing powers to deliver jobs and growth through greater tax and welfare devolution, through the Scotland Bill
- Working with the Scotttish government and local partners towards City Deals for Aberdeen and Inverness, following the City Deal for Glasgow and the Clyde Valley
- Lowering the tax burden on the oil and gas industry, by introducing a new Investment Allowance and reducing the headline rates of tax, to support further investment in the North Sea

MIDLANDS

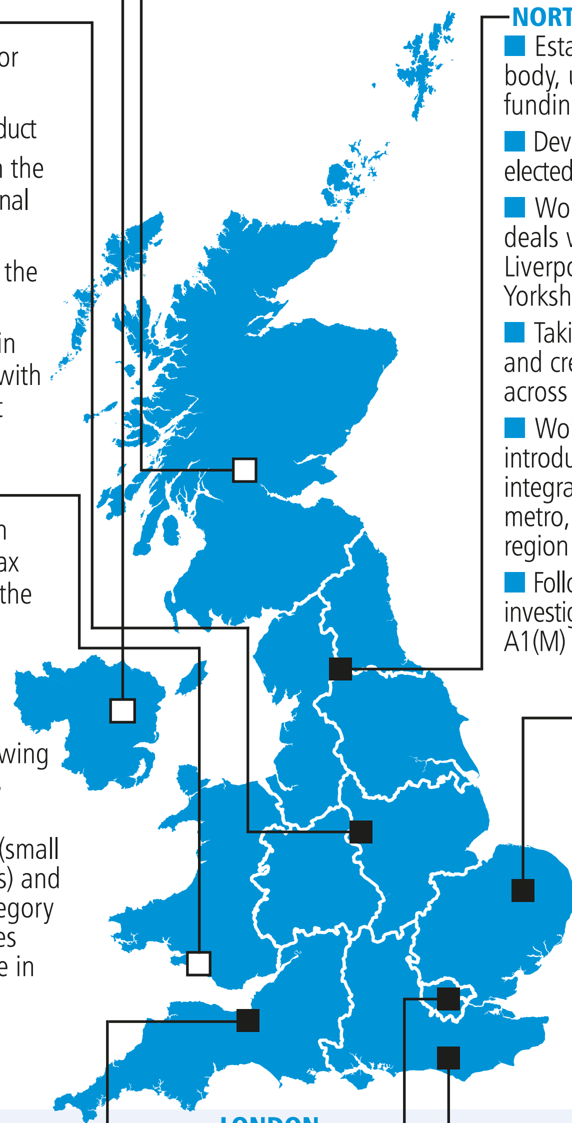
- Allocating £5m of funding for Midlands Connect
- Upgrading the Swanswell Viaduct
- Committing to working with the Midlands LEPs to agree a regional skills strategy in the Autumn
- Supporting the extension of the Birmingham enterprise zone
- Piloting enterprise advisors in Birmingham schools, working with existing job coaches to support routes into employment

NORTHERN POWERHOUSE

- Establishing TfN as a statutory body, underpinned by £30m of funding
- Devolving further powers to the elected mayor of Greater Manchester
- Working towards further devolution deals with the Sheffield City Region, Liverpool City Region, and Leeds, West Yorkshire and partner authorities
- Taking Health North to the next level and creating 'Connected Health Cities' across the North of England
- Working with TfN to advance the introduction of Oyster-style smart and integrated ticketing across bus, tram, metro, and rail services throughout the region
- Following the upgrade to motorway, investigating the case for renaming the A1(M) north of Leeds as the M1

WALES

- Introducing at the SR, and in the expectation of an income tax referendum, a funding floor in the relative level of funding for the Welsh government
- Working with Welsh government and local partners towards Cardiff City Deal, following successful roll-out of City Deals across England
- Abolishing Category 2 tolls (small goods vehicles and small buses) and including those vehicles in Category 1, to reduce costs for businesses once Severn River Crossings are in public ownership



EAST OF ENGLAND

- Backing the 'Ipswich in 60' and 'Norwich in 90' rail plan
- Studying options for dualling the A120 between Braintree and Marks Tey
- Taking forward further work on the Lowestoft Third River Crossing and Ipswich Wet Dock Crossing

SOUTH WEST

- Allocating £10m to a broadband fund, to improve connectivity throughout the South West
- Supporting the development of the business case for the North Devon Link Road and the A391
- Improving the Treluswell Junction
- Running a further round of the New Stations Fund, and considering proposals for a new station between Castle Cary & Taunton

LONDON

- Backing the Museum of London's move to a new site
- Establishing the hub for the UK Collaboration for Research in Infrastructure and Cities, including 13 partners across the UK
- Investing £23m in 6 Next Generation Digital Economy Centres over six sites, including one at UCL

SOUTH EAST

- Upgrading domestic services to bring Ramsgate to within an hour of London
- Exploring the potential to extend HS1 to Hastings and Rye
- Extending the scope of the Lewes-Uckfield study to look at improving rail links between London and the South Coast

1.310 The government supports the extension of the Birmingham Enterprise Zone, which will support Birmingham to build on the government's investment in HS2 to generate further benefits for the city of Birmingham, and will consider a business case as part of the Spending Review.

1.311 In February 2015, the government announced a new partnership between the Birmingham and Solihull LEP and Jobcentre Plus to invest in additional work coaches to help all local jobseekers to find good jobs. **The government is creating a new Jobcentre Plus Employment Advisor role, working with schools and sixth-form colleges to improve young people's understanding of the local labour market, the skills local employers are looking for, and routes into work.** The programme will start in Birmingham, ensuring that young people in the city can benefit from the strong partnerships already in place, before expanding to the wider Greater Birmingham and Solihull area and beyond.

East of England

1.312 The government's long-term economic plan for the East backs the region's strengths in science and technology, the rural economy, agritech and defence, all reliant on good local transport.

1.313 The government will invest £4.2 billion in transport infrastructure and £1.5 billion in roads in the East of England over this Parliament. Work on the Lowestoft Third River Crossing and Ipswich Wet Dock Crossing will be taken forward, with £4 million committed so far. The government will improve rail passenger journey times between London and the East of England, backing the 'Ipswich in 60' and 'Norwich in 90' rail plans.

1.314 Highways England and Essex County Council will work together to study options for dualling the A120 between Braintree and Marks Tey.

South West

1.315 In the long-term economic plan to increase growth and create jobs in the South West, the government set out its plans to invest in transport and support key regional strengths, including defence, cyber security, science, agriculture and tourism.

1.316 The government reaffirms its commitment to £7.2 billion investment in transport infrastructure in the South West over this Parliament. **The government will provide local councils with funding to support the development of business cases for the North Devon Link Road, and the A391 in Cornwall**.

1.317 The new round of the New Stations Fund will consider any local proposals for a new station between Castle Cary and Taunton.

1.318 To support connectivity in the South West, **the government will allocate up to £10 million to the broadband programme** from April 2016. The fund will be available for local projects to bid into, with priority given to those delivering ultrafast speeds of 100mbps and above. Broadband Delivery UK will start working with local projects immediately to determine the most effective way of delivering this support.

1.319 Small cider makers are a traditional part of rural economies who help create a diverse and vibrant cider market. **The UK is discussing reforms to EU law with the EU Commission and other Member States, so that it explicitly allows Member States to support small cider makers through the duty regime.** The government is also looking at alternatives that could apply. The government will work with industry on both of these. The

government will retain the current duty exemption for small cider producers until and unless a replacement scheme is established.

1.320 The government supports the work towards building a new stadium for Cornwall, and looks forward to seeing further progress.

London

1.321 The government believes that re-balancing the economy means building up every part of the country. London's growth supports the growth of the whole UK. The government will build on its long term economic plan for London that supports transport, housing and culture.

1.322 As one of the 6 Next Generation Digital Economy Centres, **the government will invest £4 million in a UK Regions Digital Research Facility at UCL**, which has leveraged £5.6 million in additional funding.

1.323 The government reaffirms its commitment to supporting £10 billion of transport investment in London over this Parliament.

1.324 The government welcomes Professor Dame Ann Dowling's review into how the UK's research base can further collaborate with industry. The government will respond in full by the Spending Review, including on how to deliver the central recommendation of making it easier for business to find support from universities and the government's broad range of financial support. The government can confirm significant industrial support for specific science investments, including £128 million in the UK Collaboration for Research in Infrastructure and Cities (UKCRIC), with its hub to be established in London.

1.325 London is a leading global city of culture and the government is supportive of the Museum of London's ambition to move from London Wall to Smithfield General Market. The GLA has already supported the Museum of London with funding for an architectural competition to support this move.

South East

1.326 The government is backing the South East and the South Coast, with its strengths including tourism and enterprise. Critical to supporting the South East and the South Coast is investment in infrastructure.

1.327 The government is upgrading domestic rail services to bring Ramsgate within an hour of London. **The Department for Transport has asked the rail industry to include extending High Speed 1 services to Hastings and Rye in the forthcoming Kent Route Study.** The outputs from this study will be presented to the government for consideration in 2016, with a view to this work being an option for funding after 2019.

1.328 The government will extend the scope of the Lewes-Uckfield study to look at improving rail links between London and the south coast, including upgrades to existing routes, consideration of the Brighton Main Line corridor, and re-examination of the DfT's feasibility study on BML2.

2 Budget policy decisions

2.1 Chapter 1 explains how the measures announced in this Budget advance the government's long-term economic plan. This chapter provides a brief description of all Budget policy decisions. These are decisions on tax measures, National Insurance contributions (NICs), measures that affect Annually Managed Expenditure (AME), changes to Departmental Expenditure Limits (DEL) and other policy measures. Unless stated otherwise, measures in this chapter are measures announced at this Budget. The tables in this chapter set out the cost or yield of all Budget policy decisions with a fiscal impact in the years up to 2020-21.

Fiscal impacts of Budget policy decisions

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

2.3 Table 2.1 shows the cost or yield of all new Summer Budget 2015 decisions with a direct effect on public sector net borrowing. This includes tax measures, changes to allocated DEL, and measures affecting AME.

2.4 Consistent with its commitment to transparency, the government is also publishing the methodology underlying the calculation of the fiscal impact of each policy decision. This is included in the supplementary document 'Summer Budget 2015 policy costings' published alongside this Budget.[1]

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

[1] www.gov.uk
[2] www.gov.uk

Table 2.1: Summer Budget 2015 policy decisions[1]

	Head	£ million					
		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Personal tax							
1 Personal allowance: increase to £11,000 in 2016-17, with equal gains to higher rate taxpayers	Tax	0	-1,055	-1,160	-1,195	-1,160	-1,200
2 Higher Rate Threshold: increase to £43,000 in 2016-17	Tax	0	-90	-200	-190	-255	-310
3 Inheritance Tax: £1m couples allowance from 2020 through new main residence nil-rate band phased in from 2017	Tax	0	0	-270	-630	-790	-940
4 Pensions tax relief: restrict for gross income over £150,000 from 2016-17	Tax	-70	+260	+425	+900	+1,180	+1,280
5 Rent-a-room relief: increase to £7,500	Tax	0	-5	-10	-10	-10	-15
Childcare							
6 Childcare: 30 hour entitlement for working parents of 3 and 4 year olds	Spend	0	-15	-365	-640	-660	-670
7 Tax Free Childcare: updated rollout	Spend	+165	+370	-95	-130	-90	-40
8 Adoption reform	Spend	-20	-20	0	0	0	0
Business and Growth							
9 Corporation Tax: reduce to 19% from 2017-18, and 18% from 2020-21	Tax	0	-10	-605	-1,600	-1,870	-2,475
10 Annual Investment Allowance: set at new permanent level of £200,000	Tax	-5	-215	-850	-895	-840	-795
11 Banks: 8% Corporation Tax Surcharge and changes to Bank Levy	Tax	0	+415	+555	+365	+225	+105
12 Corporation Tax: bringing forward payments for large groups	Tax	0	0	+4,495	+3,135	+140	+60
13 Employment Allowance: increase by £1,000 from 2016-17	Tax	0	-630	-670	-685	-700	-695
14 Oil and gas: expand investment allowance	Tax	*	-5	-5	-5	-5	-10
15 Transport for the North and Midlands Connect: set up costs	Spend	-15	-10	-10	0	0	0
Reform and sustainability							
16 Dividends tax: abolish credit, introduce new £5,000 allowance, and increase effective rates by 7.5pp	Tax	0	+2,540	-890	+1,120	+2,055	+1,960
17 Residential property: restrict finance relief to basic rate, phase from 2017	Tax	0	0	0	+225	+415	+665
18 Residential property: reform wear and tear allowance	Tax	0	0	+205	+165	+165	+170
19 Insurance Premium Tax: increase by 3.5pp to 9.5%	Tax	+530	+1,460	+1,510	+1,530	+1,550	+1,580
20 VED: reform for new cars purchased from 2017, hypothecated to roads fund from 2020-21	Tax	0	+250	+195	+670	+940	+1,425
Imbalances in the tax system							
21 Non-domiciles: abolish permanent status	Tax	0	0	-15	+475	+380	+385

	Head	£ million					
		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
22 Non-domiciles: IHT on UK residential property	Tax	-5	-5	+35	+100	+75	+85
23 Climate Change Levy: equal treatment for generators	Tax	+450	+490	+575	+685	+800	+910
24 Intangible assets: remove relief for new claims	Tax	+35	+100	+165	+220	+280	+320
25 Employment Allowance: withdraw from single person companies	Tax	0	+80	+95	+100	+105	+110
26 Tax Motivated Incorporation: reduction due to dividend tax reform	Tax	0	+190	+360	+445	+505	+565
Avoidance and tax planning							
27 Capital Gains Tax: avoidance by private equity and hedge funds	Tax	0	+265	+375	+390	+390	+375
28 Controlled Foreign Companies: loss restriction	Tax	+65	+140	+190	+165	+150	+150
29 Corporation Tax: intra-group transfers	Tax	+15	+30	+30	+20	+15	+15
30 Indirect tax: overseas insurance	Tax	0	+5	+5	+5	+5	+5
Evasion and compliance							
31 Large Business: enhanced compliance	Tax	0	+40	+170	+340	+480	+625
32 Specialist Personal Tax: enhanced compliance	Tax	0	+5	+40	+110	+195	+280
33 Wealthy: enhanced compliance	Tax	0	-65	+40	+185	+260	+280
34 Tackling illicit tobacco and alcohol	Tax	0	+15	+115	+285	+430	+450
35 Hidden economy	Tax	0	+15	+110	+195	+255	+285
36 Local compliance	Tax	0	+15	+135	+360	+640	+920
Welfare							
37 Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17	Spend	0	+90	+940	+2,325	+3,885	+4,010
38 Benefit cap: reduce to £20,000, and £23,000 in London	Spend	0	+100	+310	+360	+405	+495
Tax credits and Universal Credit							
39 Limit child element to 2 children for new births in tax credits and new claims in UC	Spend	0	0	+315	+700	+1,055	+1,365
40 Remove family element in tax credits and UC, and the family premium in Housing Benefit, for new claims	Spend	0	+55	+220	+410	+555	+675
41 Increase tax credits taper rate to 48%	Spend	0	+1,475	+1,035	+600	+345	+245
42 Reduce income thresholds in tax credits and work allowances in UC	Spend	0	+2,880	+3,060	+3,180	+3,310	+3,440
43 Reduce income rise disregard in tax credits	Spend	0	+170	+225	+250	+180	+110
44 UC waiting days: revised schedule	Spend	-5	0	0	0	0	0
Housing Benefit							
45 End automatic entitlement for out-of-work 18-21 year olds	Spend	0	0	+25	+35	+35	+40
46 Reduce social sector rents by 1% each year for 4 years from 2016-17	Spend	0	+165	+475	+875	+1,320	+1,445

	Head	£ million					
		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
47 Pay to stay: higher income social housing tenants to pay market rents	Spend	0	0	+365	+185	+245	+240
48 Limit backdating awards to 4 weeks	Spend	0	+10	0	*	*	*
49 Support for Mortgage Interest: change from welfare payment to loan; maintain capital limit at £200,000	Spend	0	-30	-35	+270	+255	+255
Employment and Support Allowance							
50 Align Work-Related Activity Group rate with JSA for new claims	Spend	0	0	+55	+225	+445	+640
Other							
51 UC parent conditionality from when youngest child turns 3	Spend	0	0	-5	-5	+35	+30
52 Fraud, error and debt: tax credits changes	Spend	+60	+55	+30	*	*	*
Changes to spending							
53 In-year savings[2]	Spend	+2,595	0	0	0	0	0
54 HMRC funding	Spend	-60	-225	-270	-270	-265	-255
55 Discretionary Housing Payments	Spend	0	-150	-185	-170	-155	-140
56 Other welfare funding – including Youth Obligation and extra JCP support	Spend	-10	-100	-205	-285	-300	-325
57 TV Licence: BBC funding for over-75s	Spend	0	0	0	+200	+445	+745
58 Efficiency and reform	Spend	-55	0	0	0	0	0
59 Equitable Life: doubling payments to Pension Credit recipients	Spend	-50	0	0	0	0	0
60 Royal Mail share scheme	Spend	-50	0	0	0	0	0
TOTAL POLICY DECISIONS		**+3,570**	**+9,075**	**+11,035**	**+15,095**	**+17,065**	**+18,885**
Total spending policy decisions		+2,590	+5,095	+5,945	+8,270	+11,280	+12,415
Total tax policy decisions		+980	+3,980	+5,090	+6,825	+5,785	+6,470
Total welfare policy decisions		*+55*	*+4,970*	*+7,015*	*+9,410*	*+12,070*	*+12,990*
Total receipts from avoidance and tax planning, evasion and compliance, and imbalances in the tax system		*+560*	*+1,320*	*+2,425*	*+4,080*	*+4,965*	*+5,760*

* *Negligible*

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

[2] *This measure forms part of the £3 billion departmental savings identified in 2015-16. See also the financial transactions table later in this chapter.*

Public spending

Welfare cap

2.6 The welfare cap is set for the Parliament at the level of the OBR's forecast for welfare spending. The cap covers welfare spending excluding the state pension and automatic stabilisers. The forecast margin will be 2% of the cap in each year that the cap applies.

The spending envelope and Spending Review

2.7 Table 2.2 sets out the path for Total Managed Expenditure (TME), Public Sector Current Expenditure (PSCE) and Public Sector Gross Investment (PSGI) to 2020-21. It shows the change in TME between March Budget 2015 and Summer Budget 2015.

2.8 The Spending Review, which will conclude in the autumn, will determine the precise levels of DEL and AME, including the allocation of DEL between departments.

2.9 The government will continue to prioritise capital investment over the medium to longer term. Within TME the government's current assumption is that PSGI will be constant in real terms in 2016-17 and 2017-18 and will grow in line with GDP from 2018-19. The government will set out detailed plans for capital at the Spending Review.

Table 2.2: Total Managed Expenditure[1]

	£ billion					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
CURRENT EXPENDITURE						
Resource AME	337.9	344.3	358.6	371.8	384.2	395.2
Resource DEL, excluding depreciation	315.1					
Ring-fenced depreciation	22.3					
Implied Resource DEL, including depreciation[2]		*341.4*	*339.7*	*339.7*	*344.3*	*369.6*
Public Sector Current Expenditure	**675.2**	**685.7**	**698.4**	**711.4**	**728.5**	**764.8**
CAPITAL EXPENDITURE						
Capital AME	24.7	26.0	26.3	24.3	25.1	26.8
Capital DEL	42.4					
Implied Capital DEL[2]		*42.6*	*43.3*	*48.5*	*50.9*	*52.8*
Public Sector Gross Investment[3]	**67.1**	**68.6**	**69.6**	**72.9**	**75.9**	**79.7**
TOTAL MANAGED EXPENDITURE	**742.3**	**754.3**	**768.0**	**784.3**	**804.4**	**844.5**
Total Managed Expenditure (% GDP)	*39.6%*	*38.7%*	*37.8%*	*37.0%*	*36.3%*	*36.3%*
Change to Total Managed Expenditure since March Budget 2015	*-0.3*	*+14.0*	*+24.1*	*+25.1*	*+7.1*	–

[1] Budgeting totals are shown including the Office for Budget Responsibility's forecast Allowance for Shortfall. Resource DEL excluding ring-fenced depreciation is the Treasury's primary control within resource budgets and is the basis on which departmental Spending Review settlements are agreed. The OBR publishes Public Sector Current Expenditure (PSCE) in DEL and AME, and Public Sector Gross Investment (PSGI) in DEL and AME. A reconciliation is published by the OBR.

[2] Decisions relating to future composition of Total Managed Expenditure, including the precise split between PSCE, PSGI, DEL and AME will be set out at the Spending Review.

[3] Within TME, the government's current assumption is that PSGI will be constant in real terms in 2016-17 and 2017-18 and will grow in line with GDP from 2018-19. This PSGI growth rule is applied to a 2015-16 baseline which includes the OBR's forecast Allowance for Shortfall and excludes the effect of all policy measures announced at Autumn Statement 2013, Budget 2014, Autumn Statement 2014 and March Budget 2015. Following the application of the PSGI growth rule, PSGI has from 2016-17 onwards been adjusted to take account of the same measure as at Autumn Statement 2014 and those scored at this Budget. The government will set out detailed plans for capital at the Spending Review.

Department Expenditure Limits

2.10 The government has already identified a further £3 billion of savings in 2015-16, as announced on 4 June 2015. The savings have been achieved through further efficiency savings, tighter control of budgets to drive underspends in-year, and through asset sales. £2.6 billion of the savings are in DEL. In addition, the government has brought forward the sale of land around Kings Cross, worth £0.4 billion, recorded in the financial transactions table. (53)

2.11 Table 2.3 shows DEL as announced at Spending Round 2013, and subsequently adjusted for measures at fiscal events including policy decisions contained in this Budget.

Financial transactions and contingent liabilities

2.12 A number of policy measures announced in the Budget do not directly affect public sector net borrowing (PSNB) in the same way as conventional spending or taxation. This includes financial transactions that only affect the central government net cash requirement (CGNCR) and public sector net debt (PSND), and transactions likely to be recorded as contingent liabilities. Table 2.4 shows the effect of financial transactions on CGNCR.

Table 2.4: Financial transactions: impact on central government net cash requirement[1]

	£ million					
Financial transactions	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
i Sale of shares in Royal Mail	+1,455	0	0	0	0	0
ii Sale of shares in The Royal Bank of Scotland	+2,000	+5,800	+5,800	+5,800	+5,800	0
iii Higher education: additional maintenance loans for students	0	–620	–1,535	–2,335	–2,805	–3,050
iv Contribution to the Asian Infrastructure Investment Bank[2]	–80	–80	–80	–80	–80	0
v Support for Mortgage Interest	0	0	0	–270	–235	–215
vi Sale of land around Kings Cross[3]	+360	0	0	0	0	0
TOTAL POLICY DECISIONS	**+3,735**	**+5,100**	**+4,185**	**+3,115**	**+2,680**	**–3,265**

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

[2] *Contribution will be made in USD and therefore the amount in GBP will be subject to exchange rate fluctuations.*

[3] *This transaction forms part of the £3 billion departmental savings identified in 2015-16 – see also table 2.1. It relates to the sale of shares held by the Department for Transport in property around Kings Cross, valued in the department's 2013-14 accounts at £345 million. The OBR has forecast receipts from this sale in the region of £360 million, taking into account wider market information. The Department for Transport will publish further details on the sale, which will be a full commercial process, in due course.*

Asset sales

2.13 Moving the Green Investment Bank into the private sector – The government will explore options to move the Green Investment Bank into the private sector, subject to achieving value for money. The proceeds of the sale will be used to reduce debt.

2.14 Disposal of Royal Mail shares – The government intends to complete the sale of its remaining 14% shareholding in Royal Mail by the end of 2015-16, subject to achieving value for money. As previously announced, the final 1% of the total value of the company will be gifted to employees. (60)

2.15 Financial asset sales – Over the course of this Parliament, the government will dispose of at least three-quarters of its stake in RBS, beginning with a sale in the coming months. Sales of Lloyds shares and UKAR assets are ongoing.

2.16 Wider corporate and financial asset sales – The government intends to complete a number of other non-financial sector asset sales by the end of 2015-16, subject to achieving value for money. These include the government's shareholding in the Kings Cross property development, valued at £345 million in the Department for Transport's accounts, and the

Table 2.3: Departmental Expenditure Limits

	£ billion
	Plans 2015-16
Departmental Programme and Administration Budgets (Resource DEL excluding depreciation[1])	
Education	53.5
NHS (Health)[2]	111.9
Transport	2.3
CLG Communities	2.5
CLG Local Government	10.6
Business, Innovation and Skills	13.1
Home Office	10.2
Justice	6.3
Law Officers' Departments	0.5
Defence[3]	28.1
Foreign and Commonwealth Office	1.8
International Development	7.4
Energy and Climate Change	1.4
Environment, Food and Rural Affairs	1.6
Culture, Media and Sport	1.1
Work and Pensions	6.3
Scotland[4]	25.5
Wales[5]	12.9
Northern Ireland	9.6
Chancellor's Departments	3.5
Cabinet Office	2.5
Small and Independent Bodies	1.6
Reserve	2.0
Special Reserve	0.2
Adjustment for Budget Exchange[6]	-0.5
Total Resource DEL excluding depreciation plans	**316.1**
OBR allowance for shortfall	*-1.0*
OBR Resource DEL excluding depreciation forecast	***315.1***
Capital DEL	
Education	4.7
NHS (Health)[2]	4.6
Transport	6.1
CLG Communities	5.3
CLG Local Government	0.0
Business, Innovation and Skills	3.8
Home Office	0.4
Justice	0.3
Law Officers' Departments	0.0
Defence[3]	6.8
Foreign and Commonwealth Office	0.1
International Development	2.6
Energy and Climate Change	2.5
Environment, Food and Rural Affairs	0.5
Culture, Media and Sport	0.4
Work and Pensions	0.2
Scotland	3.1
Wales	1.5
Northern Ireland	1.1
Chancellor's Departments[7]	0.3
Cabinet Office	0.4
Small and Independent Bodies	0.1
Reserve	0.9
Special Reserve	0.1
Adjustment for Budget Exchange[6]	-1.6
Total Capital DEL plans	**44.4**
OBR allowance for shortfall	*-2.0*
OBR Capital DEL forecast	***42.4***

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

[2] The health budget is projected to grow in real terms in 2015-16.

[3] The defence budget for 2015-16 reflects the likely initial drawdown of funding from the Special Reserve for the net additional cost of military operations at Main Estimates.

[4] The Scottish block grant has been adjusted to reflect the devolution of SDLT and Landfill tax with effect from 1st April 2015.

[5] Welsh business rates score as AME rather than DEL from 2015-16.

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

[7] The Chancellor's Departments budget shown here does not include receipts from the sale of Eurostar. This is included in the HM Treasury Main Estimate. This treatment has no effect on the forecasts.

first tranche of the pre-Browne Income Contingent Student Loan Book (central estimate of £12 billion for total proceeds from tranches to be sold up to 2020). Progress continues towards the sale of the government's 33% shareholding in Urenco.

Public sector reform and efficiency

2.17 Digital transformation – The government will provide seed funding to the Cabinet Office to work with departments in generating a series of innovative business cases to inform the Spending Review. The government's aim is to deliver redesigned, user-friendly public services, fit for the digital age as well as delivering efficiencies across the public sector. (58)

2.18 Commercial land and property reforms – The government will recruit a shadow chair to lead the development and implementation of a new commercially-driven approach to land and property asset management across the central government estate, with this Budget providing funding for the delivery of this transformation programme. (58)

2.19 Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.

2.20 Public sector pay – The government will fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards.

Health

2.21 NHS funding – The government will back the NHS Five Year Forward View and increase NHS funding by £10 billon per annum, above inflation, by 2020-21. This is a real terms funding increase of £8 billon, in addition to the £2 billon for 2015-16 announced at Autumn Statement 2014. The NHS will receive £2 billon more than it asked for in its 5 year plan to fund the government's objectives, including to make the NHS a 7 day service. The NHS will receive staged funding increases in every year of the Parliament. The specific level of funding for each year will be determined in the Spending Review.

Defence and security

2.22 Defence spending – The Ministry of Defence budget will rise at 0.5% per year in real terms to 2020-21.

2.23 Defence and intelligence spending – The government commits to make available up to an additional £1.5 billion a year by the end of the Parliament to increase spending on the military and intelligence agencies by an average of 1% a year in real terms.

2.24 Meeting the NATO 2% pledge – The government commits to meeting the properly measured NATO pledge to spend 2% of national income on defence every year of this decade.

2.25 Counter terrorism spending – The government commits to protect in real terms counter terrorism spending of more than £2 billion across government.

Devolution and local growth

2.26 Local Authority assets – At Autumn Statement 2014 the government committed to expanding the One Public Estate programme to local authorities in England with a significant asset base. This Budget commits a further £6 million to continue to deliver progress and ensure local government rationalises its estate to contribute to growth and ensure efficient use of public assets.

2.27 Social impact bonds – The government intends to expand its support for social impact bonds at the Spending Review and will consult with experts to identify suitable options.

2.28 Sunday trading – The government will consult on devolving powers on Sunday trading to city mayors and Local Authorities. This will look at allowing mayors or councils to extend Sunday trading for additional hours within parameters that they would determine.

2.29 Enterprise Zones – The government will hold a bidding round for a new programme of Enterprise Zones for this Parliament.

2.30 Coastal Communities Fund – The government will extend the Coastal Communities Fund by at least £90 million until 2020-21. Subject to confirmation of detailed funding arrangements at the 2015 Spending Review.

Securing a truly national recovery

2.31 Regional transport measures – The government is making a range of interventions to support the rebalancing of the economy across the UK:

- A120 dualling: Highways England and Essex County Council will work together to study the options for dualling the A120 between Braintree and Marks Tey
- Brighton Main Line: The government will extend the scope of the Lewes-Uckfield study to look at improving rail links between London and the south coast, including upgrades to existing routes, consideration of the Brighton Main Line corridor, and re-examination of the DfT's feasibility study on BML2
- HS1 to Hastings: The rail industry has been asked to explore options for extending HS1 services to Hastings and Rye in the forthcoming Kent Route Study, for presentation to Ministers in 2016
- North Devon Link Road and A391 upgrade: £3 million will be provided to support local councils in developing business cases for the North Devon Link Road and the A391
- Mersey Tolls: The government is looking at extending Mersey Gateway bridge toll discounts to residents of Chester West & Chester and Warrington, with final decisions to be made early next year. In addition, the government will work with relevant local partners carrying out a review of the tolls on the Mersey Tunnels
- New Stations Fund: The government will run a further round of the New Stations Fund with up to £20 million in total available for projects, and consider proposals including any put forward for a new station between Castle Cary and Taunton. The extended round of the New Stations Fund will also be used to support a local bid for stations on the Robin Hood Line to Edwinstowe and Ollerton, subject to a business case.

2.32 Funding for local transport projects – The government will commit to £17.8 million of funding to local transport projects:

- £2 million to the Treluswell Junction Improvement in Cornwall, with the potential to realise the delivery of approximately 400 homes
- £1.5 million for improvements to the A4123 Birmingham New Road/Shaw Road Junction in Wolverhampton, to help unlock the development of housing on 6 sites
- £5.5 million for maintenance and upgrade of the Swanswell viaduct
- £3 million for Tameside Metropolitan Borough Council to make structural improvements to walls around local roads
- £5.8 million for the A666 Highways Maintenance Scheme in Bolton

2.33 Centre for Agricultural Informatics and Sustainability Metrics – Further to the £11.8 million of government support provided at March Budget 2015, the Centre for Agricultural Informatics and Sustainability Metrics has been established as a legal entity and is due to open for business later this month.

2.34 Regional re-balancing: National Colleges – The government has committed to the establishment of a network of National Colleges to provide specialist high-level training in sectors that are critical to economic growth.

2.35 Regional re-balancing: employment advisor support for 14-17 year olds in Birmingham – The government is creating a new Jobcentre Plus employment advisor role, working with schools and sixth-form colleges to help build young people's understanding of the local labour market, the skills local employers are looking for, and routes into work. This new service will start in Birmingham, before expanding to the wider Greater Birmingham and Solihull area and then beyond.

2.36 Regional re-balancing: supporting delivery of Working Well – The Department for Work and Pensions (DWP) will work with Greater Manchester to support the delivery of the current working well programme and central government will explore with Greater Manchester the scope to incorporate greater local flexibility in employment programmes.

Northern Powerhouse

2.37 Further devolution to Greater Manchester – Greater Manchester will receive further powers including over fire, planning, and a new Land Commission.

2.38 Devolution to cities – The government is working towards further devolution deals with the Sheffield City Region, Liverpool City Region, and Leeds, West Yorkshire and partner authorities, to be agreed in parallel to the Spending Review. If agreement is reached, including on an elected mayor working with local leaders to oversee new powers devolved from ministers, these city regions will be granted significant additional powers and the opportunity to take control of their own affairs to support economic growth.

2.39 A1(M) – The government will examine the case for renaming the A1(M) North of Leeds as the M1.

2.40 Strengthening Transport for the North (TfN) – The government is committed to transforming transport in the North as part of building a Northern Powerhouse, by:

- establishing TfN as a statutory body with statutory duties, underpinned by £30 million of additional funding over 3 years
- appointing an interim Chief Executive and executive team for TfN by the autumn and a Chair by the end of the year, to accelerate TfN's work programme
- working with TfN to advance the introduction of Oyster-style smart and integrated ticketing across bus, tram, metro and rail services throughout the region, making this one of the top priorities for TfN's newly accelerated work programme
- working with TfN to push forward plans to transform east-west rail and road connections via TransNorth and options for a new TransPennine Tunnel, with a prioritised list of scheme options to be produced by Budget 2016, and an interim report in time for the Spending Review later in 2015. (15)

Midlands

2.41 Midlands Connect – The government is providing £5 million of funding to Midlands Connect to help develop their transport strategy for the Midlands. (15)

2.42 Regional re-balancing: Midlands LTEP skills update – The government has committed to work with the Midlands Local Enterprise Partnerships (LEPs) to support a regional approach to skills as set out in the Long Term Economic Plan (LTEP) for the Midlands. A delivery plan will be set out in autumn 2015.

South West

2.43 Broadband for the South West – The government will allocate up to £10 million to the broadband programme in the South West, commencing April 2016. This fund will be available for local projects to bid into, with priority given to those delivering ultrafast speeds of 100mbps and above.

Housing

2.44 Social rents – The government will reduce rents paid by tenants in social housing in England by 1% a year for 4 years from 2016. (46)

2.45 Pay to Stay – The government will require high income social tenants to be charged a market or near market rent, with the additional rental income raised by Local Authorities to be returned to the Exchequer. The government will consult on how this is implemented. (47)

2.46 Lifetime tenancies – The government will review the use of lifetime tenancies in social housing to limit their use and ensure that households are offered tenancies that match their needs and make best use of the social housing stock.

Other spending measures

2.47 The use of banking fines – The government has committed nearly £70 million of banking fines over the next 5 years to support military charities and other good causes, including:

- Defence Medical Welfare Services £0.5 million – the provision of welfare services such as magazines to members of the Armed Forces who are in hospital
- Royal Commonwealth Ex-Services League £5 million – to help ex-Service men and women from the Commonwealth who have served The Crown and are now in need
- Victoria Cross and George Cross Association £3 million – to increase the annuity for VC and GC holders and to support the 75th Anniversary of the Association
- Victims of Terrorism Memorial £1 million – to commemorate the UK victims of terrorism overseas through the construction of a new memorial
- Cadet Expansion Programme (CEP) £50 million – to increase the number of Cadet Units in state schools to 500 by 2020
- Children's Air Ambulance £2 million – to increase the service to 2 helicopters by the end of 2016 to enable the Children's Air Ambulance to extend this free of charge service
- Ludlow Museum £0.25 million – to facilitate the publication online of the unique and historically important geological collections held in Ludlow
- regeneration of the National Memorial Arboretum £2 million – to protect the long term future of the Memorial and to preserve it for the next generation
- Team Rubicon £2.5 million – to establish in the UK an organisation that uses ex-military personnel to support immediate disaster relief effort overseas
- Clock Tower Foundation £3 million – to provide a bespoke rehabilitation centre to support the Special Forces

- Battle of Britain Bunker £1 million – to renovate and maintain the Battle of Britain Operations Room at RAF Uxbridge which coordinated the air defence of London and the South of England in WWII.

2.48 Adoption reform – £30 million to further speed up adoption for the 3,000 children awaiting adoption, whilst paving the way for regional adoption agencies. (8)

2.49 Asian Infrastructure Investment Bank (AIIB) – The government will make a capital contribution of $3.1 billion (£2 billion) to the AIIB. 20% of this contribution will be paid in capital, made in 5 equal annual instalments of $122 million (£80 million), with the first due in 2015-16; the remaining 80% of the contribution will be in the form of callable capital. The government will seek approval from Parliament for this contribution under Section 11 of the International Development Act.

2.50 Support for victims of domestic abuse – The government will set up a £3 million fund to encourage innovative approaches including refuge provision to help those suffering from domestic abuse. Ahead of the Spending Review, the government will draw together evidence from frontline professionals to review how services for victims of violence against women and girls are funded and delivered and feed into a refreshed Violence Against Women and Girls strategy in the autumn.

2.51 Cremation facilities – The government will conduct a review into the size and provision of crematoria facilities to make sure they are fit for purpose and sensitive to the needs of all users and faiths. The government will also review cremation legislation and coroner services.

2.52 BBC licence fee – The BBC has agreed to take on responsibility for funding the over-75s licence fee concession. This will be phased in from 2018-19, with the full liability being met by the BBC from 2020-21. (57)

Tax lock

2.53 Tax lock – The government will legislate to set a ceiling for the main rates of income tax, the standard and reduced rates of VAT, and employer and employee (Class 1) NICs rates, ensuring that they cannot rise above their current (2015-16) levels. The tax lock will also ensure that the NICs Upper Earnings Limit cannot rise above the income tax higher rate threshold; and will prevent the relevant statutory provisions being used to remove any items from the zero rate of VAT and reduced rate of VAT for the duration of this Parliament. (Summer Finance Bill 2015)

Personal tax and welfare

Income tax and National Insurance contributions

2.54 Personal allowance increase – The government will increase the income tax personal allowance from £10,600 in 2015-16 to £11,000 in 2016-17. It will increase to £11,200 from 2017-18. (Summer Finance Bill 2015) (1)

2.55 Personal allowance indexation change – The government will legislate to ensure that once the personal allowance reaches £12,500 it will be uprated in line with the National Minimum Wage (NMW), ensuring that anyone on the NMW working 30 hours per week or less, does not pay income tax. Until then, the government will also have a legal duty to consider the impact of the level of the personal allowance on an individual working 30 hours a week on the NMW and to report on this at each fiscal event. To underpin this, the government has also announced a review of the NMW timetable to align it with the tax year. (Summer Finance Bill 2015)

2.56 Higher rate threshold increase – The government will increase the higher rate threshold from £42,385 in 2015-16 to £43,000 in 2016-17 and to £43,600 in 2017-18. The NICs Upper Earnings Limit will also increase to remain aligned with the higher rate threshold. (Summer Finance Bill 2015) (2)

2.57 Dividend taxation – The government will abolish the Dividend Tax Credit from April 2016 and introduce a new Dividend Tax Allowance of £5,000 a year. The new rates of tax on dividend income above the allowance will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. (Finance Bill 2016) (16) (26)

2.58 Reform of the Wear and Tear Allowance – From April 2016, the government will replace the Wear and Tear Allowance with a new relief that allows all residential landlords to deduct the actual costs of replacing furnishings. Capital allowances will continue to apply for landlords of furnished holiday lets. The government will publish a technical consultation before the summer. (Finance Bill 2016) (18)

2.59 Restricting finance cost relief for landlords – The government will restrict the relief on finance costs that individual landlords of residential property can get to the basic rate of tax. The restriction will be phased in over 4 years, starting from April 2017. (Summer Finance Bill 2015) (17)

2.60 Increasing the level of the Rent-a-Room relief – The government will increase the level of Rent-a-Room relief from £4,250 to £7,500 from April 2016. (5)

2.61 Increasing the employer National Insurance contributions Employment Allowance by £1,000 – The government will increase the annual Employment Allowance from £2,000 to £3,000. This will come into effect from April 2016. (13)

2.62 National Insurance contributions Employment Allowance – From April 2016, companies where the director is the sole employee will no longer be able to claim the Employment Allowance. (25)

2.63 Abolishing non-domicile status for long domicile residents – The government will legislate so that from April 2017 anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed to be domiciled in the UK for tax purposes. A detailed note explaining these proposals has been published alongside the Summer Budget. A technical consultation will be published later in the year. (Finance Bill 2016) (21)

2.64 Eligibility of non-domicile status for UK born individuals – From April 2017, individuals who are born in the UK to parents who are domiciled here, will no longer be able to claim non-domicile status whilst they are resident in the UK. (Finance Bill 2016) (21)

2.65 Minimum claim period for the remittance basis charge – Following the consultation announced at Autumn Statement 2014, and as a result of wider reforms to the taxation on non-UK domiciled individuals, the government will not introduce a minimum claim period for the remittance basis charge.

2.66 Employment taxes and salary sacrifice – The government will actively monitor the growth of salary sacrifice schemes that reduce employment taxes and their effect on tax receipts.

2.67 Extending averaging for farmers – As announced at March Budget 2015, the averaging period for farmers will be extended from 2 years to 5 years as of April 2016. The government will publish a consultation on the detail of the extension. (Finance Bill 2016)

2.68 Taxation of sporting testimonials – Following a call for evidence on extra statutory concessions in 2014, the government will consult on proposals for reforming the rules on the tax treatment of payments made from sporting testimonials. The consultation will conclude ahead of Autumn Statement 2015.

2.69 Income tax exemption for non-residents participating in the 2015 Anniversary Games – The government will exempt from income tax non-residents participating in the 2015 Anniversary Games taking place between 24 and 26 July 2015. (Summer Finance Bill 2015)

2.70 Taxation of councillors' travel expenses – As announced at Autumn Statement 2014, the government will exempt from income tax travel expenses paid to councillors by their local authority. The exemption will be limited to the Approved Mileage Allowance Payment (AMAP) rates where it applies to mileage payments. This change will take effect from 6 April 2016. (Summer Finance Bill 2015)

2.71 Venture capital schemes: changes to scheme rules – The government will, subject to state aid approval, and with effect from Royal Assent to the Summer Finance Bill 2015:

- require that all investments are made with the intention to grow and develop a business
- require that all investors are 'independent' from the company at the time of the first share issue
- introduce new qualifying criteria to limit relief to investment in companies that meet certain conditions demonstrating that they are 'knowledge intensive' companies within 10 years of their first commercial sale, and other qualifying companies within 7 years of their first commercial sale; this will not apply where the investment represents more than 50% of turnover averaged over the preceding 5 years
- introduce a cap on the total investment a company may receive through the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) of £20 million for knowledge intensive companies, and £12 million for other qualifying companies
- increase the employee limit for knowledge intensive companies to 500 employees
- introduce new rules to prevent EIS and VCT funds being used to acquire existing businesses, including extending the prohibition on management buyouts and share acquisitions to VCT non-qualifying holdings and VCT funds raised pre-2012, and preventing money raised through EIS and VCT from being used to make acquisitions of existing business regardless of whether it is through share purchase or asset purchase. (Summer Finance Bill 2015)

2.72 Venture capital schemes: changes to scheme rules – The government will remove the requirement that 70% of Seed Enterprise Investment Scheme (SEIS) money must be spent before EIS or VCT funding can be raised for qualifying investments made on or after 6 April 2015. (Summer Finance Bill 2015)

2.73 Venture capital schemes: renewable energy – The government will continue to monitor the use of the SEIS, EIS and VCT for investments in community energy organisations benefiting from subsidies for the generation of renewable energy to ensure that support for community energy through the venture capital schemes provides good value for money for the taxpayer and is not subject to misuse.

2.74 Bad debt relief for peer to peer (P2P) industry – As announced at Autumn Statement 2014, the government will allow tax relief on bad debts incurred on P2P loans against other P2P income from April 2015. A technical note was published at March Budget 2015. Draft legislation will be published later this year. (Finance Bill 2016)

2.75 Peer to peer withholding tax – At Autumn Statement 2014 the government announced that new rules on how withholding tax applied on P2P loans would take effect from April 2017. The government will consult on the proposals over summer 2015. (Finance Bill 2016)

Savings and pensions

2.76 Personal savings allowance – As announced at March Budget 2015, the government will introduce an allowance from 6 April 2016 to remove tax on up to £1,000 of savings income for basic rate taxpayers and up to £500 for higher rate taxpayers. Additional rate taxpayers will not receive an allowance. Automatic deduction of 20% income tax by banks and building societies on non-ISA savings will cease from the same date and the government will shortly publish a public consultation on whether changes are required to the deduction arrangements in place for other savings income. (Finance Bill 2016)

2.77 Extending ISA eligibility – The government will introduce the Innovative Finance ISA, for loans arranged via a P2P platform, from 6 April 2016 and has today published a public consultation on whether to extend the list of ISA eligible investments to include debt securities and equity offered via a crowd funding platform.

2.78 Making ISAs more flexible – March Budget 2015 announced that the government will change the ISA rules in the autumn to allow individuals to withdraw and replace money from their cash ISA in-year without this replacement counting towards their annual ISA subscription limit. This policy will also cover cash held in stocks and shares ISAs. These changes will commence from 6 April 2016.

2.79 Taxation of pensions at death – As announced at Autumn Statement 2014, the government will reduce the 45% tax rate that applies on lump sums paid from the pension of someone who dies aged 75 and over to the marginal rate of the recipient from 2016-17. (Summer Finance Bill 2015)

2.80 Unfunded employer financed retirement benefit schemes (EFRBS) – The government will consult on tackling the use of unfunded EFRBS to obtain a tax advantage in relation to remuneration.

2.81 Secondary market for annuities – Following consultation, the government has decided to delay implementation of this measure until 2017, in order to ensure there is a robust package to support consumers in making their decision. It will set out further plans for introducing this measure in the autumn. (Finance Bill 2016)

2.82 Lifetime Allowance for pension contributions – The government will reduce the Lifetime Allowance for pension contributions from £1.25 million to £1 million from 6 April 2016. Transitional protection for pension rights already over £1 million will be introduced alongside this reduction to ensure the change is not retrospective. The Lifetime Allowance will be indexed annually in line with CPI from 6 April 2018. (Finance Bill 2016)

2.83 Pensions: reduced Annual Allowance for top earners – The government will restrict the benefits of pensions tax relief for those with incomes, including pension contributions, above £150,000 by tapering away their Annual Allowance to a minimum of £10,000. This policy will come into effect from April 2016. (Summer Finance Bill 2015) (4)

2.84 Pensions tax relief – The government will consult on whether and how to undertake a wider reform of pensions tax relief.

2.85 Pensions Wise – The government is extending access to the successful Pension Wise service to those aged 50 and above, and launching a new comprehensive nationwide marketing campaign. This will ensure more people can access high-quality, impartial guidance on making the most of the new pension flexibilities.

2.86 Closure of the Equitable Life Payment Scheme – The Equitable Life Payment Scheme will close to new claims on 31 December 2015. As part of this, the government will undertake a further effort to trace remaining policy holders due £50 or more.

2.87 Further payments under the Equitable Life Payment Scheme – The government will make a further payment to Equitable Life policyholders on Pension Credit who received 22.4% of their relative loss. This payment will be for an additional 22.4% and will be made in early 2016. (59)

Inheritance tax

2.88 Inheritance tax and the main residence nil-rate band – The government will introduce an additional nil-rate band when a residence is passed on death to direct descendants. This will be £100,000 in 2017-18, £125,000 in 2018-19, £150,000 in 2019-20, and £175,000 in 2020-21. It will then increase in line with CPI from 2021-22 onwards. Any unused nil-rate band will be transferred to a surviving spouse or civil partner. It will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants. This element will be the subject of a technical consultation. There will also be a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold. (Summer Finance Bill 2015, Finance Bill 2016) (3)

2.89 Inheritance tax and the nil-rate band – The inheritance tax nil-rate band is currently frozen at £325,000 until April 2018. The government will continue to freeze the nil-rate band at £325,000 until April 2021. (Summer Finance Bill 2015) (3)

2.90 Inheritance tax on UK residential property of non-domiciles, including non-domiciles who are not UK resident – The government will legislate to ensure that, from April 2017, inheritance tax is payable on all UK residential property owned by non-domiciles, regardless of their residence status for tax purposes, including property held indirectly through an offshore structure. A more detailed note setting out the scope of this proposals has been published alongside the Summer Budget. A full detailed consultation will follow later this year. (Finance Bill 2017) (22)

2.91 Inheritance tax and non-domiciles – The government will bring forward the point at which an individual who is classed as a non-domicile is deemed domiciled for inheritance tax purposes to 15 out of 20 years. It will also treat individuals who were born in the UK to parents who are domiciled here, as UK domiciled whilst they are in the UK. This aligns inheritance with the changes to the income tax and capital gains tax regime. This will take effect from April 2017. (Finance Bill 2016) (21)

2.92 Inheritance tax changes to support the new digital service – As announced at Autumn Statement 2014, the government will make minor changes to legislation dealing with interest to support the introduction of the new inheritance tax digital service announced in Autumn Statement 2013. (Summer Finance Bill 2015)

2.93 Inheritance tax and trusts – As announced at Autumn Statement 2014, the government will introduce new rules to target avoidance through the use of multiple trusts. It will also simplify the calculation of trust rules. (Summer Finance Bill 2015)

Welfare

2.94 National Living Wage – The government will introduce a new premium for those aged 25 and over starting at 50 pence leading to a new National Living Wage (NLW) of £7.20 in April 2016. The government's ambition is for the NLW to increase to 60% of median earnings by 2020, and it will ask the Low Pay Commission to recommend the premium rate in light of this ambition going forward. On OBR forecasts, this means the NLW is expected to reach the government's target of over £9 by 2020.

2.95 National Minimum Wage – The combined 50 pence premium with the 20 pence minimum wage increase on the current rate will benefit 1.7 million workers and means that a current NMW worker working 35 hours a week will see their annual salary increase by over £1,200 from April 2016.

2.96 National Minimum Wage – The LPC will continue to recommend the NMW on the same basis.

2.97 National Minimum Wage and illegal working enforcement – The government will invest an additional £1 million in 2015-16 in NMW enforcement to tackle non-compliant employers and to help ensure that workers are aware of their obligations and rights.

2.98 Investment in analytical team for illegal working – The government will invest an additional £0.8 million in 2015-16 to create a data analysis resource in HMRC to tackle illegal working and enable closer joint working with other agencies.

2.99 Youth obligation – From April 2017, 18-21 year olds on Universal Credit will participate in an intensive period of support at the start of their benefit claim. After 6 months they will be expected to apply for an apprenticeship, traineeship, gain work place skills or go on a work placement.

2.100 Tax credit debt recovery – The government will make the tax credits system fairer, by improving the powers it has to recover tax credit debts, including by:

- making the recovery of tax credits debt more efficient; HMRC will recover overpayments of Working Tax Credit from payments of Child Tax Credit, and recover overpayments of Child Tax Credit from payments of Working Tax Credit
- expanding the enforcement of tax credits debt. HMRC will extend the use of the private sector to improve the collection of tax credit debt; this will target tax credit debt in excess of £3,000 that has already passed the Extending Tax Credits debt collection process (52)

2.101 Changes to taper rates in tax credits – From April 2016 the taper rate in tax credits will be increased from 41% to 48% of gross income. Once claimants earn above the income threshold in tax credits, their award will be withdrawn at a rate of 48 pence for every extra pound earned. (41)

2.102 Changes to tax credits income thresholds and Universal Credit work allowances – From April 2016 the income threshold in tax credits will be reduced from £6,420 to £3,850 per year. Work allowances in Universal Credit will be abolished for non-disabled childless claimants, and reduced to £192 per month for those with housing costs and £397 per month for those without housing costs. Claimants earning below these amounts will retain their maximum award. (42)

2.103 Limit Child Element in tax credits and Universal Credit – The Child Element of tax credits and Universal Credit will no longer be awarded for third and subsequent children born after 6 April 2017. This will also apply to families claiming Universal Credit for the first time after April 2017. Households who have been in receipt of tax credits or Universal Credit, with an

interruption of less than 6 months, will be protected. Furthermore, children with disabilities will continue to receive the Disabled Child Element or Severely Disabled Child Element in tax credits and the equivalent in Universal Credit. Multiple births will be protected in both systems. The Department for Work and Pensions and HMRC will develop protections for women who have a third child as the result of rape, or other exceptional circumstances. Consequential changes will be made in Housing Benefit from April 2017. (39)

2.104 Income rise disregard in tax credits – From April 2016 the amount by which a claimant's income can increase in-year compared to their previous year's income before their award is adjusted (the income rise disregard) will be reduced from £5,000 to £2,500. (43)

2.105 Employment and Support Allowance – From April 2017 new claimants of Employment and Support Allowance who are placed in the Work-Related Activity Group will receive the same rate of benefit as those claiming Jobseeker's Allowance, alongside additional support to help them take steps back to work. (50)

2.106 Tax-free childcare – As announced on Wednesday 1 July, the government reaffirms its commitment to introducing Tax-Free Childcare to support working parents with the costs of childcare. Due to a legal challenge, Tax-Free Childcare will now be launched from early 2017. The government will hold the existing scheme, Employer Supported Childcare, open to new entrants until the new scheme is introduced. (7)

2.107 Removing the Family Element in tax credits, the first child premium in Universal Credit and the Family Premium in Housing Benefit – From April 2017, the Family Element in tax credits and the equivalent in Universal Credit will no longer be awarded when a first child is born. This will also apply for families with children making their first claim to Universal Credit. Households who have been in receipt of tax credits or Universal Credit with an interruption of less than 6 months will be protected. Furthermore, children with disabilities will continue to receive the Disabled Child Element or Severely Disabled Child Element in tax credits and the equivalent in Universal Credit. In Housing Benefit, the family premium will be removed for new claims and new births from April 2016. (40)

2.108 Extending parent conditionality – From April 2017 parents claiming Universal Credit, including lone parents, will be expected to prepare for work from when their youngest child turns 2, and to look for work when their youngest child turns 3, with support from Jobcentre Plus. (51)

2.109 Universal Credit waiting days updated delivery schedule – The government plans to implement 7 waiting days for Universal Credit in August 2015. (44)

2.110 Limiting backdating in Housing Benefit – From April 2016, Housing Benefit claims will be backdated for a maximum of 4 weeks. (48)

2.111 Restricting Housing Benefit entitlement for young people – From April 2017, those out of work aged 18 to 21 making new claims to Universal Credit will no longer be automatically entitled to the housing element. Parents whose children live with them, vulnerable groups, and those who were living independently and working continuously for the preceding 6 months will be exempt from this measure. (45)

2.112 Lowering the household benefit cap – The government will lower the household benefit cap, which caps the amount of benefits out-of-work working-age families can receive, to £20,000, except in Greater London where the cap will be £23,000. The current exemptions to the cap will continue to apply. (38)

2.113 Discretionary Housing Payments – The government has set out the level of Discretionary Housing Payment funding that will be made available to Local Authorities in future

years. Local Authorities will be able to use this funding to protect the most vulnerable and to support households to adjust to Housing Benefit reforms. (55)

2.114 Support for Mortgage Interest (SMI) – During the recession, the SMI scheme was temporarily set at a higher capital level with a shorter waiting period. Summer Budget 2015 announces that, from 1 April 2016, the SMI waiting period will return to the pre-recession length of 39 weeks, but the capital limit will be maintained at the higher level of £200,000. From April 2018, new SMI payments will be paid as a loan. Loans will be repaid upon sale of the house, or when claimants return to work. Payments will accrue interest at a rate tied to the OBR forecast of gilts. (49)

2.115 Benefits uprating – Most working-age benefits will be frozen for 4 years from April 2016. This will apply to Jobseekers' Allowance; Employment and Support Allowance; Income Support; Child Benefit; applicable amounts for Housing Benefit; and Local Housing Allowance rates, with provision for high rent areas. This excludes Maternity Allowance; Statutory Sick Pay; Statutory Maternity Pay; Statutory Paternity Pay; Statutory Shared Parental Pay; and Statutory Adoption Pay; disability, carers and pensioners' premia in the frozen benefits; the Employment and Support Allowance Support Group component; and other disability, carer and pensioner benefits, which will continue to be uprated in relation to prices or earnings as applicable. (37)

2.116 Tax credits uprating – The uprating freeze will extend to the Child Tax Credit and Working Tax Credit (excluding disability elements). All disability elements will continue to be uprated by prices each year. (37)

Corporate tax

2.117 Corporation tax rates – The government will reduce the corporation tax rate from 20% to 19% in 2017 and 18% in 2020. (Summer Finance Bill 2015) (9)

2.118 Corporation tax payment dates – The government will introduce new payment dates for companies with annual taxable profits of £20 million or more. Where a company is a member of a group, the £20 million threshold will be divided by the number of companies in the group. Affected companies will be required to pay corporation tax in quarterly instalments in the third, sixth, ninth and twelfth months of their accounting period. The measure will apply to accounting periods starting on or after 1 April 2017. The government will publish legislation in draft in the autumn. (12)

2.119 Corporation tax: orchestra tax relief – As announced at March Budget 2015, the government will provide tax relief to orchestras at a rate of 25% on qualifying expenditure from 1 April 2016. (Finance Bill 2016)

2.120 Capital allowances: Annual Investment Allowance (AIA) – The government will increase the permanent level of the AIA from £25,000 to £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016. (Summer Finance Bill 2015) (10)

2.121 Research and development (R&D) tax credits: universities and charities – The government will correct an anomaly in the R&D tax credits legislation so that universities and charities are unable to claim the R&D Expenditure Credit (RDEC), in line with the original intention of the policy. This will apply to expenditure from 1 August 2015. (Summer Finance Bill 2015)

2.122 Company distributions: consultation on rules – The government will consult on the rules for company distributions in autumn 2015.

2.123 Modernisation of the taxation of corporate debt and derivative contracts – The government will introduce legislation to modernise the corporation tax rules governing the

taxation of corporate debt 'loan relationships' and derivative contracts. The changes are wide ranging, and include: clarifying the relationship between tax and accounting; basing taxable loan relationship profits on accounting profit and loss entries; a new 'corporate rescue' rule to provide tax relief where loans are released or modified in cases of debtor companies in financial distress; and a new regime-wide anti-avoidance rules for both loan relationships and derivative contracts. The changes will generally take effect for accounting periods commencing on or after 1 January 2016. (Summer Finance Bill 2015)

2.124 Restriction of corporation tax relief for business goodwill amortisation – The government will restrict the corporation tax relief a company may obtain for the cost of 'goodwill' (the reputation and customer relationships associated with a business). This will affect all acquisitions and disposals on or after 8 July 2015. (Summer Finance Bill 2015) (24)

2.125 Business tax roadmap – The government will publish a Business tax roadmap by April 2016, setting out its plans for business taxes over the rest of the Parliament.

2.126 Bank corporation tax surcharge – The government will introduce a supplementary tax on banking sector profit of 8% from 1 January 2016. The tax will apply to banks' corporation tax profit before the use of any existing carried-forward losses. The tax will not apply to the first £25 million of profit within a group. (Summer Finance Bill 2015) (11)

2.127 Bank levy reform – The government will reduce the full bank levy rate from 0.21% to 0.18% in 2016, 0.17% in 2017, 0.16% in 2018, 0.15% in 2019, 0.14% in 2020 and 0.10% in 2021. The government will also legislate in this Parliament to change the tax base to UK operations from 1 January 2021. (Summer Finance Bill 2015) (11)

2.128 Bank levy double tax relief – In line with its policy on avoiding double impositions, the government will provide relief against the UK bank levy for payments made to the Eurozone Single Resolution Fund. Affected banks will be able to claim relief from 1 January 2016.

2.129 Tax treatment of banks' compensation payments – As announced at March Budget 2015, compensation expenses relating to banks' widespread misconduct and mis-selling will be made non-deductible for corporation tax purposes. The measure will apply to expenses incurred on or after 8 July 2015. (Summer Finance Bill 2015)

2.130 Banking tax definitions – The government will make a change to how banking companies are defined within the bank levy and bank loss-relief restriction legislation to ensure that this definition is aligned with regulatory standards and continues to deliver the stated policy objectives. (Summer Finance Bill 2015)

2.131 Loss-relief restriction allowance – The government will extend the £25 million allowance within the bank loss relief legislation to cover banks incorporated under the 1819 Savings Bank Act. The effect of this extension will be backdated to 1 April 2015. (Summer Finance Bill 2015)

Oil and gas taxes

2.132 UK Continental Shelf (UKCS) investment and cluster area allowances – The government will broaden the application of the basin-wide investment and cluster area allowances to support investment on the UKCS. The definition of investment expenditure will be extended to include certain discretionary non-capital spend and long term leasing of production units. The allowance exempts a portion of a company's profits from the Supplementary Charge. (14)

Indirect taxes

2.133 Insurance premium tax standard rate – From 1 November 2015, the standard rate of insurance premium tax (IPT) will be increased by 3.5 percentage points to 9.5%. From this date all premiums received by insurers using the IPT cash accounting scheme will be charged at 9.5%. For insurers using the special accounting scheme, there will be a 4 month concessionary period that will begin on 1 November 2015 and end on 29 February 2016, during which premiums received that relate to policies entered into before 1 November 2015 will continue to be liable to IPT at 6%. From 1 March 2016 all premiums received by insurers will be taxed at the new rate of 9.5%, regardless of when the policy was entered into. (Summer Finance Bill 2015) (19)

2.134 Insurance premium transparency – The government has asked the Financial Conduct Authority (FCA) to review what more can be done to encourage people to shop around for their insurance.

2.135 Regulation of claims management companies – Summer Budget announces a fundamental review of the regulation of claims management companies (CMCs), which will report to HM Treasury and the Ministry of Justice in early 2016. Summer Budget also announces that the government will bring forward proposals for the introduction of a cap on the charges CMCs can apply to their customers. The government will consult on this and how it could work in practice.

2.136 VAT on services used and enjoyed in the UK – The government will apply VAT 'use and enjoyment' provisions so that from next year, it will be clear that all UK repairs made under UK insurance contracts will be subject to VAT in the UK. In addition, the government will consider a wider review of off-shore based avoidance in VAT exempt sectors, with a view to introducing additional use and enjoyment measures for services such as advertising in the following year. (30)

2.137 VAT refunds for shared services – The government will legislate to refund to eligible public bodies the VAT incurred on specified shared services. (Finance Bill 2016)

2.138 Tobacco levy – Following a period of consultation, the government will not proceed with a tobacco levy as the impacts on the tobacco market would be the same as a duty rise but with added complexity, costs and delay.

2.139 Control of raw tobacco – As announced at March Budget 2015, the government will introduce a registration scheme for users and dealers in raw tobacco and will launch a technical consultation on the design and scope of the scheme. (Finance Bill 2016)

2.140 Tackling illicit tobacco abroad – The government will expand its Fiscal Crime Liaison Officer network and the supporting UK intelligence staff in order to reduce the supply of illicit tobacco from Europe, enhance our overseas footprint and further develop international collaboration and partnerships. (34)

2.141 Tackling illicit tobacco – As part of the refreshed tobacco strategy the government will expand the number of criminal investigation teams in HMRC working on tobacco fraud by 50% and recruit additional Crown Prosecution Service staff to manage additional prosecutions. (34)

2.142 Tackling illicit alcohol – The government will set up a new national alcohol control room and introduce a mobile taskforce in order to tackle alcohol fraud. (34)

2.143 Small cider – The UK is discussing with the EU Commission and other Member States reforms to the relevant alcohol Directive so that it includes explicit references to give Member States the flexibility to support small cider makers through the duty regime. In parallel, the government is also looking at alternatives that could apply. The government will work with

industry on both of these. The government will retain the current duty exemption for small cider producers until and unless a replacement scheme is established.

Horserace betting right

2.144 Horserace betting right – The government remains committed to replacing the current levy system to create a level playing field for British based and offshore gambling operators. The detailed design of a Horserace Betting Right is now under way and is expected to be completed later this year.

Transport taxes

2.145 Reform of vehicle excise duty (VED) rates and bands for post-2017 cars – The government will introduce a new VED banding system for cars registered on or after 1 April 2017. First year rates (FYRs) will vary according to the carbon dioxide emissions of the vehicle. There will be a flat standard rate (SR) of £140 for all cars except those emitting 0 grams of carbon dioxide per kilometre (gCO_2/km), for which the standard rate will be £0. Cars with a list price above £40,000 will attract a supplement of £310 per year for the first 5 years in which the standard rate is paid. The new VED system will be reviewed as necessary to ensure that it continues to incentivise the cleanest cars. The new rates and bands are set out in Table 2.5 below. (Summer Finance Bill 2015) (20)

Table 2.5: VED bands and rates for cars first registered on or after 1 April 2017

CO_2 emissions (g/km)	First year rate	Standard rate*
0	£0	£0
1-50	£10	£140
51-75	£25	£140
76-90	£100	£140
91-100	£120	£140
101-110	£140	£140
110-130	£160	£140
131-150	£200	£140
151-170	£500	£140
171-190	£800	£140
191-225	£1200	£140
226-255	£1700	£140
Over 255	£2000	£140

** cars with a list price of over £40,000 when new pay a supplement of £310 per year on top of the standard rate, for five years.*

2.146 Creating a Roads Fund – From 2020-21 the government will spend all of the revenue raised from VED in England on the English Strategic Road Network.

2.147 Air Passenger Duty (APD) devolution – The government is today publishing a discussion paper on options for supporting English regional airports with the impacts of APD devolution.

2.148 Fuel duty for aqua-methanol – The government will legislate to apply a reduced rate of fuel duty to aqua-methanol in Finance Bill 2016. (Finance Bill 2016)

2.149 Company car tax rates for 2019-20 – As announced at March Budget 2015, the appropriate percentage of list price subject to tax will increase by 3 percentage points for cars emitting more than 75 grams of carbon dioxide per kilometre (gCO_2/km), to a maximum of 37%, in 2019-20. There will be a 3 percentage point differential between the 0-50 and 51-75 gCO_2/km bands and between the 51-75 and 76-94 gCO_2/km bands. (Finance Bill 2016)

Environment and energy taxes

2.150 Climate Change Levy (CCL) – The government will remove the Climate Change Levy exemption for renewably sourced electricity from 1 August 2015. There will be a transitional period for suppliers, from 1 August 2015, to claim the CCL exemption on any renewable electricity that was generated before that date. The government will discuss the details of this transitional period with stakeholders over the summer and autumn, to determine an appropriate length for it. (Summer Finance Bill 2015, Finance Bill 2016) (23)

2.151 Aggregates Levy – The government will reinstate exemptions from the Aggregates Levy that were recently found lawful by the European Commission. From 1 August, businesses can stop paying tax on the exempted materials and reclaim tax paid on these since the exemptions were suspended in April 2014. (Summer Finance Bill 2015)

2.152 Environmental taxes – The government will continue to use the tax system to encourage positive environmental outcomes where tax is an effective instrument to do so, for example in reforming VED and the business energy tax landscape. The government will not extend the Coalition government's commitment to increasing the proportion of revenue from environmental taxes to this Parliament, as such a target does not always reflect the success of government policy in achieving environmental outcomes.

2.153 Business energy tax reform – The government will review the business energy efficiency tax landscape and consider approaches to simplify and improve the effectiveness of the regime. The review will consider the Climate Change Levy (CCL), Carbon Reduction Commitment energy efficiency scheme and their interaction with other business energy efficiency policies and regulations. A consultation will be launched in the autumn.

Property tax

2.154 Stamp Duty Land Tax (SDLT): application to certain authorised property funds
As previously announced, the government intends to introduce a seeding relief for Property Authorised Investment Funds (PAIFs) and Co-ownership Authorised Contractual Schemes (CoACSs) and intends to make changes to the SDLT treatment of CoACSs investing in property so that SDLT does not arise on the transactions in units, subject to the resolution of potential avoidance issues. (Finance Bill 2016)

2.155 Business rates: administration and avoidance – The government has today published progress updates on action it is taking to improve the administration of business rates, including the appeals system, and on tackling business rates avoidance.

2.156 Business rates: local newspapers – The government is today publishing a consultation on the introduction of a business rates relief for local newspapers.

Tax simplification

2.157 Office of Tax Simplification (OTS) – The government will establish the OTS on a statutory basis as a permanent office of HM Treasury. Details will be published shortly. (Finance Bill 2016)

2.158 Office of Tax Simplification report – The government will commission the OTS to review the closer alignment of income tax and National Insurance contributions.

2.159 Office of Tax Simplification report – The government will commission the OTS to review the taxation of small companies.

2.160 Consortium link company rule – As announced at Autumn Statement 2014, the government has, with effect from 10 December 2014, removed all requirements relating to the location of the 'link company' for consortium claims to group relief at section 133 Corporation

Tax Act 2010 (CTA 2010). This measure makes the tax system simpler by removing differences in treatment of link companies based in the UK and other jurisdictions. (Summer Finance Bill 2015)

2.161 Taxation of employee benefits and expenses – As announced at Autumn Statement 2014, from April 2016 the government will simplify the tax system by introducing a statutory exemption for trivial benefits in kind costing less than £50. (Finance Bill 2016)

2.162 Simplified expenses: legislative amendments – The government will amend the simplified expenses regime introduced in Finance Act 2013 to ensure that partnerships can fully access the provisions in respect of the use of a home and where business premises are also a home. (Finance Bill 2016)

2.163 Self-employed National Insurance contributions – The government will consult in autumn 2015 on abolishing Class 2 National Insurance contributions (NICs) and reforming Class 4 NICs for the self-employed.

2.164 Simplification of the treatment of termination payments – The government will consult on the tax and National Insurance contributions (NICs) treatment of termination payments, to make the system simpler and fairer.

2.165 Reviewing the rules for tax relief on travel and subsistence expense – As announced at Budget 2014, following a report by the OTS, the government will review the rules underlying the tax treatment of travel and subsistence expenses. A discussion paper will be published shortly outlining a potential framework for new rules.

2.166 Making tax easier – The government will publish a roadmap by the end of the year showing how it will transform tax administration for individuals and small businesses over this Parliament. Over the summer, HMRC will begin discussing the policy choices underpinning this roadmap with key stakeholders and delivery partners, including small businesses and customer representatives.

HMRC debtor and creditor interest rate

2.167 Simplification of HMRC debtor and creditor interest rate – The government will set the rate of interest which applies on taxation-related debts payable under a court judgment or order by HMRC to a rate equal to the Bank of England base rate plus 2%. The government will also apply the late payment interest rate of 3% to taxation-related debts owed to HMRC under a court judgment or order. These changes will apply to new and pre-existing judgments and orders in respect of interest accruing on and after 8 July 2015. (Summer Finance Bill 2015)

Tax avoidance and tax planning, evasion and compliance

Tax evasion, fraud and compliance

2.168 Financial Intermediaries writing to their customers in advance of receipt of data under the Common Reporting Standard – The government will legislate to require financial intermediaries (including tax advisers) to notify their customers about the Common Reporting Standard, the penalties for evasion and the opportunities to disclose. (Summer Finance Bill 2015)

2.169 HMRC tax enquiries: closure rules – At Autumn Statement 2014, the government announced a consultation on a proposal to introduce a new power, enabling HMRC to achieve early resolution and closure of 1 or more aspects of a tax enquiry whilst leaving other aspects open. HMRC will respond to this consultation during the summer.

2.170 Direct recovery of debts – This government will introduce legislation to modernise and strengthen HMRC's powers to recover tax and tax credit debts directly from debtors' bank and building society accounts, including funds held in cash ISAs. Having widely consulted,

this measure will be subject to robust safeguards including a county court appeal process and a face-to-face visit to every debtor before they are considered for debt recovery through this measure. (Summer Finance Bill 2015)

2.171 Criminal investigations – The government will increase funding to HMRC by a total of over £60 million by 2020-21 to allow HMRC to step up criminal investigations into serious and complex tax crime particularly focusing on wealthy individuals and corporates, with the aim of raising £600 million by the end of the Parliament. (33)

2.172 Tackling the hidden economy – The government will extend HMRC's powers to acquire data from online intermediaries and electronic payment providers to find those operating in the hidden economy. We will legislate at Finance Bill 2016 to achieve this, following a consultation on the detail. We will invest in new HMRC investigators from 2016 to exploit this data. The government will also create a digital disclosure channel which makes it simple for taxpayers to disclose unpaid tax liabilities. (Finance Bill 2016) (35)

2.173 Additional compliance resource: local compliance – The government will invest around £300 million over 5 years from 2016 to tackle non-compliance by small and mid-sized businesses, public bodies and affluent individuals. This measure will result in additional tax receipts of over £2 billion by 2020-21. (36)

Marketed avoidance schemes

2.174 Serial avoiders – The government will publish a consultation, ahead of introducing legislation in Finance Bill 2016, for serial avoiders who persistently enter into tax avoidance schemes which are defeated. These include a special reporting requirement and a surcharge on those whose latest tax return is inaccurate as a result of a further defeated avoidance scheme, restricting access to reliefs for the minority who have a record of trying to abuse them, and developing further measures to name serial avoiders. The scope of the Promoters of Tax Avoidance Schemes regime would be widened by bringing in promoters whose schemes are regularly defeated. (Finance Bill 2016)

2.175 General Anti-Abuse Rule (GAAR) penalty – The government will publish a consultation to consider the detail of introducing a GAAR penalty as well as considering new measures to strengthen the GAAR further. (Finance Bill 2016)

Business tax

2.176 Large business tax compliance – The government will invest additional resources in large business compliance work to further extend our efforts to tackle evasion, avoidance and aggressive tax planning by large businesses. The government will also consult on new measures to increase compliance and tax transparency in relation to large business tax strategies. These will include the introduction of a 'special measures' regime to tackle businesses that persistently adopt highly aggressive behaviours including around tax planning, and a voluntary Code of Practice defining the standards HMRC expects large businesses to meet in their relationship with HMRC. (31)

2.177 Controlled Foreign Companies (CFC) loss relief restriction – The government will remove the ability for companies to use UK losses and reliefs against a CFC charge from 8 July 2015. This will improve the effectiveness of the CFC regime in both deterring the diversion of profits and in taxing any profits that are diverted. (Summer Finance Bill 2015) (28)

2.178 Disposal of stock other than in trade – The government will amend legislation relating to trading stock and intangible assets, to ensure that disposals made other than in the normal course of business are brought into account for tax purposes at full open market value. This amendment will stop corporate groups from using a transfer pricing override to manipulate the value of assets in intergroup transfers. (Summer Finance Bill 2015) (29)

2.179 Taxation of carried interest: Base cost shifting and cherry picking – The government will introduce legislation, effective from 8 July 2015, to ensure that sums which arise to investment fund managers by way of carried interest will be charged to the full rate of capital gains tax, with only limited deductions being permitted. The government will also launch a consultation to better understand the activities of collective investment schemes, to determine under what circumstances performance returns should be taxed as a capital gain. It is not anticipated this will alter the tax treatment of carried interest. (Summer Finance Bill 2015) (27)

Personal tax

2.180 Additional resource to target non-compliance by wealthy individuals – The government will provide additional resource to HMRC to allow it to identify and tackle tax evasion and other non-compliance among wealthy individuals by extending HMRC's Customer Relationship Model to individuals with net wealth between £10-20 million, and to pursue more criminal investigations against wealthy individuals evading tax. The government will also consult on enhancing the information reported to HMRC by wealthy individuals and trustees. (33)

2.181 Additional specialist personal tax (SPT) resource – The government will invest an additional £36 million over 5 years from 2016 to tackle serious non-compliance by trusts, pension schemes and non-domiciled individuals. (32)

2.182 Employment intermediaries and tax relief for travel and subsistence – As announced at March Budget 2015, the government has published a consultation document alongside the Summer Budget on detailed proposals to restrict tax relief for travel and subsistence for workers engaged through an employment intermediary, such as an umbrella company or a personal service company. The changes will take effect from 6 April 2016. (Finance Bill 2016)

2.183 IR35 reform – The government will engage with stakeholders this year on how to improve the effectiveness of existing intermediaries legislation ('IR35') which is designed to protect against disguised employment. A discussion document will be published after Summer Budget 2015.

Financial services

2.184 Limited partnership consultation – The government will publish a consultation on technical changes to limited partnership legislation to enable private equity and venture capital investment funds to more effectively use the limited partnership structure.

2.185 Office of Financial Sanctions Implementation – The government has reviewed the structures within HM Treasury for the implementation of financial sanctions and its work with the law enforcement community, to ensure these sanctions are properly enforced and businesses are made better aware of the rules they are being asked to comply with. The Chancellor of the Exchequer will establish this financial year an Office of Financial Sanctions Implementation within the Treasury. The Office will provide a high quality service to the private sector, working closely with law enforcement to help ensure that financial sanctions are properly understood, implemented and enforced. This will ensure financial sanctions make the fullest possible contributions to the UK's foreign policy and national security goals and help maintain the integrity of and confidence in the UK financial services sector. The government will also legislate early in this Parliament to increase the penalties for non-compliance with financial sanctions.

2.186 Competition in SME lending – The government will introduce final legislation implementing 2 major reforms to the SME lending market. The first will require the UK's major banks to share credit information on their SME customers with other finance providers through designated Credit Reference Agencies (CRAs). The second will require those same banks to offer

SMEs they reject for finance the opportunity to be referred to a Finance Platform that can help match them with alternative lenders.

Supply side reform of the economy

Transport and infrastructure

2.187 Roads Fund – The government will create a new Roads Fund, funded from 2020-21 directly by the revenues from vehicle excise duty to ensure continued high and stable investment in the strategic road network for generations to come.

2.188 Roads Investment Strategy – The government will produce a second Roads Investment Strategy for the period 2020-25 before the end of this Parliament, based on this new Roads Fund.

2.189 Rail fares – To help households with living costs, the government will continue to cap the increase in regulated rail fares to RPI for the whole of this Parliament.

2.190 Network Rail: future shape and financing – The government has asked Nicola Shaw, Chief Executive of High Speed 1, to advise the government on how it should approach the longer-term future shape and financing of Network Rail. Nicola Shaw will work closely with Sir Peter Hendy, the new chairman of Network Rail, in conducting her work, which will be concluded before Budget 2016.

2.191 Network Rail: devolving power to route managers – The government has asked Sir Peter Hendy and Mark Carne, Chief Executive of Network Rail, to continue with the work started in Network Rail to devolve more power to route managers closer to the front line, so that the railways are more focused on delivering what passengers need and to drive comparative benchmarking of the efficiency and effectiveness of individual routes – to drive up performance across the network.

2.192 Network Rail: funding flows – The government will change the way it channels public money through the industry, directing it through the train operating companies, so that Network Rail focuses firmly on the needs of train operators and, through them, passengers. This will put the customers of the railway back in the driving seat in demanding efficiency and improvements that matter to them, making the best use of scarce capacity on the rail network.

2.193 Network Rail: land and property – The government will establish a dedicated body to focus on pursuing opportunities to realise value from public land and property assets in the rail network to both maximise the benefit to local communities and reduce the burden of public debt.

2.194 MOT – The government will explore the options for requiring motorists with new cars to undergo the first MOT after 4 years rather than 3, as part of the forthcoming Motoring Services Strategy.

Energy and environment

2.195 Onshore electricity transmission – The government will publish proposals to extend competitive tendering to onshore electricity network transmission assets.

2.196 Energy market switching – The government will work to increase switching in energy markets, as part of wider work to promote competition. In order to achieve this, government will:

- work with Ofgem with the aim of introducing 24-hour switching by the end of 2018, building on previous action to reduce switching times to 17 days
- work with industry to introduce a switching guarantee to improve trust in the switching process

- further develop the use of Midata to facilitate effective price comparisons
- work towards improved transparency and visibility on microbusiness tariffs, recognising the particular difficulties microbusinesses face in switching providers

Science and innovation

2.197 Regius Professorships – The government will introduce new Regius Professorships in order to recognise scientific excellence in universities across the UK. The competition will be launched later this year, with a view to making awards to celebrate the Queen's 90th birthday.

2.198 Digital Economy Centres – The government will invest £23 million in Next Stage Digital Economy Centres. This investment at 6 sites (UCL, Swansea, Newcastle, Nottingham, York and Bath), has leveraged £22 million of additional funding.

2.199 Regional science and innovation audits – The government will work with universities, LEPs, cities, and businesses to map science and innovation strengths and identify potential areas of strategic focus for different regions.

Education and skills

2.200 Childcare – From September 2017, the government will extend the free childcare entitlement to 30 hours a week for working parents of 3 and 4 year olds. (6)

2.201 Apprenticeships levy – The government will introduce a levy on large UK employers to increase the number of apprenticeship starts. In England, employers will be able to access this funding for apprenticeship training. Details including rates and implementation will be set out in the Spending Review.

2.202 Student maintenance – Maintenance loan support will rise for students from low and middle income backgrounds up to £8,200 a year studying away from home, outside London. From the 2016-17 academic year, maintenance grants will be replaced with maintenance loans for new students from England, paid back only when their earnings exceed £21,000 a year.

2.203 Student loans – The government will consult on freezing the loan repayment threshold for the next 5 years and review the discount rate applied to student loans and other transactions to bring it more into line with the government's long-term cost of borrowing.

2.204 Teaching quality – The government will allow institutions offering high teaching quality to increase their tuition fees in line with inflation from 2017-18, and consult on the mechanisms to do this.

A Financing

A.1 This annex sets out revisions to the government's financing plans for 2015-16, which were previously updated on 23 April 2015. Further details of the revised remit for 2015-16, including progress against the remit to date, can be found on the Debt Management Office's (DMO) website at www.dmo.gov.uk. The government's debt management framework remains as set out in the Debt and reserves management report 2015-16.

Financing arithmetic

A.2 As set out in Chapter 4 of the Office for Budget Responsibility's (OBR) July 2015 'Economic and fiscal outlook' (EFO), the forecast for the 2015-16 central government net cash requirement (excluding NRAM plc, Bradford and Bingley and Network Rail) (CGNCR (ex NRAM, B&B and NR)) is £71.6 billion. This measure of the government's cash requirement is used in the financing arithmetic as it reflects the forecast cash requirement of the Exchequer. The relationship between public sector net borrowing and the CGNCR (ex NRAM, B&B and NR) is set out in the OBR's July 2015 EFO.

A.3 The net financing requirement (NFR) comprises the CGNCR (ex NRAM, B&B and NR) plus any financing for gilt redemptions, planned financing for the reserves 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.4 The NFR for 2015-16 is projected to be £123.9 billion, a reduction of £14.0 billion relative to that anticipated in April 2015. The change solely reflects the reduction in the OBR's forecast for the CGNCR (ex NRAM, B&B and NR) of £14.0 billion to £71.6 billion, arising from:

- reductions in public sector net borrowing for 2015-16
- income from asset sales including Lloyds, RBS and Royal Mail

A.5 The majority of the reduction to the NFR will be accommodated by a change in the planned end-year stock of Treasury bills. There will be a net reduction in the Treasury bill stock of £10.5 billion relative to the previously planned stock of £72.0 billion, taking the planned end-March 2016 Treasury bill stock to £61.5 billion.

A.6 Planned gilt sales in 2015-16 will be reduced by £3.5 billion to £127.4 billion. This will be accommodated through a reduction in planned average auction sizes. The updated financing arithmetic is set out in Table A.1.

Gilt issuance by maturity, type and method

A.7 Auctions will remain the government's primary method of gilt issuance. In 2015-16, it is anticipated that:

- £99.2 billion (77.9% of total issuance) will be issued by auction
- £24.5 billion (19.2% of total issuance) will be issued by syndication

A.8 In addition:

- £1.0 billion (0.8% of total issuance) has been issued by mini-tender
- £2.7 billion (2.1% of total issuance) remains outstanding from an initially unallocated portion of supplementary issuance of £4.0 billion, to be delivered via syndication or mini-tender

A.9 The maturity skew of gilt issuance by auction and syndication was previously set out in April 2015. This skew will remain broadly unchanged:

- short maturity conventional gilt issuance by auction will fall by £0.9 billion to £32.3 billion (25.4% of total issuance)
- medium maturity conventional gilt issuance by auction will fall by £0.8 billion to £25.4 billion (19.9% of total issuance)
- long maturity conventional gilt issuance by auction will fall by £0.9 billion, however an additional £1.0 billion was allocated to long maturity conventional gilts via a mini-tender in June 2015. Taking this into account, long maturity conventional issuance will now increase by £0.1 billion to £36.8 billion (28.9% of total issuance)
- index-linked gilt issuance by auction will fall by £0.9 billion, however an additional £0.3 billion was allocated to index-linked gilts via a syndication in June 2015. Taking this into account, index-linked gilt issuance will now fall by £0.6 billion to £30.2 billion (23.7% of total issuance)

Reserves

A.10 The financing arithmetic provides for £5.3 billion of sterling financing for the Official Reserves in 2015-16, as set out in the Revision to the DMO's Financing Remit 2015-16, 23 April 2015. This is £0.7 billion less than planned at March Budget 2015, reflecting an offsetting increase in financing in 2014-15 due to increased investments in reserve assets being brought forward at the end of the 2014-15 financial year.

A.11 The government is planning on the basis of sterling financing for the Official Reserves of £6.0 billion per year on average, over the 4 years from 2016-17 up to, and including, 2019-20, thereafter the government has adopted a neutral assumption. This additional financing, announced at Autumn Statement 2014, is intended to ensure that the level of foreign currency reserves held is sufficient for the UK to remain resilient to possible future shocks.

National Savings and Investments

A.12 NS&I has a net financing target, which remains at £10.0 billion in 2015-16, within a range of £8.0 to £12.0 billion. This target accommodates sales of NS&I's market-leading bonds for people aged 65 and over (the '65+ bond') in 2015-16, as well as the increase in the Premium Bond limit from £40,000 to £50,000 from 1 June 2015.

Table A.1: Financing arithmetic in 2015-16

£ billion	April 2015	Summer Budget 2015
CGNCR (ex NRAM, B&B and NR)	85.6	71.6
Gilt redemptions	70.2	70.2
Planned financing for the reserves	5.3	5.3
Financing adjustment carried forward from previous financial years	-13.1	-13.1
Gross financing requirement	148.1	134.1
less:		
Contribution from National Savings and Investments	10.0	10.0
Other financing[1]	0.2	0.2
Net financing requirement (NFR) for Debt Management Office (DMO)	137.9	123.9
Financed by:		
1. Debt issuance by DMO		
a) Treasury bills (planned change in stock issued at tenders)	7.0	-3.5
b) Gilt sales	130.9	127.4
of which:		
– Short conventional	33.2	32.3
– Medium conventional	26.2	25.4
– Long conventional	36.7	36.8
– Index-linked	30.8	30.2
– Unallocated supplementary sales	4.0	2.7
2. Planned change in the level of Ways and Means	0.0	0.0
Total financing	137.9	123.9
Short-term debt/cash levels at end of financial year		
End-year Treasury bill stock via tenders (in market hands)[2]	72.0	61.5
Ways and Means	0.4	0.4
DMO net cash position	0.5	0.5

Figures may not sum due to rounding.

[1] *Prior to publication of the end-year outturn in April each year, this financing item will only comprise estimated revenue from coinage.*

[2] *The DMO has operational flexibility to vary the end-financial year stock by a maximum of £5 billion relative to the planning assumption, to offset any anticipated net Exchequer cash surplus or deficit towards year-end.*

Illustrative future gross financing requirement

A.13 Table A.2 sets out the updated illustrative gross financing requirement for the next 5 years, using the OBR July 2015 forecast for the CGNCR (ex NRAM, B&B and NR) and current planned gilt redemptions.

Table A.2: Illustrative gross financing requirement

£ billion	2016-17	2017-18	2018-19	2019-20	2020-21
CGNCR (ex NRAM, B&B and NR) projections	59	34	14	-2	11
Gilt redemptions	70	79	67	93	64
Financing for the reserves	6	6	6	6	0
Illustrative gross financing requirement	135	120	87	97	75

Figures may not sum due to rounding.

B Welfare cap

B.1 The level of the welfare cap for this Parliament is set out in Table 1.7.

B.2 Table B.1 sets out a full list of expenditure items within the scope of the welfare cap. The Treasury will seek the approval of the House of Commons for any changes to the list of items of expenditure which fall within the scope of the welfare cap, including where a new welfare cap level and / or margin are being set

Table B.1: Benefits and tax credits in scope of the welfare cap

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

[1] Includes Guardian's Allowance.

[2] These payments are subject to firm spending control through the usual DEL process.

OBR's Economic and fiscal outlook: selected tables

C.1 The Office for Budget Responsibility (OBR) has published its July 2015 'Economic and fiscal outlook' alongside Summer Budget 2015. This annex reproduces the OBR's key projections for the economy and public finances. Further detail and explanation can be found in the OBR's report.

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

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2014	2015	2016	2017	2018	2019	2020
UK economy							
Gross domestic product (GDP)	3.0	2.4	2.3	2.4	2.4	2.4	2.4
GDP level (2014=100)	100.0	102.4	104.8	107.4	109.9	112.5	115.2
Nominal GDP	4.6	3.5	4.0	4.3	4.3	4.4	4.8
Output gap (per cent of potential output)	-1.0	-0.6	-0.4	-0.2	0.0	0.0	0.0
Expenditure components of GDP							
Domestic demand	3.5	2.9	2.7	2.5	2.5	2.5	2.5
Household consumption[1]	2.5	3.0	2.5	2.4	2.4	2.3	2.0
General government consumption	1.6	1.2	0.5	0.3	0.1	0.3	2.6
Fixed investment	8.6	5.6	5.6	5.5	5.4	5.4	4.1
Business	8.0	6.0	7.2	6.9	6.6	6.5	4.7
General government[2]	3.4	2.4	-0.1	0.9	2.4	2.3	2.0
Private dwellings[2]	13.1	6.3	4.8	4.4	4.0	3.9	3.3
Change in inventories[3]	0.3	-0.2	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	0.5	3.8	3.8	4.2	4.1	3.9	3.9
Imports of goods and services	2.4	5.1	4.6	4.3	4.3	4.2	4.2
Balance of payments current account							
Per cent of GDP	-5.9	-5.0	-3.9	-3.1	-3.0	-2.9	-2.8
Inflation							
CPI	1.5	0.1	1.1	1.6	1.8	1.9	2.0
RPI	2.4	0.9	2.1	2.8	3.1	3.1	3.2
GDP deflator at market prices	1.6	1.1	1.6	1.8	1.9	2.0	2.4
Labour market							
Employment (millions)	30.7	31.2	31.5	31.6	31.7	31.9	32.1
Productivity per hour	0.4	0.9	1.7	2.4	2.4	2.2	2.2
Wages and salaries	4.2	4.2	4.5	4.3	4.3	4.6	4.9
Average earnings[4]	2.6	2.2	3.6	3.9	3.9	4.1	4.4
LFS unemployment (% rate)	6.2	5.4	5.1	5.2	5.3	5.4	5.4
Claimant count (millions)	1.04	0.78	0.73	0.75	0.77	0.78	0.79
Household sector							
Real household disposable income	0.8	3.9	2.3	2.1	1.8	1.8	1.8
Saving ratio (level, per cent)	6.1	6.5	7.1	7.3	7.4	7.5	7.5
House prices	10.0	5.7	4.1	4.7	5.3	5.6	5.6
World economy							
World GDP at purchasing power parity	3.4	3.2	3.7	3.8	3.8	3.9	3.9
Euro area GDP	0.9	1.5	1.7	1.6	1.6	1.6	1.6
World trade in goods and services	3.2	4.1	4.8	4.9	5.0	5.0	5.0
UK export markets[5]	3.5	3.2	4.5	4.7	4.9	4.9	4.9

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

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

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

[4] *Wages and salaries divided by employees.*

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

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

	Percentage change on previous year unless otherwise stated						
	Outturn	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
GDP and its components							
Real GDP	3.0	2.2	2.5	2.4	2.4	2.4	2.4
Nominal GDP[1]	4.4	3.6	4.1	4.3	4.4	4.5	5.0
Nominal GDP (£ billion)[1,2]	1,809	1,873	1,949	2,032	2,122	2,216	2,326
Nominal GDP centred end-March (£ bn)[1,3]	1,839	1,908	1,991	2,076	2,167	2,264	2,376
Wages and salaries[4]	4.7	4.0	4.4	4.3	4.4	4.7	5.0
Non-oil PNFC profits[4,5]	9.0	4.7	3.9	4.1	3.9	4.2	4.8
Non-oil PNFC net taxable income[4]	7.9	2.1	1.3	1.0	1.2	1.7	4.3
Consumer spending[4,5]	4.0	3.8	4.0	4.4	4.5	4.5	4.4
Prices and earnings							
GDP deflator	1.4	1.0	1.7	1.8	1.9	2.1	2.5
RPI (September)[6]	2.4	0.7	2.2	3.0	3.1	3.1	3.2
CPI (September)[6]	1.2	0.0	1.2	1.7	1.8	1.9	2.0
Average earnings[7]	2.8	2.3	3.6	3.9	4.0	4.2	4.4
'Triple-lock' guarantee	2.5	2.8	3.3	3.9	3.9	4.1	4.3
Key fiscal determinants							
Claimant count (millions)	0.95	0.76	0.73	0.75	0.78	0.79	0.79
Employment (millions)	30.9	31.3	31.5	31.6	31.8	31.9	32.1
VAT gap (per cent)	9.4	9.3	9.3	9.3	9.3	9.3	9.3
Output gap (per cent of potential output)	-0.8	-0.6	-0.3	-0.1	0.0	0.0	0.0
Financial and property sectors							
Equity prices (FTSE All-share index)	3,580	3,740	3,898	4,063	4,241	4,431	4,650
HMRC financial sector profits[1,5,8]	4.4	3.6	4.1	4.3	4.4	4.5	5.0
Financial sector net taxable income[1,5]	-1.5	-3.4	1.6	2.9	5.2	7.1	11.4
Residential property prices[9]	10.1	4.6	4.2	4.9	5.4	5.6	5.7
Residential property transactions ('000's)[10]	1,204	1,209	1,254	1,320	1,387	1,424	1,436
Commercial property prices[10]	21.4	6.6	2.9	1.7	1.9	2.1	2.5
Commercial property transactions[10]	8.6	6.2	2.5	2.4	2.4	2.4	2.4
Volume of stampable share transactions	4.4	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Oil and gas							
Oil prices ($ per barrel)[5]	98.9	62.0	68.7	70.7	70.8	70.8	70.8
Oil prices (£ per barrel)[5]	60.0	40.1	43.7	44.8	44.6	44.3	44.0
Gas prices (p/therm)[5]	50.2	45.5	46.3	47.7	47.7	47.7	47.7
Oil production (million tonnes)[5]	39.7	38.3	36.7	34.9	33.4	30.9	29.4
Gas production (billion therms)[5]	13.1	12.6	11.9	11.4	10.9	10.3	9.8
Interest rates and exchange rates							
Market short-term interest rates (%)	0.6	0.6	1.2	1.7	2.0	2.2	2.4
Market gilt rates (%)[12]	2.3	2.2	2.5	2.7	2.9	3.0	3.1
Euro/Sterling exchange rate (€/£)	1.28	1.39	1.39	1.37	1.36	1.34	1.33

[1] *Not seasonally adjusted.*

[2] *Denominator for receipts, spending and deficit forecasts as a per cent of GDP.*

[3] *Denominator for net debt as a per cent of GDP.*

[4] *Nominal.*

[5] *Calendar year.*

[6] *Q3 forecast used as a proxy for September.*

[7] *Wages and salaries divided by employees.*

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

[9] *Outturn data from ONS House Price Index.*

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

[11] *3-month sterling interbank rate (LIBOR).*

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

Table C.3: Current Receipts: OBR forecast

	£ billion						
	Outturn	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Income tax (gross of tax credits)[1]	163.7	170.2	184.8	192.6	205.8	219.9	234.6
of which: Pay as you earn	*140.0*	*145.2*	*155.1*	*165.4*	*175.0*	*186.5*	*198.9*
Self assessment	*23.6*	*25.3*	*31.3*	*29.2*	*33.1*	*35.6*	*37.7*
National insurance contributions	110.3	114.8	125.8	131.2	137.4	144.2	151.6
Value added tax	111.3	115.9	119.2	123.1	127.9	132.9	139.2
Corporation tax[2]	42.9	43.1	43.4	47.7	45.9	43.7	44.8
of which: Onshore	*40.8*	*42.5*	*42.8*	*47.2*	*45.4*	*43.4*	*44.5*
Offshore	*2.1*	*0.6*	*0.6*	*0.5*	*0.5*	*0.4*	*0.4*
Petroleum revenue tax	0.1	0.0	-0.1	0.1	0.0	0.2	0.1
Fuel duties	27.2	27.1	27.3	27.8	28.3	28.8	29.4
Business rates	27.3	28.0	29.0	29.4	30.6	31.7	32.9
Council tax	27.9	28.4	29.0	29.7	30.4	31.2	32.1
VAT refunds	13.7	13.6	13.8	13.7	13.6	13.8	14.7
Capital gains tax	5.6	6.4	7.4	8.3	9.1	10.0	10.8
Inheritance tax	3.8	4.2	4.6	4.8	4.9	5.2	5.7
Stamp duty land tax[4]	10.9	11.5	12.6	13.9	15.7	17.3	18.9
Stamp taxes on shares	2.9	3.2	3.3	3.5	3.6	3.8	4.0
Tobacco duties	9.3	9.1	9.0	9.0	9.2	9.3	9.5
Spirits duties	3.0	3.2	3.2	3.4	3.6	3.7	3.9
Wine duties	3.8	4.0	4.1	4.4	4.7	5.0	5.3
Beer and cider duties	3.6	3.5	3.4	3.6	3.6	3.7	3.7
Air passenger duty	3.2	3.1	3.2	3.3	3.5	3.7	3.8
Insurance premium tax	3.0	3.5	4.5	4.7	4.7	4.8	4.9
Climate change levy	1.6	2.3	2.4	2.3	2.2	2.1	1.9
Other HMRC taxes[5]	6.6	6.9	6.9	7.0	7.2	7.5	7.8
Vehicle excise duties	5.9	5.6	5.5	5.7	5.8	6.0	6.3
Bank levy	2.8	3.7	3.1	2.8	2.6	2.4	2.2
Bank surcharge	0.0	0.0	0.9	1.5	1.5	1.3	1.3
Licence fee receipts	3.1	3.1	3.2	3.2	3.3	3.4	3.4
Environmental levies	3.6	6.0	7.3	8.3	10.2	12.3	13.6
EU ETS auction receipts	0.4	0.3	0.3	0.4	0.4	0.5	0.6
Scottish taxes[6]	0.0	0.6	0.7	0.8	0.9	1.0	1.1
Diverted profits tax	0.0	0.0	0.3	0.4	0.3	0.4	0.4
Other taxes	6.2	7.1	7.1	7.2	7.4	7.6	7.8
National Accounts taxes	**603.6**	**628.9**	**665.2**	**693.5**	**724.4**	**757.3**	**796.3**
Less own resources contribution to EU	-3.0	-3.1	-3.2	-3.1	-3.1	-3.2	-3.5
Interest and dividends	5.8	5.8	6.6	8.6	10.2	11.8	12.6
Gross operating surplus	36.9	39.2	41.1	43.1	44.8	46.9	49.0
Other receipts	3.0	2.0	1.5	1.6	1.6	1.7	1.7
Current receipts	**646.4**	**672.8**	**711.2**	**743.7**	**777.9**	**814.4**	**856.1**
Memo: UK oil and gas revenues[7]	*2.2*	*0.7*	*0.5*	*0.6*	*0.5*	*0.5*	*0.5*

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

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

[3] Includes reduced liability company tax credits.

[4] Forecast for SDLT is for England, Wales and Northern Ireland from 2015-16.

[5] Consists of landfill tax (ex Scotland from 2015-16), aggregates levy, betting and gaming duties and customs duties.

[6] Consists of Scottish LBTT and landfill tax but not the Scottish rate of income tax or aggregates levy.

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

Table C.4: Total managed expenditure: OBR forecast

	£ billion						
	Outturn	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Public sector current expenditure (PSCE)							
PSCE in RDEL[1]	**317.4**	**315.1**	**318.8**	**316.7**	**316.2**	**320.3**	**345.1**
PSCE in AME	**351.2**	**360.1**	**366.9**	**381.7**	**395.2**	**408.1**	**419.7**
of which:							
Welfare spending	214.3	216.9	213.8	216.5	219.4	222.2	227.3
of which:							
Inside welfare cap	119.1	120.6	115.2	114.6	114.0	113.5	114.9
Outside welfare cap	95.1	96.4	98.6	101.8	105.4	108.7	112.4
Company and other tax credits	2.0	2.2	2.4	2.5	2.5	2.6	2.6
Net public service pension payments	12.1	11.1	11.5	12.9	14.5	16.0	16.1
National lottery current grants	1.4	1.4	1.4	1.4	1.5	1.5	1.5
BBC current expenditure	3.9	3.9	3.8	3.8	3.7	3.6	3.5
Network Rail other current expenditure[2]	1.1	1.3	0.8	0.5	-0.1	-0.1	-0.1
Other PSCE items in departmental AME	1.2	1.2	1.1	1.1	1.1	1.1	1.1
Expenditure transfers to EU institutions	10.4	11.3	10.4	9.5	10.8	11.3	11.7
Locally-financed current expenditure	35.2	38.5	40.2	42.1	43.7	45.1	46.4
Central government debt interest, net of APF	33.0	34.6	40.8	47.7	50.7	53.2	54.3
of which:							
Central government gross debt interest	45.4	46.7	51.1	55.9	57.2	58.5	58.6
Reductions in debt interest due to APF	-12.4	-12.1	-10.3	-8.3	-6.5	-5.3	-4.3
Depreciation	27.2	29.5	31.0	32.6	34.2	35.9	37.8
Current VAT refunds	11.5	11.5	11.6	11.5	11.3	11.4	12.2
R&D expenditure	-7.5	-8.2	-8.2	-8.1	-8.1	-8.2	-8.9
Single use military expenditure	0.3	0.2	0.2	0.2	0.2	0.2	0.3
Environmental levies	3.2	5.7	7.3	8.5	10.7	13.2	14.9
Local authority imputed pensions	1.8	1.8	1.9	2.0	2.1	2.3	2.4
Other National Accounts adjustments	-0.1	-2.9	-3.0	-3.1	-3.2	-3.3	-3.4
Total public sector current expenditure	**668.6**	**675.2**	**685.7**	**698.4**	**711.4**	**728.5**	**764.8**
Public sector gross investment (PSGI)							
PSGI in CDEL[1]	**37.5**	**36.1**	**36.2**	**37.0**	**42.2**	**44.5**	**46.6**
PSGI in AME	**29.4**	**31.0**	**32.3**	**32.7**	**30.7**	**31.4**	**33.1**
of which:							
National lottery capital grants	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Network Rail capital expenditure	6.0	7.0	6.3	6.0	4.8	5.0	5.3
Other PSGI items in departmental AME	0.4	0.3	1.3	1.7	2.2	2.6	3.3
Locally-financed capital expenditure	7.9	7.0	7.8	8.2	6.5	6.5	6.5
Public corporations capital expenditure	8.5	7.4	7.7	7.7	7.7	7.5	7.6
R&D expenditure	7.5	8.2	8.2	8.1	8.1	8.2	8.9
Other National Accounts adjustments	-1.4	0.7	0.6	0.4	0.8	0.9	0.9
Total public sector gross investment	**66.9**	**67.1**	**68.6**	**69.6**	**72.9**	**75.9**	**79.7**
Less depreciation	-36.0	-38.4	-40.1	-41.9	-43.6	-45.5	-47.6
Public sector net investment	**30.9**	**28.6**	**28.4**	**27.8**	**29.2**	**30.4**	**32.1**
Total managed expenditure	**735.5**	**742.3**	**754.3**	**768.0**	**784.3**	**804.4**	**844.5**

[1] *Implied DEL numbers for 2016-17 to 2020-21. Calculated as the difference between PSCE and PSCE in AME in the case of PSCE in RDEL, and between PSGI and PSGI in AME in the case of PSGI in CDEL.*

[2] *Other than debt interest and depreciation, which are included in totals shown separately in this table.*

[3] *Other than debt interest and depreciation, which are included in totals shown separately in this table.*

Table C.5: OBR forecast of the headline fiscal aggregates

	Per cent of GDP						
	Outturn	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Receipts and expenditure							
Public sector current receipts *(a)*	35.7	35.9	36.5	36.6	36.7	36.7	36.8
Total managed expenditure *(b)*	40.7	39.6	38.7	37.8	37.0	36.3	36.3
of which:							
Public sector current expenditure *(c)*	37.0	36.0	35.2	34.4	33.5	32.9	32.9
Public sector net investment *(d)*	1.7	1.5	1.5	1.4	1.4	1.4	1.4
Depreciation *(e)*	2.0	2.1	2.1	2.1	2.1	2.1	2.0
Deficit							
Public sector net borrowing *(b-a)*	4.9	3.7	2.2	1.2	0.3	-0.4	-0.5
Current budget deficit *(c+e-a)*	3.2	2.2	0.8	-0.2	-1.1	-1.8	-1.9
Cyclically-adjusted net borrowing	4.1	3.2	2.0	1.1	0.3	-0.5	-0.5
Primary balance	-3.4	-2.1	-0.4	0.8	1.7	2.4	2.3
Cyclically-adjusted primary balance	-2.6	-1.7	-0.2	0.9	1.7	2.4	2.3
Fiscal mandate and supplementary target							
Cyclically-adjusted deficit on current budget	2.4	1.7	0.5	-0.3	-1.1	-1.8	-1.9
Public sector net debt[1]	80.8	80.3	79.1	77.2	74.7	71.5	68.5
Financing							
Central government net cash requirement	5.2	2.9	2.9	1.6	0.6	0.0	0.5
Public sector net cash requirement	4.5	2.7	2.9	1.6	0.5	-0.2	0.3
Stability and Growth Pact							
Treaty deficit[2]	5.1	4.0	2.3	1.4	0.5	-0.3	-0.4
Cyclically-adjusted Treaty deficit	4.3	3.6	2.1	1.2	0.4	-0.3	-0.4
Treaty debt ratio[3]	88.5	87.6	86.8	85.2	82.8	79.8	76.4
	£ billion						
Public sector net borrowing	89.2	69.5	43.1	24.3	6.4	-10.0	-11.6
Current budget deficit	58.3	40.8	14.7	-3.5	-22.9	-40.4	-43.7
Cyclically-adjusted net borrowing	74.9	60.8	38.3	22.0	5.8	-10.0	-11.6
Cyclically-adjusted deficit on current budget	44.0	32.2	9.8	-5.8	-23.4	-40.4	-43.7
Public sector net debt	1,486	1,532	1,576	1,603	1,619	1,618	1,627
Memo: Output gap (per cent of GDP)	*-0.8*	*-0.6*	*-0.3*	*-0.1*	*0.0*	*0.0*	*0.0*

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

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

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

Table C.6: Changes to the cyclically adjusted current budget since March 2015

	Per cent of GDP					
	Outturn	Forecast				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
March forecast	2.5	2.1	0.4	-0.8	-1.7	-1.7
July forecast	2.4	1.7	0.5	-0.3	-1.1	-1.8
Change	**-0.1**	**-0.4**	**0.1**	**0.5**	**0.6**	**-0.1**
of which:						
RDEL	0.0	0.0	0.8	1.2	1.2	0.5
Budget measures	0.0	-0.1	-0.5	-0.5	-0.7	-0.8
Other receipts	0.0	-0.4	-0.2	-0.2	-0.1	-0.2
Other spending	-0.2	0.1	0.1	0.1	0.2	0.4

Table C.7: Changes to public sector net debt since March 2015

	Per cent of GDP						
	Outturn	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
March forecast	80.4	80.2	79.8	77.8	74.8	71.6	
July forecast	80.8	80.3	79.1	77.2	74.7	71.5	68.5
Change	**0.4**	**0.0**	**-0.6**	**-0.6**	**-0.1**	**-0.1**	
of which:							
Change in nominal GDP[1]	0.1	0.1	-0.4	-0.4	-0.2	0.3	
Change in cash level of net debt	0.3	-0.1	-0.2	-0.1	0.1	-0.4	
	£ billion						
March forecast	1479	1533	1580	1606	1617	1627	
July forecast	1486	1532	1576	1603	1619	1618	1627
Change in cash level of net debt	**6**	**-1**	**-5**	**-3**	**1**	**-9**	
of which:							
Changes to borrowing	-1	-7	-3	8	20	17	
Asset sales	0	-8	-14	-19	-25	-31	
Gilt premia	1	4	3	1	0	0	
Asset purchase facility	0	2	2	2	2	2	
Outturns	3	3	3	3	3	3	
Other factors	3	4	4	2	1	0	

[1] *Non-seasonally-adjusted GDP centred end-March.*

Table C.8: Changes to the OBR's forecast of public sector net borrowing

	£ billion						
	Outturn	**Forecast**					
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
March forecast	90.2	75.3	39.4	12.8	-5.2	-7.0	
July forecast	89.2	69.5	43.1	24.3	6.4	-10.0	-11.6
Change	**-1.0**	**-5.8**	**3.7**	**11.5**	**11.6**	**-3.0**	
Changes to the receipts forecast[1]	-1.9	-5.5	-10.3	-12.6	-13.5	-10.0	
Forecast changes	-1.9	-4.9	-3.7	-4.0	-3.5	-3.1	
Effect of Government decisions	0.0	-0.6	-6.5	-8.5	-9.9	-6.9	-8.2
of which:							
Scorecard measures	0.0	-1.0	-4.0	-5.1	-6.8	-5.8	-6.5
Indirect effect of Government decisions	0.0	0.4	-2.5	-3.4	-3.1	-1.1	-1.7
Changes to current AME spending[1]	**0.6**	**2.2**	**-2.3**	**-2.0**	**-2.5**	**-3.7**	
Forecast changes	0.6	2.2	4.1	6.0	8.8	10.1	
Effect of Government decisions	0.0	0.0	-6.5	-8.1	-11.3	-13.8	-15.7
of which:							
Welfare scorecard measures	0.0	-0.3	-5.6	-6.9	-9.7	-12.5	-13.3
Other scorecard measures	0.0	0.1	0.0	0.0	-0.1	-0.3	-0.6
Indirect effect of Government decisions	0.0	0.2	-0.9	-1.2	-1.5	-1.0	-1.8
Changes to RDEL spending[2]	**0.9**	**-1.3**	**17.2**	**27.0**	**28.3**	**12.1**	**21.6**
Changes to capital spending[1]	-0.5	-1.3	-0.8	-0.9	-0.8	-1.3	
Forecast AME changes[3]	-0.1	-0.3	0.9	1.4	0.1	0.4	
Scorecard AME measures	0.0	0.0	0.0	-0.2	0.0	-0.1	-0.1
Changes to CDEL spending[2,3]	-0.5	-1.0	-1.8	-2.1	-0.8	-1.6	-1.9
	Summary of changes						
Total forecast change	-1.4	-3.0	1.3	3.4	5.4	7.4	
Total effect of Government decisions	0.4	-2.8	2.4	8.0	6.3	-10.4	-4.3
of which:							
Scorecard receipts and AME measures	0.0	-1.2	-9.6	-12.2	-16.7	-18.7	-20.5
RDEL and CDEL changes[3]	0.4	-2.3	15.4	24.8	27.5	10.5	19.8
Indirect effect of Government decisions	0.0	0.6	-3.4	-4.6	-4.6	-2.2	-3.5

[1] 2014-15 has been adjusted to remove the effect of ONS measurement differences. See supplementary tables published on our website for more information.

[2] The change in 2020-21 is relative to a baseline that assumes spending by departments would otherwise have remained constant as a share of potential GDP.

[3] CDEL and capital AME changes have been adjusted to exclude the £0.9 billion switch from CDEL to capital AME in 2015-16 as a result of the GAD Milne case, and to exclude the switch from CDEL to capital AME that reflects the reclassification of government grants to Network Rail in our forecast, which is explained in note 1 of Table 4.17.

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.

List of abbreviations

AIA	Annual Investment Allowance
AIIB	Asian Infrastructure Investment Bank
AMAP	Approved Mileage Allowance Payment
AME	Annually Managed Expenditure
APD	Air Passenger Duty
B&B	Bradford and Bingley plc
BIS	Department for Business, Innovation and Skills
BIT	Business Impact Target
BML	Brighton Main Line
BRIC	Brazil, Russia, India and China
CCL	Climate Change Levy
CCT	Company Car Tax
CEP	Cadet Expansion Programme
CFC	Controlled Foreign Companies
CGE	Computable General Equilibrium (Economic Model)
CGNCR	Central government net cash requirement
CGT	Capital gains tax
CLG	Communities and Local Government
CMA	Competition and Markets Authority
CMC	Claims Management Companies
CoACS	Co-ownership Authorised Contractual Scheme
CPI	Consumer Prices Index
CRA	Credit Reference Agencies
CRC	Carbon Reduction Commitment
CTA 2010	Corporation Tax Act 2010
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DECC	Department of Energy and Climate Change
DEL	Departmental Expenditure Limit
DEFRA	Department for Environment, Food and Rural Affairs
DfE	Department for Education
DfT	Department for Transport
DMO	Debt Management Office
DWP	Department for Work and Pensions
ECB	European Central Bank
EEA	European Economic Area
EFO	Economic and fiscal outlook
EFRBS	Employer Financed Retirement Benefit Scheme
EIS	Enterprise Investment Scheme
ESA	Employment and Support Allowance
EU	European Union

FCA	Financial Conduct Authority
FCO	Foreign and Commonwealth Office
FLS	Funding for Lending Scheme
FPC	Financial Policy Committee
FSB	Federation of Small Businesses
FTSE	Financial Times Stock Exchange
FYR	First Year Rate
G7	A group of 7 major industrial nations (comprising: Canada, France, Germany, Italy, Japan, UK and US)
G20	A group of 20 finance ministers and central bank governors representing 19 countries plus the European Union
GAAR	General Anti-Abuse Rule
GBP	Great British Pound
GBSLEP	Greater Birmingham and Solihull Local Enterprise Partnership
GDP	Gross Domestic Product
GLA	Greater London Authority
GNI	Gross National Income
HGV	Heavy Goods Vehicle
HMRC	Her Majesty's Revenue & Customs
HMT	Her Majesty's Treasury
HS1	High Speed 1
HS2	High Speed 2
HS3	High Speed 3
IHT	Inheritance Tax
IMF	International Monetary Fund
ILO	International Labour Organisation
IPT	Insurance Premium Tax
ISA	Individual savings account
JSA	Job Seekers Allowance
LEP	Local Enterprise Partnership
LIC	Low Income Country
LPC	Low Pay Commission
LTEP	Long Term Economic Plan
MPC	Monetary Policy Committee
NFR	Net Financing Requirement
NICs	National Insurance contributions
NMW	National Minimum Wage
NLW	National Living Wage
NR	Network Rail
NRAM	Northern Rock Asset Management
NS&I	National Savings and Investments
NUTS	A subdivision of a country used by the EU statistical body, Eurostat
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
OFGEM	Office of Gas and Electricity Markets

ONS	Office for National Statistics
OTS	Office of Tax Simplification
P2P	Peer to Peer
PAIF	Property Authorised Investment Fund
PF2	Private Finance 2
PFI	Private Finance Initiative
POTAS	Promoters of Tax Avoidance Schemes
PPP	Purchasing Power Parity
PPS	Purchasing Power Standard
PRA	Prudential Regulation Authority
PSCE	Public Sector Current Expenditure
PSGI	Public Sector Gross Investment
PSNB	Public Sector Net Borrowing
PSND	Public Sector Net Debt
R&D	Research and development
RBS	Royal Bank of Scotland
RDEC	Research and Development Expenditure Credit
RHDI	Real Household Disposable Income
RPI	Retail Prices Index
SDLT	Stamp Duty Land Tax
SEIS	Seed Enterprise Investment Scheme
SGP	Stability and Growth Pact
SIB	Social Impact Bond
SME	Small and medium-sized enterprise
SMI	Support for Mortgage Interest
SPT	Specialist Personal Tax
SR	Standard Rate
TEF	Teaching Excellence Framework
TfL	Transport for London
TfN	Transport for the North
TME	Total Managed Expenditure
TMI	Tax Motivated Incorporation
UC	Universal Credit
UKAR	UK Asset Resolution Ltd
UKCS	UK Continental Shelf
UKCRIC	UK Collaboratorium for Research in Infrastructure and Cities
UKTI	UK Trade and Investment
USD	United States Dollars
VAT	Value Added Tax
VCT	Venture Capital Trust
VED	Vehicle Excise Duty
WTC	Working Tax Credit
YBHA	ONS Code for Nominal GDP data

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HM Treasury contacts

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If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gsi.gov.uk

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