HM Treasury

SPRING BUDGET 2017

HC 1025

March 2017

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HM Treasury

SPRING BUDGET 2017

Return to an order of the House of Commons
dated 8 March 2017

Copy of the Budget Report – March 2017 as laid before the House of Commons by the Chancellor of the Exchequer when opening the Budget.

Jane Ellison
Her Majesty's Treasury
8 March 2017

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

Contents

Executive summary

As the UK begins the formal process of exiting the European Union, the Spring Budget puts economic stability first. Following a period of robust economic growth, record levels of employment and a falling deficit, it sets out further progress in restoring the public finances to health. Building on the Industrial Strategy, it goes further in tackling the UK's productivity challenge.

The Budget sets out actions the government will take to:

- help young people from ordinary working families across the country get the skills they need to do the high-paid, high-skilled jobs of the future, vital for a competitive workforce
- give more children the chance to go to a good or outstanding school that sets them up to succeed
- support the social care system with substantial additional funding, so people get the care they deserve as they grow older, and support both local NHS plans and improvements to Accident and Emergency with new capital investment
- invest in cutting-edge technology and innovation, so Britain continues to be at the forefront of the global technology revolution
- continue to bring down the deficit so the UK gets back to living within its means, and can fund public services for the long-term through a fair and sustainable tax system

By investing in the future, the Budget helps make the most of the opportunities ahead by laying the foundations of a stronger, fairer, better Britain – a country that works for everyone.

The Spring Budget also marks the transition to a single fiscal event each year, an autumn Budget.

Economic context

Continuing the trend of robust economic growth across much of the year, real GDP grew by 0.7% in the final quarter of 2016. GDP grew by 1.8% over the year as a whole, and employment reached a new record high.

The OBR expects the level of GDP in 2021 to be broadly the same as it forecast at Autumn Statement 2016, although the profile of growth has changed. The OBR now forecasts GDP growth of 2.0% in 2017, 1.6% in 2018, and then 1.7% in 2019, 1.9% in 2020 and 2.0% in 2021. Household and business spending have been stronger to date than forecast in November. The fall in sterling over the course of 2016 is expected to push inflation to 2.4% in 2017 and 2.3% in 2018, before falling back to 2.0% in 2019. As a result, the OBR expects the pace of consumer spending to slow. It also forecasts private investment to remain subdued.

Outlook for the public finances

Autumn Statement 2016 set out the government's strategy to return the public finances to balance as soon as possible in the next Parliament. In the interim, the government will reduce the structural deficit to less than 2% of GDP and get debt falling as a percentage of GDP by 2020-21.

These rules take a balanced approach, combining the flexibility to support the economy if necessary in the near term, and the commitment to return the public finances to a sustainable position in the long term.

The government remains on course to meet its fiscal rules, with borrowing lower in every year compared to Autumn Statement 2016. While stronger economic activity in the near term, timing effects and other one-off factors significantly reduce borrowing in 2016-17, the medium-term outlook for the public finances is essentially unchanged since Autumn Statement 2016. The OBR expects that borrowing will fall to 0.7% of GDP by 2021-22, which is forecast to be the lowest level as a share of GDP in two decades. Debt is expected to peak at 88.8% of GDP in 2017-18, before falling to 79.8% of GDP in 2021-22.

To achieve this, and to ensure the UK lives within its means, the government will maintain discipline on public spending. New discretionary commitments made in the Budget are funded over the forecast period. This responsible approach to setting fiscal policy improves the sustainability of the public finances and provides certainty and security to businesses and households.

A fair and sustainable tax system

The tax system needs to be fair and sustainable in order to support critical public services. It also needs to be competitive, to support economic growth and maintain the UK as one of the best places in the world to set up and grow a business. These principles are reflected in the government's increases to the personal allowance and higher rate threshold, reductions in the rate of corporation tax to 17% by 2020, and significant steps taken since 2010 to tackle tax avoidance and evasion. The Budget takes further steps in line with this:

- the main rate of Class 4 National Insurance contributions will increase from 9% to 10% in April 2018 and to 11% in April 2019 to reduce the gap in rates paid by the self-employed and employees, and to reflect the introduction of the new State Pension to which the self-employed have the same access
- the dividend allowance will be reduced from £5,000 to £2,000 from April 2018, to reduce the tax differential between the self-employed and employed, and those working through a company, to raise revenue to invest in public services, and to ensure that support for investors is more effectively targeted

Raising productivity and living standards

The government is committed to raising living standards. It has taken action to help more people into work and to enable individuals to keep more of what they earn. The personal allowance will rise to £11,500 next month, over 75% higher than in 2010. This will take 1.3 million people out of income tax altogether, compared to the beginning of this Parliament.

Raising productivity – the amount of output per hour worked – is the only sustainable way to raise living standards for people across the UK.

The Budget focuses on creating a highly-skilled workforce. This is the next step in the government's strategy to improve productivity, building on the recently published Industrial Strategy green paper. Not only will it provide UK businesses with the highly-skilled workers they need to succeed in global markets, it will enhance the options for young adults who want to pursue a technical education. Specifically, the Budget announces policies to:

- transform technical education for 16-19 year olds, creating sector-specific routes to employment, supported by an increase in the number of hours of learning of over 50%, and including a high quality work placement for each student

- fund maintenance loans for students pursuing technical education at higher levels, opening up the same opportunities available to those studying on the academic route
- expand the free schools programme, to give more parents the choice of a good school for their child, and commit an additional £216 million investment in school maintenance

The Budget's focus on skills builds on over £23 billion of additional high-value investment committed at Autumn Statement 2016, through the National Productivity Investment Fund (NPIF). Together, these investments will help build a UK economy supported by world-class infrastructure and world-class talent.

The Budget takes the next steps in delivering the government's Industrial Strategy by setting out the initial actions being supported by NPIF investment:

- creating a new National 5G Innovation Network to trial and demonstrate 5G applications, and this year starting to roll out a series of local projects to accelerate market delivery of fast and reliable full-fibre broadband
- competitively allocating £690 million to local authorities to get local transport networks moving
- putting the UK at the forefront of global technological progress including through developing artificial intelligence and robotics, and batteries for the next generation of electric vehicles
- investing £300 million to further develop the UK's research talent, including through creating an additional 1,000 PhD places

Building an economy that works for everyone

The government is committed to building an economy that works for everyone. Alongside policies to boost productivity and living standards over the long term, including by investing in skills and schools, the government is taking action to reduce living costs for families in the short term. The government will shortly be rolling out Tax-Free Childcare for working families with children under 12, providing up to £2,000 a year for each child to help with childcare costs. From September 2017, the free childcare offer will double, from 15 to 30 hours a week for working families with 3 and 4 year olds in England, in total worth up to £5,000 for each child.

The Budget takes further steps to improve the services people care most about, providing more support for health and social care. Building on the short-term actions taken in December 2016, the government will provide £2 billion additional funding for social care to councils in England between 2017-18 and 2019-20, to help ensure people receive the social care support they need and to reduce pressure on the NHS. It will also invest a further £425 million to improve local NHS services and support Accident and Emergency improvement. The government will also set out proposals in a green paper to put the social care system on a more secure and sustainable long-term footing.

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: Spring Budget 2017 policy decisions (£ million)[1]

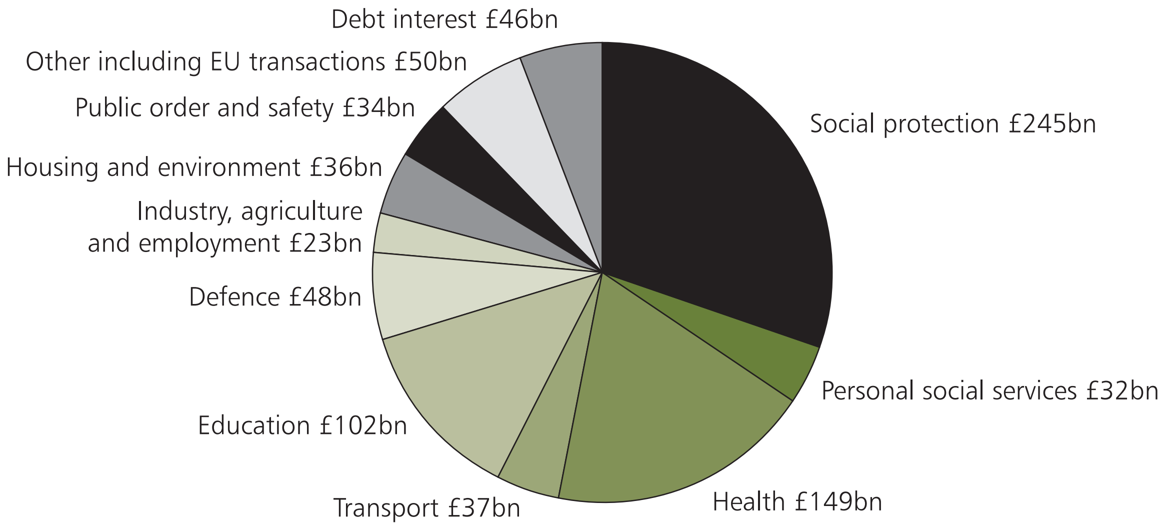
	2017-18	2018-19	2019-20	2020-21	2021-22
Total spending policy decisions	-1,545	-1,140	-705	-450	-1,040
Total tax policy decisions	-165	+475	+1,530	+1,380	+1,485
Total policy decisions	**-1,710**	**-665**	**+825**	**+930**	**+445**

[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 £802 billion in 2017-18.

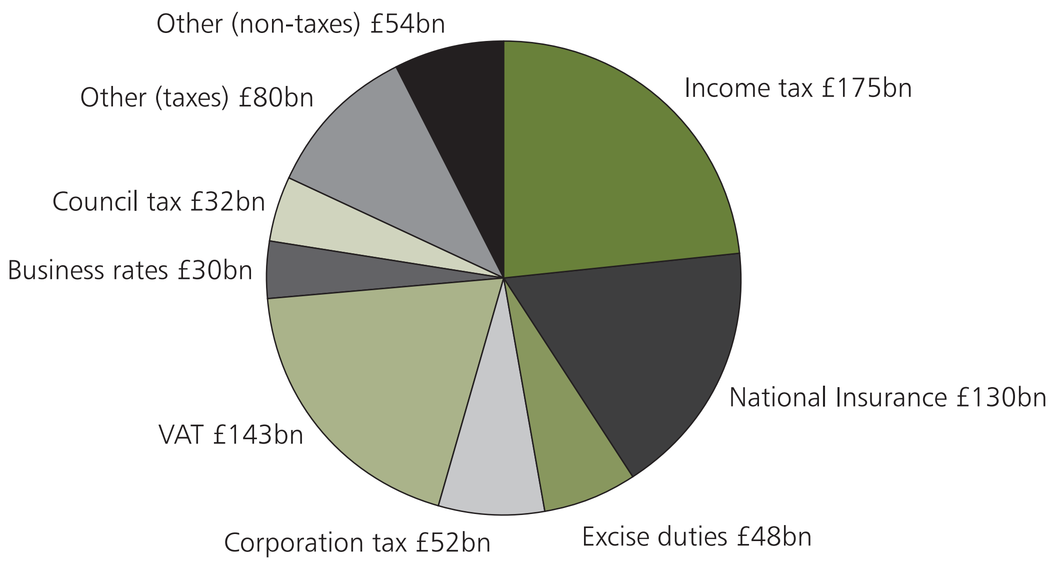
Chart 1: Public sector spending 2017-18



Sources: Office for Budget Responsibility 2017-18 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 £744 billion in 2017-18.

Chart 2: Public sector receipts 2017-18



Source: Office for Budget Responsibility, 2017-18 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 Economy and public finances

Economic context

1.1 Data released since Autumn Statement 2016 have provided further evidence of the fundamental strength and resilience of the UK economy.[1] Real Gross Domestic Product (GDP) is now 8.6% larger than its pre-financial crisis peak in early 2008, and employment is at a record high. It is from this position of strength that the UK enters into a period of negotiation with its European partners.

1.2 The Office for Budget Responsibility (OBR) judges that, in large part, the outlook for the UK economy has not changed since Autumn Statement 2016. The forecast for the level of GDP at the end of 2021 is broadly unchanged, although the expected path of growth has been revised slightly. The OBR continues to judge that growth will moderate during 2017, largely due to a slowdown in consumer demand growth as rising inflation, resulting from sterling's depreciation, weighs on real incomes. Business investment is also expected to remain subdued due to economic uncertainty as the UK negotiates its departure from the EU. The OBR has not revised its judgement of the medium-term effect of leaving the EU on the UK economy.

UK economy

Growth

1.3 The Office for National Statistics (ONS) estimates that the economy grew 1.8% in real terms in 2016, second only to Germany among major advanced economies. Growth remained robust in the second half of the year, at 0.6% in Q3 and 0.7% in Q4 2016, stronger than the OBR anticipated at Autumn Statement 2016. On a per capita basis, UK GDP increased 1.1% in 2016.

1.4 All major sectors of the economy made a positive contribution to growth in 2016, with services output increasing 2.9%, construction 1.5% and production 1.2%. Private business surveys suggest that all sectors have continued to expand in the early months of 2017.

1.5 Household consumption accounted for 65% of GDP in 2016 and growth has remained strong, increasing to 3.0% last year. Consumer confidence is near its long-run average and borrowing costs are low, which appear to have supported consumer spending.

1.6 While consumption growth has been robust in recent years, this has not been accompanied by a sharp increase in debt. Total household debt as a proportion of disposable income in Q3 2016 was 10% below the peak reached in Q1 2008. Within this unsecured debt as a proportion of disposable income rose over the year to Q3 2016, but remained 8% below the peak reached in Q1 2007. Consumer credit funded less than a tenth of the growth in consumption over 2016. Household saving as a proportion of disposable income declined gradually over the two years to Q2 2016, before falling more sharply to 5.6% in Q3 2016.

[1] Details of the sources of all numerical references, including National Statistics, used in this section, can be found in 'Spring Budget 2017 data sources'.

1.7 Business investment fell 1.0% in Q4 2016, following a modest increase of 0.7% in Q3 2016. This resulted in a 1.5% decline in business investment in 2016. Private business surveys cited uncertainty about future demand and the outcome of the EU negotiations as weighing on activity and investment.

1.8 The UK has run a deficit on trade in goods and services for almost twenty years. This continued in 2016, and at 1.9% of GDP was in line with its average since 2010. Within this, the trade in goods deficit widened to 7.0% of GDP, but was partially offset by a larger surplus of 5.1% of GDP on trade in services. A range of private business surveys report that export orders are increasing due to increases in global demand as well as the fall in the value of sterling since mid-2016.

1.9 The current account deficit remains large by international and historical standards, widening to 4.9% of GDP in the first three quarters of 2016. The primary income balance has driven the larger current account deficit in recent years, due to the relatively lower return on assets held overseas by UK investors, and this deficit remained high at 1.6% of GDP in the first three quarters of 2016.

Prices

1.10 Inflation has risen in recent months, with the 12-month increase in the Consumer Prices Index (CPI) reaching 1.8% in January 2017. This has been driven by global oil price rises, amplified by the post-referendum depreciation of sterling, which have led to increases in the contribution of the transport component of CPI inflation. Past decreases in food and fuel prices have dropped out of the annual comparison, further pushing up on inflation. Services inflation has been broadly stable over the last year and remains below its long-run average.

Labour market

1.11 The labour market has remained robust in recent months. The employment rate reached a new record high of 74.6% in the three months to December 2016, while the unemployment rate was 4.8%, the lowest in 11 years. The increase in employment over the past year was primarily driven by a rise in full-time employment, which accounted for 72% of employment growth in 2016.

1.12 UK labour productivity growth was subdued in 2016, continuing to reflect the trends observed in most advanced economies since the financial crisis. Output per hour increased 0.4% in Q4 2016, in line with the average quarterly growth across the year as a whole. Raising productivity growth sustainably remains the central long-term economic challenge facing the UK.

1.13 Earnings growth has been stable in recent months. Both total pay and regular pay (excluding bonuses) rose 2.6% in the three months to December 2016 compared with the same period a year earlier.

1.14 Real household disposable income (RHDI) per head rose sharply from the end of 2014, and in 2015 recorded its fastest annual growth in 14 years. RHDI per head rose further in the first half of 2016, reaching its highest ever level, and remained close to this level in Q3 2016 as the pick-up in inflation constrained further real income growth.

Global economy

1.15 The UK has always been an outward-facing trading nation. A strong global economy, with robust activity in the UK's major trading partners, would benefit the economy as the UK builds on this reputation and forges new relationships with the EU and trading partners worldwide.

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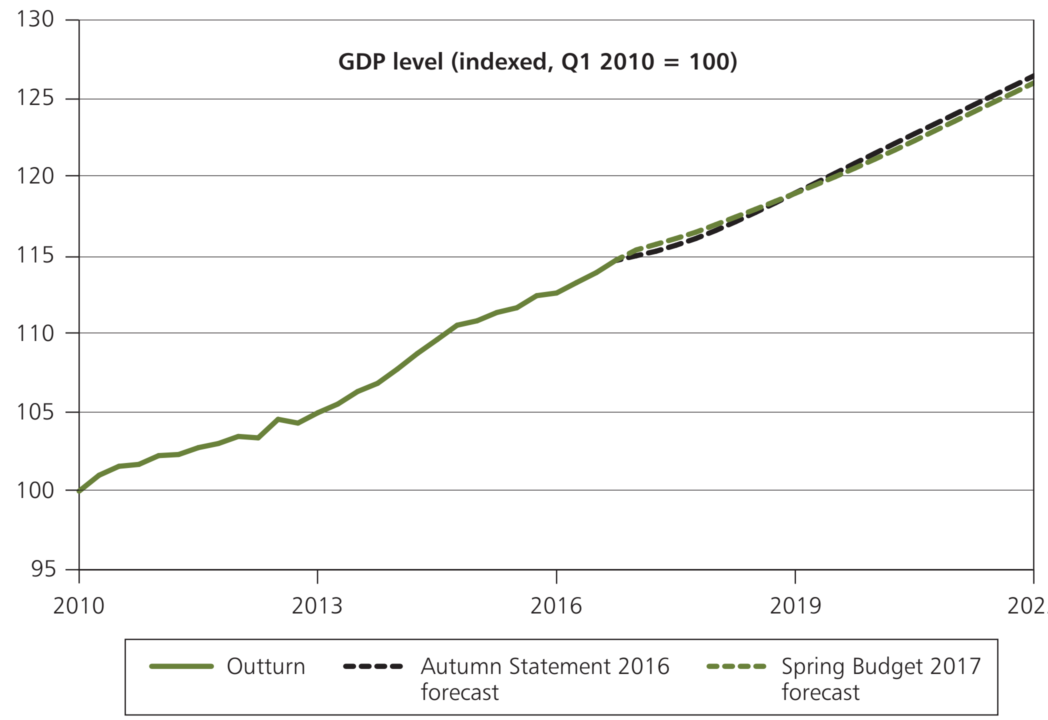
1.16 Global growth remained broadly stable in the second half of 2016, although performance has varied across economies. Momentum has been sustained in advanced economies: euro area growth, which has picked up in recent years, remained steady in the second half of the year, to give annual growth of 1.7%; US activity rebounded after a slower start to last year, with annual growth of 1.6%. Performance in emerging economies was mixed: the Chinese and Indian economies grew 6.7% and 6.6% respectively in 2016, while the Brazilian and Russian economies both contracted.

1.17 The International Monetary Fund forecasts that global growth will increase slightly to 3.4% in 2017. It judges that the outlook has improved in advanced economies, where growth in the second half of 2016 exceeded its earlier forecasts, while growth prospects have marginally worsened in emerging economies. Uncertainty around the global outlook is heightened at present, associated, among other things, with policy and political risks.

Economic outlook

1.18 The OBR's Spring Budget 2017 forecast for the level of GDP at the end of 2021 is broadly unchanged from Autumn Statement 2016, although the expected profile of growth has been revised. The OBR now forecasts stronger GDP growth in 2017 than previously expected, as a result of stronger economic data over the past few months; in particular, consumption growth has been stronger than anticipated. However, in the near term, rising inflation, largely caused by the post-referendum sterling depreciation, is expected to weigh on household consumption growth. The OBR also continues to judge that business investment will be constrained due to economic uncertainty over the next few years. These effects combine to give a shallower, but slightly longer period of slower growth. Over the medium term, the OBR has not materially changed its main judgements about the economic outlook and its expectation for potential output growth over the next five years is therefore unchanged.

Chart 1.1: UK real GDP level



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

1.19 In the longer term, the economy will adjust to new relationships with the EU and the rest of the world. In producing the forecast, the OBR has not attempted to predict the precise outcome of negotiations, nor the breadth and depth of new relationships that may be negotiated bilaterally with the EU or other trading partners. Instead, its assumptions on the effects of leaving the EU on trade, unchanged from those which underpinned the Autumn Statement 2016 forecast, are in line with a range of external studies. The OBR notes that there is a higher than usual degree of uncertainty in this forecast.

Table 1.1: Summary of the OBR's central economic forecast[1] (Percentage change on a year earlier, unless otherwise stated)

			Forecast				
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
GDP	**2.2**	**1.8**	**2.0**	**1.6**	**1.7**	**1.9**	**2.0**
GDP per capita	**1.4**	**1.1**	**1.3**	**0.9**	**1.1**	**1.2**	**1.4**
Main components of GDP							
Household consumption[2]	2.4	3.0	1.8	0.9	1.7	1.7	1.9
General government consumption	1.3	0.8	1.2	0.7	0.4	0.9	1.3
Fixed investment	3.4	0.5	0.8	3.0	3.3	3.9	3.4
Business	5.1	-1.5	-0.1	3.7	4.2	3.9	3.6
General government	-2.6	1.4	0.1	1.2	2.1	6.1	3.8
Private dwellings[3]	3.0	4.8	2.5	2.9	2.4	2.9	3.0
Change in inventories[4]	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0
Net trade[4]	0.0	-0.4	0.3	0.3	0.0	-0.1	-0.1
CPI inflation	**0.0**	**0.7**	**2.4**	**2.3**	**2.0**	**2.0**	**2.0**
Employment (millions)	**31.3**	**31.7**	**31.9**	**32.1**	**32.2**	**32.3**	**32.5**
LFS unemployment (% rate)[5]	**5.4**	**4.9**	**4.9**	**5.1**	**5.2**	**5.2**	**5.1**
Productivity per hour	**0.8**	**0.5**	**1.6**	**1.5**	**1.7**	**1.8**	**1.9**

[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] Labour Force Survey.

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

Growth

1.20 With higher than expected growth in Q4 2016 and stronger near-term momentum in the economy, the OBR has revised up its forecast for GDP growth in 2017 by 0.6 percentage points to 2.0%. Thereafter there is a shallower slowdown and a more gradual recovery, with growth revised down to 1.6% in 2018, 1.7% in 2019, and 1.9% in 2020, followed by an unchanged forecast of 2.0% growth in 2021.

1.21 The upward revision to 2017 GDP growth is due in large part to an increase in the expected path of household consumption, which was stronger than anticipated in recent months. However, consumption growth is expected to slow over the year, as the post-referendum sterling depreciation puts upward pressure on inflation, restraining real income growth, and household saving stabilises. The OBR forecasts consumption growth of 1.8% in 2017 and 0.9% in 2018 before increasing to between 1.7% and 1.9% growth for the remainder of the forecast period.

1.22 The OBR expects a further reduction in the saving ratio to support consumer spending in the near term, as rising inflation weighs on household budgets, before it stabilises during 2017. The OBR forecasts household saving of 4.6% of disposable income in 2017, followed by gradual increases to 5.2% in 2018, 5.4% in 2019, 5.8% in 2020 and 5.9% in 2021.

1.23 Household debt as a proportion of income is forecast to remain below pre-financial crisis levels, but to increase gradually over the forecast period, reaching 153% in 2021. This is higher than at Autumn Statement 2016, due to a small upward revision to the stock of household debt and a downward revision to household disposable income. Average house prices are forecast to increase at an average annual rate of 4.8%; this contributes to expected increases in household net wealth, which is forecast to reach 879% of household income in 2021.

1.24 Small upward revisions to the OBR's near-term forecast for business investment, based on stronger than expected growth in Q3 2016, also contribute to the improved outlook for GDP growth in 2017. The OBR now judges that the effect of uncertainty on investment will be less severe but more drawn out than previously assumed, leading to downward revisions to investment growth in the later years of the forecast. The OBR forecasts a 0.1% fall in business investment in 2017, before uncertainty begins to dissipate and business investment starts to recover, picking up to 3.7% in 2018, 4.2% in 2019, 3.9% in 2020 and 3.6% in 2021.

1.25 Net trade is forecast to make a positive contribution of 0.3 percentage points to GDP growth in 2017 and 2018, as the post-referendum sterling depreciation is expected to support exports and reduce imports in the short term. Thereafter, the trade forecast is broadly unchanged from Autumn Statement 2016, as the OBR has not revised its judgement, based on a range of external studies, of the effect of leaving the EU on UK trade.

1.26 The OBR forecasts that the current account deficit will narrow, to 3.5% of GDP in 2017, 3.2% of GDP in 2018, 2.6% of GDP in 2019, 2.2% of GDP in 2020 and 2.0% of GDP in 2021. This is largely driven by an improvement in the primary income balance as the net rate of return on the UK's stock of foreign assets normalises and the depreciation of sterling increases the value of the income earned on those assets.

1.27 The outlook for potential output growth is unchanged since Autumn Statement 2016. The OBR continues to judge that the subdued path of business investment, which is likely to remain constrained due to economic uncertainty, will in turn weigh on productivity in the medium term.

Prices

1.28 The OBR forecasts that CPI inflation will increase to 2.4% in 2017 before falling back to 2.3% in 2018 and 2.0% from 2019 to 2021. Sterling has appreciated 3.3% on a trade-weighted basis since the beginning of November 2016, but remains 11.9% below its level of early June 2016, while global oil prices have increased 16.3% since the beginning of November. The two effects broadly counterbalance each other. Combined with the OBR's judgement on the effect of policy measures, this means that inflation is expected to be slightly higher in the near term and slightly lower in later years than forecast at Autumn Statement 2016.

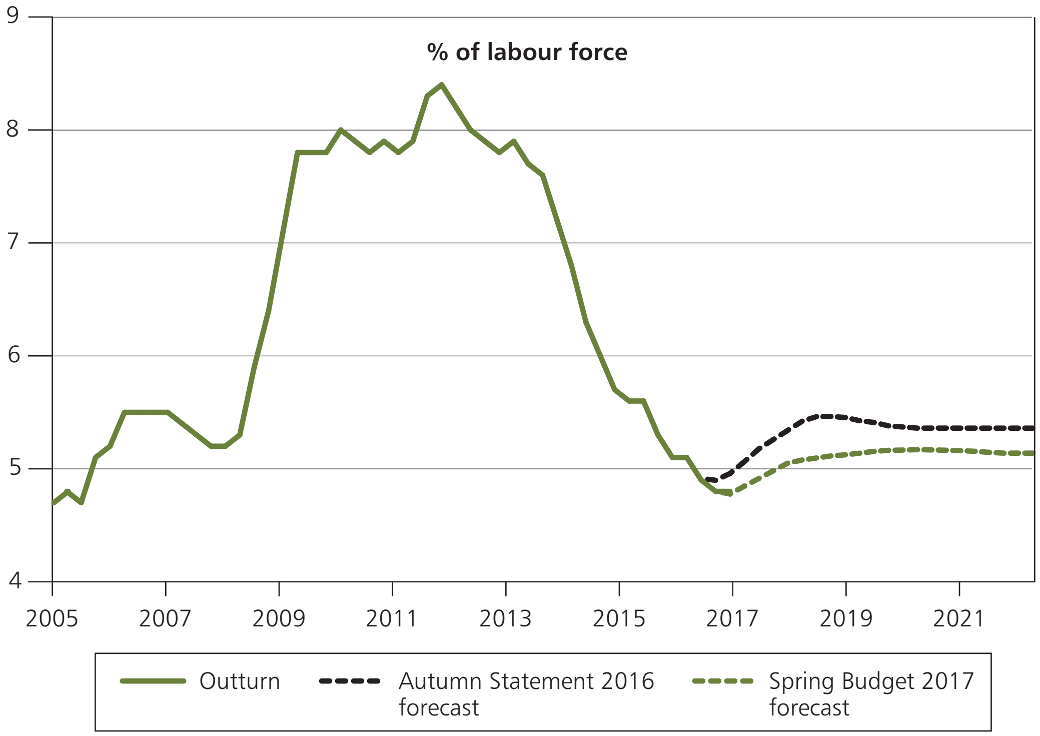
Labour market

1.29 The OBR has revised down its forecast for the unemployment rate, based on a revised judgement on the equilibrium rate of unemployment in the economy, the lowest unemployment rate which can be sustained while maintaining stable inflation. While the number of people in employment is expected to continue to increase, reaching 32.5 million in 2021, the unemployment rate is forecast to rise slightly as the economy slows, reaching 4.9% in 2017, 5.1% in 2018 and 5.2% in 2019 and 2020, before falling back to 5.1% in 2021.

1.30 The OBR forecasts that productivity growth will be 1.6% in 2017, 1.5% in 2018, 1.7% in 2019, 1.8% in 2020 and 1.9% in 2021. This is largely unchanged relative to the Autumn Statement 2016 forecast. The OBR has not revised its judgement on trend productivity growth, and continues to emphasise that this is the most important and most uncertain judgement in its economic forecast.

1.31 The OBR's forecast for earnings growth is little changed in the near term, but has been revised down slightly in later years, largely reflecting small revisions to expected inflation and productivity growth. The OBR anticipates average earnings growth of 2.6% in 2017 and 2.7% in 2018, followed by annual growth at or above 3.0% through to 2021. Earnings growth is an important determinant of the OBR's forecast for the public finances.

Chart 1.2: Unemployment rate



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

1.32 Following strong gains in recent years, higher inflation is expected to weigh on RHDI per head in 2017 before growth resumes later in the forecast. The OBR forecast a fall of 0.7% in 2017, as the recent sterling depreciation raises inflation while nominal earnings growth increases slightly. The OBR expects that RHDI per head will return to growth in 2018 with a 0.1% increase, and then pick up to 0.4% in 2019, 1.0% in 2020 and 1.2% in 2021. By the end of the forecast period RHDI per head is expected to be 2.0% above its 2016 level.

Monetary policy

1.33 The Monetary Policy Committee of the Bank of England has full operational independence to set monetary policy to meet the inflation target. Monetary policy is a critical element of the UK's macroeconomic framework, responsible for maintaining price stability and supporting the economy.

1.34 In this Budget, the government reaffirms the symmetric inflation target of 2% for the 12-month increase in the CPI, which applies at all time. The government also confirms that the Asset Purchase Facility will remain in place for the financial year 2017-18.

Outlook for the public finances

1.35 Since 2010, the government has made good progress in restoring the public finances to health. The deficit is now forecast to have been cut by almost three-quarters from its post-war peak of 9.9% of GDP in 2009-10 to 2.6% in 2016-17, a level not seen since before the 2008 financial crisis.[2] Nevertheless, both borrowing and debt remain too high. And the combination of the need to improve productivity and an ageing population poses a challenge for the public finances in the long run.

1.36 The government's new fiscal rules, approved by Parliament in January, commit to returning the public finances to balance at the earliest possible date in the next Parliament.[3] In the interim, the government is committed to reducing the cyclically-adjusted deficit below 2% of GDP and putting debt on a downward path by 2020-21. These rules take a balanced approach, combining the flexibility to support the economy, if necessary, in the near term, with the commitment to return the public finances to a sustainable position in the long term.

1.37 The OBR judges that the government remains on track to meet its interim targets two years early.[4] Underscoring its commitment to fiscal discipline, new discretionary policy decisions announced at the Budget are funded over the forecast period. This responsible approach to setting fiscal policy underpins the sustainability of the public finances and provides certainty and security to businesses and households.

The fiscal outlook

1.38 Public sector receipts have proven resilient since Autumn Statement 2016. Total receipts in 2016-17 are expected to significantly outperform the Autumn Statement 2016 forecast, especially corporation tax, income tax and Capital Gains Tax. The OBR attributes this to a combination of economic activity being stronger than expected in the short term, a structural improvement in some taxes, and timing effects and one-off factors, including higher forestalling of dividend income.

1.39 However, the OBR's medium-term economic outlook is largely unchanged from the autumn and earnings growth and consumption growth are expected to be slightly weaker than in November. This means that much of this near-term strength in receipts does not carry through to the later years of the forecast. Therefore the OBR expects total revenues in 2021-22 to be close to those forecast at Autumn Statement 2016.

1.40 Public spending is significantly lower in 2016-17 than forecast at Autumn Statement 2016, but broadly unchanged by the end of the forecast period. Lower spending in the near term reflects increased forecast underspending by departments, as well as a one-off change in the timing of EU contributions that moves some spending from 2016-17 into 2017-18. Upward revisions to spending in later years result from a combination of higher debt interest and local authority spending. Costs associated with changes to the personal injury discount rate also increase borrowing in every year.

1.41 The OBR notes that the action taken by the Department for Work and Pensions (DWP) to clarify Personal Independence Payment policy offsets most of the cost arising from recent legal judgments. These restore the government's original policy intent.

[2] 'Public sector finances', ONS, January 2017, and 'Economic and fiscal outlook', OBR, March 2017.
[3] 'Charter for Budget Responsibility: autumn 2016 update', HM Treasury, January 2017.
[4] 'Economic and fiscal outlook', OBR, March 2017.

1.42 Accounting changes reduce borrowing by £1.1 billion on average in every year relative to Autumn Statement 2016, with the biggest effect being a reduction of £3.0 billion in 2016-17. The most significant change is the completion of the move to an accruals-based recording of onshore corporation tax receipts, in line with the ONS's updated methodology.[5]

Table 1.2: Changes to the OBR's forecast for public sector net borrowing since Autumn Statement 2016 (£ billion)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Autumn Statement 2016	**68.2**	**59.0**	**46.5**	**21.9**	**20.7**	**17.2**
Total forecast changes since Autumn Statement 2016[1]	-16.4	-3.8	-7.5	-2.3	0.8	0.2
of which						
Receipts forecast	-7.5	-4.3	-4.6	-1.5	1.5	2.4
Spending forecast	-6.0	1.5	-0.7	0.2	-1.5	-1.8
Accounting changes	-3.0	-1.0	-2.2	-0.9	0.8	-0.4
Total effect of government decisions since Autumn Statement 2016	0.0	3.1	1.8	1.7	-1.0	-0.6
Total changes since Autumn Statement 2016	**-16.4**	**-0.7**	**-5.7**	**-0.6**	**-0.2**	**-0.4**
Spring Budget 2017	**51.7**	**58.3**	**40.8**	**21.4**	**20.6**	**16.8**

[1] Equivalent to lines from Table 1.3 of the March 2017 Economic and fiscal outlook; full references available in 'Spring Budget 2017 data sources'.
Source: Office for Budget Responsibility and HM Treasury calculations. Figures may not sum due to rounding.

1.43 Mirroring the revisions to the economic outlook, the net effect of these changes is that borrowing is expected to be lower in the near term but essentially unchanged from 2019-20 onwards. The OBR's public sector net borrowing (PSNB) forecast is £0.4 billion lower in 2021-22 than was forecast at Autumn Statement 2016.

1.44 However, the combination of a stronger than expected economy in the near term, timing effects and one-off factors has significantly lowered the borrowing forecast for 2016-17 relative to other years. The deficit in 2016-17 is predicted to be £16.4 billion lower than had been forecast at Autumn Statement 2016. Over half of this reduction in borrowing results from a range of one-off factors, including changes to the timing of corporation tax receipts, dividend income brought forward ahead of forthcoming tax rises, changes to the timing of EU payments, and lower forecast spending by departments this year – a number of which serve to push up borrowing in 2017-18.

1.45 Borrowing is lower in every year of the forecast compared with Autumn Statement 2016 and expected to fall to £16.8 billion or 0.7% of GDP by 2021-22. This is forecast to be the lowest deficit as a share of GDP in two decades.[6]

Table 1.3: Overview of the OBR's borrowing forecast as a percentage of GDP

	Estimate	Forecast					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Public sector net borrowing	3.8	2.6	2.9	1.9	1.0	0.9	0.7
Cyclically-adjusted public sector net borrowing	3.6	2.6	2.9	1.9	0.9	0.9	0.7
Treaty deficit[1]	4.0	2.7	2.8	1.9	1.1	0.9	0.9
Memo: Output gap[2]	*-0.2*	*0.1*	*0.1*	*-0.1*	*-0.1*	*-0.1*	*0.0*
Memo: Total policy decisions[3]			*-0.1*	*0.0*	*0.0*	*0.0*	*0.0*

[1] General government net borrowing on a Maastricht basis.
[2] Output gap measured as a percentage of potential GDP.
[3] Equivalent to the 'Total policy decisions' line in Table 2.1.
Source: Office for National Statistics, Office for Budget Responsibility and HM Treasury calculations.

[5] 'Improvements to accruals methodology for Corporation Tax, Bank Corporation Tax Surcharge and the Bank Levy', ONS, February 2017.
[6] 'Public sector finances', ONS, January 2017.

1.46 Debt as a percentage of GDP is also lower in every year than forecast at Autumn Statement 2016. Lower borrowing reduces cash debt in each year of the forecast compared to Autumn Statement 2016, although in 2016-17 this is offset by slightly faster take-up of the Bank of England's Term Funding Scheme. Slightly higher nominal GDP in the near term also reduces the debt-to-GDP ratio. As a result, the OBR now forecasts that public sector net debt (PSND) will peak at 88.8% of GDP in 2017-18, before falling each year thereafter to 79.8% of GDP in 2021-22.

Table 1.4: Overview of the OBR's debt forecast as a percentage of GDP

	Estimate	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Public sector net debt[1]	83.6	86.6	88.8	88.5	86.9	83.0	79.8
Public sector net debt ex Bank of England[1]	81.4	80.9	81.1	81.0	79.7	78.2	77.0
Public sector net financial liabilities[2]	76.4	75.8	76.1	75.0	72.8	70.4	67.7
Treaty debt[3]	87.6	87.5	87.7	87.7	86.5	84.8	83.6

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

[2] *Public sector net financial liabilities at end of March, GDP centred on end of March; outturn for 2015-16 is an experimental ONS statistic.*

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

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

Box 1.A: The long-term fiscal outlook

Over the next Parliament and beyond, the public finances will continue to be influenced by demographic trends, such as the retirement of the large baby-boomer cohort and increasing life-expectancy. The OBR's recent 'Fiscal sustainability report' projects that these demographic trends will drive increased spending in age-related areas such as health, long-term care and the state pension, if policy remains unchanged.[7] The OBR projects that factors such as the rising prevalence of chronic health conditions and technological advancements will place further upward pressure on health spending. Spending on the State Pension will rise from 5.0% of GDP in 2021-22 to 7.1% of GDP by 2066-67. However, the same demographic and economic trends will leave revenues broadly stable. Without changes to policy, these pressures would therefore put public sector debt on an unsustainable upward trajectory, almost tripling as a share of GDP over the next 50 years.

The government's capacity to meet the needs of an ageing population depends crucially on the productive potential of the economy. Productivity is currently 30% higher in the United States and 35% higher in Germany than in the UK.[8] At Autumn Statement 2016 the government took further action to address the longstanding need to improve productivity, including through a new National Productivity Investment Fund (NPIF) to support high value investment in innovation, infrastructure, and housing. The Budget focuses on improving skills, in order to boost productivity and living standards over the long term.

[7] 'Fiscal sustainability report', OBR, January 2017.
[8] 'International comparisons of productivity', ONS, October 2016.

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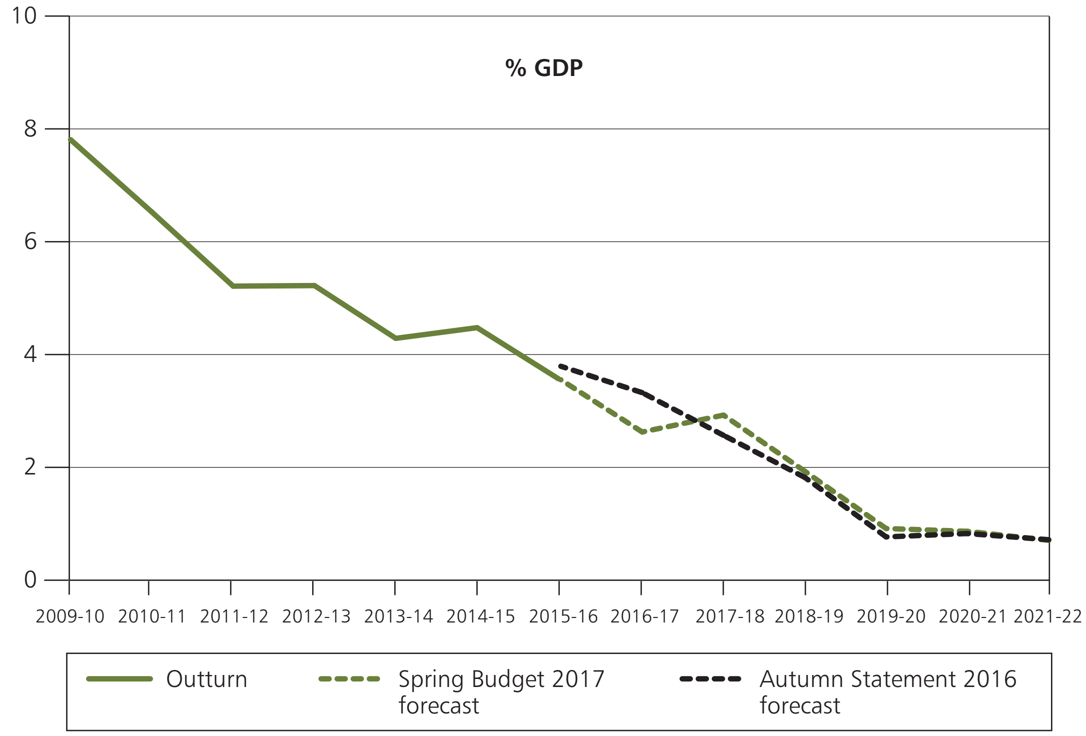
Performance against the fiscal rules

The fiscal mandate

1.47 The OBR's 'Economic and fiscal outlook' assesses the government against the fiscal mandate. It demonstrates that the government remains on target to bring cyclically-adjusted borrowing below 2% of GDP by the end of this Parliament. The OBR predicts that this target will be met two years early, and that by 2020-21 cyclically-adjusted public sector net borrowing will be 0.9% of GDP. The government therefore remains on track to meet its fiscal mandate, with 1.1% of GDP or £26 billion headroom in 2020-21. Compared with Autumn Statement 2016, the OBR estimates the probability of the government meeting its fiscal mandate to be unchanged at 65%, based on historic forecast errors.

Chart 1.3: Cyclically-adjusted public sector net borrowing



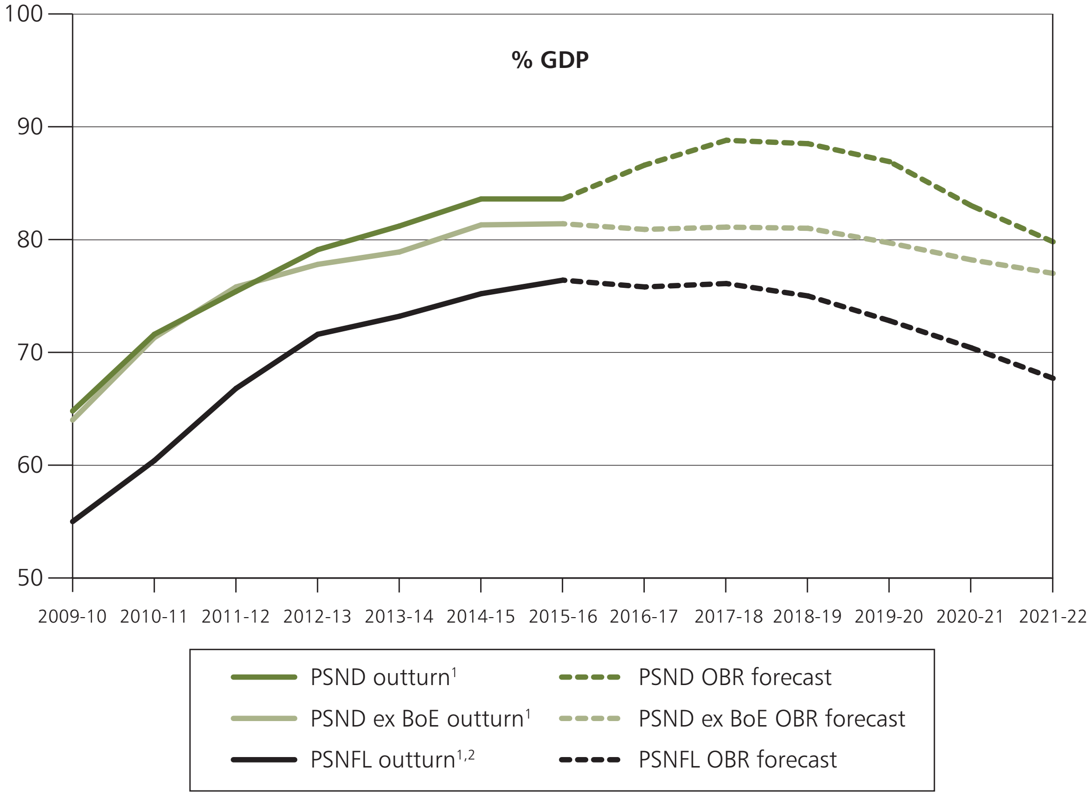
Source: Office for Budget Responsibility.

1.48 The government is committed to the 3.0% deficit target set out in the EU's Stability and Growth Pact. The OBR's latest forecast indicates that this target will be met in 2016-17, for the first time since 2007-08, and in every year thereafter.

The supplementary debt target

1.49 The OBR also judges the government to be on track to meet its supplementary debt target, with PSND falling as a share of GDP from 2018-19 onwards. PSND excluding the Bank of England (PSND ex BoE) and public sector net financial liabilities (PSNFL) are both forecast to fall as shares of GDP from 2018-19 onwards (see Box 1.B).

Chart 1.4: Public sector debt



[1] Outturn for 2015-16 is an OBR estimate with GDP based on the ONS 22 February 2017 GDP release.

[2] Experimental ONS statistic.

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

1.50 In light of the economic outlook, the government's decision to live within its means, while investing in the future, will enhance the UK's economic resilience. Reducing the government's indebtedness will also reduce the burden placed on future generations, who would otherwise need to service higher debt interest payments, paid for by lower public spending or higher taxation.

Box 1.B: Supplementary fiscal aggregates

Public sector net debt (PSND) is a well-established measure of the government's debt burden. However, the majority of the increase in PSND as a percentage of GDP over 2016-17 and 2017-18 is due to the Bank of England's Term Funding Scheme (TFS), which was announced in August 2016. Through the TFS, the Bank of England provides secured lending of central bank reserves backed by the full range of collateral as detailed in the Bank of England's Sterling Monetary Framework.[9] As PSND captures the liabilities of the TFS operations but does not fully capture the assets, these temporary actions are forecast to lead to an increase in debt over the next two years.[10] The take-up of the TFS has been slightly faster than the OBR expected at Autumn Statement 2016, and this partly offsets the OBR's lower borrowing forecast. The TFS will unwind from 2020-21 onwards, as loans are repaid.

At Autumn Statement 2016, the government asked the ONS to develop,[11] and the OBR to forecast, these measures, to provide policymakers with two alternative views of the government's fiscal position. These are:

- PSND excluding the Bank of England (PSND ex BoE) – which excludes the assets and liabilities held on the Bank of England's balance sheet from PSND
- Public Sector Net Financial Liabilities (PSNFL) – a broader fiscal aggregate which recognises all public sector financial assets and liabilities recorded in the national accounts

PSND is forecast by the OBR to peak at 88.8% of GDP in 2017-18, partly as a result of the effects of the TFS, before falling from that point onwards. In contrast, PSND ex BoE is forecast to remain roughly flat at 81% of GDP until 2018-19. Similarly, PSNFL stabilises at 76% of GDP between 2015-16 and 2017-18. From 2018-19 onwards, both of these alternate measures of debt are expected to fall as a share of GDP.

Welfare cap

1.51 Between 1980 and 2014 spending on working-age welfare trebled in real terms.[12] The government remains committed to ensuring the welfare system is put on a sustainable footing. The welfare cap, designed to improve Parliamentary accountability of welfare spending, was reset at Autumn Statement 2016. The cap is based on the OBR's forecast at Autumn Statement 2016 of the benefits and tax credits within its scope, and will apply to welfare spending in 2021-22.[13]

1.52 Performance against the cap will be formally assessed by the OBR in 2020-21; the cap will be breached if spending exceeds the cap plus a 3% margin at the point of assessment. In the interim years, progress towards the cap will be managed internally, based on the OBR's monitoring of forecasts of welfare spending. The OBR's forecast of the level of welfare spending against the cap is set out in its 'Economic and fiscal outlook', March 2017.

1.53 The OBR forecasts welfare spending to remain within the cap and margin set at Autumn Statement 2016. The government will deliver welfare savings already identified but has no plans to introduce further welfare savings in this Parliament beyond those already announced.

[9] 'Letter from the Chancellor of the Exchequer to the Governor of the Bank of England 04/08/2016', HM Treasury, August 2016.
[10] 'Economic statistics classification article: statistical treatment of the Bank of England's Term Funding Scheme in the UK national accounts and public sector finances', ONS, October 2016.
[11] 'Autumn Statement: Supplementary fiscal aggregates: 2016', ONS, October 2016.
[12] 'Benefit Caseload and Expenditure Tables', DWP, 2016.
[13] See Annex B of the Autumn Statement 2016 document.

Public spending

1.54 With the deficit still too high, control of public spending and an ongoing drive to improve the efficiency of public bodies is vital.

1.55 As set out at Autumn Statement 2016, the government will meet the commitments on public spending set out for this Parliament including commitments to priority public services, to international development and defence, and to pensioners. The government will maintain a disciplined approach to public spending to reach a balanced budget and live within its means. The commitments it is able to make on protecting public spending priorities in the next Parliament will need to be determined in light of evolving prospects for the fiscal position. The government will do this at the next Spending Review.

1.56 To ensure that the State Pension remains sustainable and fair across generations, the government is carrying out the first statutory review of State Pension age. The government will consider all the evidence – including an independent report by John Cridland – before publishing its review by 7 May 2017.

1.57 As a result of efforts to reduce the deficit to a level that gets debt falling, government spending as a share of GDP has been brought down from 44.9% in 2010-11 to 40.0% in 2015-16.[14] Total Managed Expenditure as a share of GDP is forecast to fall from 39.3% in 2016-17 to 37.9% in 2021-22, roughly the same proportion of GDP as in 2004.[15] Table 1.5 sets out the path for Total Managed Expenditure (TME), Public Sector Current Expenditure (PSCE) and Public Sector Gross Investment (PSGI) to 2021-22.

Table 1.5: Total Managed Expenditure (£ billion, unless otherwise stated)[1, 2]

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Current expenditure						
Resource AME	363.6	392.2	400.7	407.5	421.3	440.4
Resource DEL excluding depreciation[3]	305.3	305.4	307.4	308.5	314.0	319.0
Ring-fenced depreciation	26.2	21.9	22.8	23.3	21.9	22.8
Total public sector current expenditure	**695.1**	**719.5**	**730.9**	**739.2**	**757.2**	**782.2**
Capital expenditure						
Capital AME	24.7	26.4	27.7	27.1	28.9	30.9
Capital DEL	53.0	56.5	58.6	61.6	69.3	73.2
Total public sector gross investment	**77.7**	**82.9**	**86.3**	**88.7**	**98.2**	**104.1**
Total managed expenditure	**772.8**	**802.4**	**817.2**	**827.9**	**855.4**	**886.4**
Total managed expenditure % of GDP	*39.3%*	*39.6%*	*39.0%*	*38.2%*	*38.0%*	*37.9%*

[1] Budgeting totals are shown including the Office for Budget Responsibility (OBR) 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] The treatment of spending on Research and Development (R&D) was updated in the OBR's November 2016 forecast to align with the revised treatment in the National Accounts. It is now treated as capital rather than resource spending.

[3] The Scottish Government's resource DEL block grant has been adjusted from 2016-17 onwards as agreed in the Scottish Government's Fiscal Framework. In 2016-17 an adjustment of £5.5bn reflects the devolution of SDLT and Landfill Tax and the creation of the Scottish Rate of Income Tax. In 2017-18 an adjustment of £12.5bn additionally reflects the devolution of further Income Tax powers and revenues from Scottish courts. In 2018-19 and 2019-20, adjustments of £13.0bn and £13.4bn additionally reflect the devolution of Air Passenger Duty. Resource DEL numbers for 2020-21 and 2021-22 are indicative as budgets have not been set.

Source: Office for Budget Responsibility and HM Treasury calculations.

[14] 'Public finances databank', OBR, March 2017.
[15] 'Public finances databank', OBR, March 2017.

Efficiency Review

1.58 The government will deliver £3.5 billion of resource savings in 2019-20, supported by the Efficiency Review. The government intends to allocate £1 billion of these savings for re-investment in priority areas. The Chief Secretary to the Treasury, supported by the Minister for the Cabinet Office, is leading the Review, and has commissioned relevant Whitehall departments to consider options for reducing departmental spend in 2019-20. In delivering the Review, the government will meet the commitments on public spending set out for this Parliament including commitments to priority public services, to international development and defence, and to pensioners.

1.59 Alongside delivering savings in 2019-20, the Efficiency Review is also committed to embedding a culture of efficiency across government. Incremental improvements to the delivery of public services should be made each year to maximise value for money for taxpayers across government spending. The Chief Secretary to the Treasury has asked Sir Michael Barber to lead a review on strengthening the culture of efficiency in government to support this goal. This work will explore how efficiency is incentivised and measured across government, including considering the analytical frameworks used to inform choices on public spending. The government will report on progress on the Efficiency Review in autumn 2017.

Departmental Expenditure Limits

1.60 Tables 1.6 and 1.7 show the departmental resource and capital totals set at Spending Review 2015, adjusted to reflect subsequent announcements. In line with Autumn Statement 2016, before additional investment over the forecast period, departmental resource spending will continue to grow in line with inflation in 2020-21, and departmental spending will also grow with inflation in 2021-22.

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Table 1.6: Departmental Resource Budgets (£ billion)

	Estimate	Plans		
	2016-17	2017-18	2018-19	2019-20
Resource DEL excluding depreciation[1]				
Defence[2]	26.7	27.5	28.2	29.0
Single Intelligence Account	1.9	1.8	1.9	2.0
Home Office	10.7	10.8	10.7	10.7
Foreign and Commonwealth Office	2.0	1.2	1.2	1.3
International Development	7.5	8.0	9.1	9.1
Health (inc. NHS)	116.1	117.6	120.3	123.2
Work and Pensions	6.1	6.3	6.0	5.4
Education	59.6	61.4	62.1	62.7
Business, Energy and Industrial Strategy	2.0	2.0	1.9	1.7
Transport	1.6	2.1	2.1	1.7
Exiting the European Union	0.0	0.1	0.1	0.1
International Trade	0.3	0.3	0.3	0.3
Culture, Media and Sport	1.4	1.4	1.5	1.5
DCLG Communities	2.6	3.1	2.3	2.2
DCLG Local Government	8.2	6.5	5.5	5.4
Scotland[3]	20.7	14.2	13.6	13.2
Wales	13.1	13.4	13.4	13.5
Northern Ireland	9.9	10.0	10.0	10.0
Justice	6.9	6.6	6.2	6.0
Law Officers Departments	0.5	0.5	0.5	0.5
Environment, Food and Rural Affairs	1.7	1.6	1.5	1.4
HM Revenue and Customs	3.6	3.5	3.2	2.9
HM Treasury	0.2	0.1	0.1	0.1
Cabinet Office	0.4	0.3	0.2	0.2
Small and Independent Bodies	1.5	1.4	1.3	1.3
Reserves	0.0	5.1	4.9	7.2
Adjustment for Budget Exchange[4]	0.0	-0.4	0.0	0.0
Adjustment for planned efficiency savings	0.0	0.0	0.0	-3.5
Total Resource DEL excluding depreciation	**305.3**	**306.1**	**308.1**	**309.2**
OBR allowance for shortfall	*0.0*	*-0.8*	*-0.8*	*-0.8*
OBR resource DEL excluding depreciation forecast	**305.3**	**305.4**	**307.4**	**308.5**

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

[2] The defence budget for 2016-17 reflects changes made in-year, such as the drawdown of funding from the special reserve for the net additional cost of military operations. No such allocations have yet been made for 2017-18 onwards.

[3] The Scottish Government's resource DEL block grant has been adjusted from 2016-17 onwards as agreed in the Scottish Government's Fiscal Framework. In 2016-17 an adjustment of £5.5bn reflects the devolution of SDLT and Landfill Tax and the creation of the Scottish Rate of Income Tax. In 2017-18 an adjustment of £12.5bn additionally reflects the devolution of further Income Tax powers and revenues from Scottish courts. In 2018-19 and 2019-20, adjustments of £13.0bn and £13.4bn additionally reflect the devolution of Air Passenger Duty.

[4] Departmental budgets in 2017-18 include amounts carried forward from 2016-17 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.

Table 1.7: Departmental Capital Budgets (£ billion)

	Estimate	Plans			
	2016-17	2017-18	2018-19	2019-20	2020-21
Capital DEL					
Defence[1]	8.8	8.5	8.7	9.0	9.6
Single Intelligence Account	0.6	0.6	0.6	0.7	0.7
Home Office	0.5	0.6	0.5	0.5	0.4
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1	0.1
International Development	2.6	3.6	3.2	3.5	3.6
Health (inc. NHS)	4.6	6.1	6.0	6.0	5.9
Work and Pensions	0.3	0.4	0.3	0.2	0.2
Education	6.3	5.3	6.2	4.7	4.7
Business, Energy and Industrial Strategy[2]	11.0	10.8	10.4	11.1	6.0
Transport	5.5	6.4	8.1	11.1	12.4
Exiting the European Union	0.0	0.0	0.0	0.0	0.0
International Trade	0.0	0.0	0.0	0.0	0.0
Culture, Media and Sport	0.3	0.5	0.5	0.6	0.5
DCLG Communities	5.2	6.2	6.6	6.3	7.2
DCLG Local Government	0.0	0.0	0.0	0.0	0.0
Scotland	3.3	3.4	3.5	3.7	3.8
Wales	1.5	1.6	1.7	1.8	1.9
Northern Ireland	1.0	1.2	1.2	1.3	1.3
Justice	0.4	0.7	0.7	0.4	0.1
Law Officers Departments	0.0	0.0	0.0	0.0	0.0
Environment, Food and Rural Affairs	0.7	0.7	0.7	0.5	0.5
HM Revenue and Customs	0.3	0.2	0.2	0.2	0.2
HM Treasury	0.0	0.2	0.2	0.2	0.1
Cabinet Office	0.0	0.0	0.0	0.0	0.0
Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1
Reserves	0.0	1.2	0.8	1.2	1.2
Capital spending not yet in budgets[3]	0.0	0.0	0.0	0.4	2.3
Adjustment for Budget Exchange[4]	0.0	-0.5	0.0	0.0	0.0
Adjustment for Research & Development RDEL to CDEL switch[5]	0.0	0.0	0.0	0.0	6.5
Total Capital DEL	**53.1**	**58.0**	**60.4**	**63.7**	**69.3**
Remove CDEL not in public sector gross investment[6]	*-6.8*	*-7.5*	*-6.4*	*-6.2*	*-5.0*
OBR Allowance for shortfall	*-0.1*	*-1.5*	*-1.8*	*-2.1*	*-*
Public Sector Gross Investment in CDEL	**46.2**	**49.0**	**52.2**	**55.4**	**64.3**

[1] The defence budget for 2016-17 reflects changes made in-year, such as the drawdown of funding from the special reserve for the net additional cost of military operations. No such allocations have yet been made for 2017-18 onwards.

[2] Full BEIS CDEL budgets for 2020-21 have not yet been set. See footnote 5.

[3] This represents funding not yet allocated to departments. It is presented net of the Office of Budget Responsibility's (OBR) allowance for shortfall in 2020-21.

[4] Departmental budgets in 2017-18 include amounts carried forward from 2016-17 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.

[5] Following the implementation of ESA10, all research and development (R&D) spending is classified as capital. Departmental R&D budgets have not been set in full in 2020-21. The table contains a forecast assumption for R&D which is not yet in departments' budgets. The government will set 2020-21 R&D budgets for all departments in due course.

[6] Capital DEL that does not form part of public sector gross investment, including financial transactions in Capital DEL.

Devolved administrations

1.61 The application of the Barnett formula to spending decisions taken by the UK government at the Budget will provide each of the devolved administrations with additional funding to be allocated according to their own priorities. The Scottish and Welsh governments' block grants will be further adjusted as set out in their respective fiscal frameworks.

Financial transactions

1.62 Some policy measures do not directly affect PSNB in the same way as conventional spending or taxation. These include financial transactions that directly affect only the central government net cash requirement (CGNCR) and PSND. Table 1.8 shows the effect of the financial transactions announced at the Budget on CGNCR.

Table 1.8: Financial Transactions from 2017-18 to 2021-22 (£ million)[1,2]

	2017-18	2018-19	2019-20	2020-21	2021-22
i Doctoral loans	0	-5	-5	-10	-10
ii Part-time maintenance loans	0	75	130	95	65
iii Further Education maintenance loans	0	0	-15	-40	-70
Total policy decisions	**0**	**70**	**110**	**45**	**-15**

[1] *Costings reflect the Office for Budget Responsibility's latest economic and fiscal determinants.*

[2] *Negative numbers in the table represent a cost to the Exchequer.*

Asset sales

1.63 The government remains committed to returning the financial sector assets acquired in 2008-09 to the private sector, subject to market conditions and achieving value for taxpayers:

- **Lloyds** – The government launched a trading plan on 7 October 2016 to sell its shares in Lloyds Banking Group in the market in an orderly and measured way.[16] Sales already exceed its previous 2016-17 projection by £1.0 billion and remain on track to fully return Lloyds to the private sector by the end of 2017-18.[17] When taken alongside previous share sales and dividends received the government has recovered over £19.0 billion for the taxpayer[18] and is on track to recover all of the £20.3 billion injected in to the bank.
- **RBS** – The government will continue to seek opportunities for disposals, but the need to resolve legacy issues makes it uncertain as to when these will occur.
- **UK Asset Resolution (UKAR)** – UKAR's balance sheet has already reduced from £115.8 billion in 2010 to £36.9 billion as at 30 September 2016[19] and its £15.65 billion programme of sales of Bradford & Bingley (B&B) mortgage assets continues to progress to plan with full conclusion expected before the end of 2017-18[20].

[16] 'Sale of public share in Lloyds to restart shortly', HM Treasury, October 2017.
[17] 'Economic and fiscal outlook', OBR, November 2016, 'Economic and fiscal outlook', OBR, March 2017.
[18] 'Taxpayers' stake in Lloyds now below 4%', HM Treasury, February 2017.
[19] 'UK Asset Resolution Limited Group Interim Financial Report for the 6 months to 30 September 2016', UKAR, November 2016.
[20] 'Economic and fiscal outlook', OBR, March 2017.

1.64 The government continues to explore options for the sale of wider corporate and financial assets, where there is no longer a policy reason to retain them and when value for money can be secured for taxpayers. This is an integral part of the government's plan to repair the public finances. On 6 February, the government began the process to sell part of the pre-2012 income contingent repayment student loan book[21]. The sale process is expected to take several months and remains subject to market conditions and a final assessment of value for money. This is the first tranche of a programme of sales which is forecast to raise £12 billion by 2020-21.[22] The sale process for the Green Investment Bank is ongoing.

Debt and reserves management

1.65 The government's financing plans for 2017-18 are summarised in Annex A. They are set out in full in the 'Debt management report 2017-18', published alongside the Budget.[23]

1.66 The government will provide £6.0 billion of sterling financing for the Official Reserves in 2017-18.

[21] 'Government launches first sale from the student loan book', Department for Education, HM Treasury and Student Loans Company, February 2017.
[22] 'Economic and fiscal outlook', OBR, March 2017.
[23] 'Debt management report 2017-18', HM Treasury, March 2017.

2 Policy decisions

2.1 The following chapters set out all Spring Budget policy decisions. Unless stated otherwise, the decisions set out are ones which are announced at the Budget.

2.2 Table 2.1 shows the cost or yield of all Spring Budget decisions with a direct effect on PSNB in the years up to 2021-22. This includes tax measures, changes to allocated Departmental Expenditure Limits (DEL) and measures affecting annually managed expenditure (AME).

2.3 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 'Spring Budget 2017: policy costings'[1] published alongside the Budget.

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

[1] 'Spring Budget 2017: policy costings', HM Treasury, Department for Work and Pensions, and HM Revenue and Customs, March 2017.
[2] 'Overview of Tax Legislation and Rates', HM Treasury, and HM Revenue and Customs, March 2017.

Table 2.1: Spring Budget 2017 policy decisions (£ million)[1]

		Head	2017-18	2018-19	2019-20	2020-21	2021-22[2]
Raising Productivity and Living Standards							
1	16-19 Technical Education: implement Sainsbury reforms	Spend	0	-60	-115	-250	-445
2	Education capital: extend free schools programme	Spend	-20	-30	-50	-280	-655
3	Education capital: school investment	Spend	0	-130	-130	0	0
4	Labour market participation: funding for returnships	Spend	*	-5	0	-	-
5	Business Rates: discretionary support fund	Tax	-180	-85	-35	-5	0
6	Business Rates: targeted support for Small Business Rate Relief recipients	Tax	-25	-20	-20	-25	-25
7	Business Rates: £1,000 discount for smaller pubs for 2017-18	Tax	-25	*	0	0	0
8	Regional and other spending	Spend	-15	-10	-5	0	0
An economy that works for everyone and public spending							
9	Social Care: additional funding	Spend	-1,200	-800	-400	-	-
10	NHS: Accident and Emergency streaming	Spend	-120	0	0	0	0
11	NHS: Sustainability and Transformation Plans	Spend	-130	-130	-130	0	0
12	Tackling domestic violence and abuse	Spend	0	-10	-10	0	0
13	Free school transport: expand eligibility to selective schools	Spend	0	-5	-5	-5	-5
14	International Women's Day: voting rights centenary commemoration	Spend	-5	0	0	-	-
Tax Sustainability and Fairness							
15	Class 4 NICs: increase to 10% from April 2018 and 11% from April 2019	Tax	0	+325	+645	+595	+495
16	Dividend Allowance: reduce to £2,000 from April 2018	Tax	*	+5	+870	+825	+930
17	Making Tax Digital: one year deferral for businesses with turnover below VAT threshold	Tax	*	-20	-65	-150	-45
18	Stamp Duty Land Tax: delay reduction in payment window to 2018-19	Tax	-105	+95	*	*	*
19	Aggregates Levy: freeze for April 2017	Tax	-15	-15	-15	-15	-15
20	Heavy Goods Vehicles: freeze VED and Road User Levy	Tax	-10	-10	-10	-10	-10
21	Packaging Recycling Targets: set rates for 2018-2020	Tax	*	*	-5	-5	-5
Avoidance, Evasion and Imbalances							
22	Tax avoidance: new penalty for enablers of tax avoidance	Tax	+10	+50	+20	+20	+15
23	Qualifying Recognised Overseas Pension Schemes: targeted charge	Tax	+65	+60	+60	+65	+65
24	Tax treatment of transfers to trading stock: prevent abuse	Tax	+25	+15	+15	+15	+15
25	VAT on telecoms outside the EU: align with international practice and prevent avoidance	Tax	+45	+65	+65	+65	+65

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	Head	2017-18	2018-19	2019-20	2020-21	2021-22[2]
Previously announced welfare policy decisions						
26 Tax Credit Debt: enhanced collection	Spend	0	+60	+180	+145	+135
27 Living Together Data Fraud: enhanced data collection	Spend	*	+5	*	*	*
28 Child Tax Credit and Universal Credit: targeted exceptions to two child limit	Spend	-5	-15	-35	-55	-70
Total policy decisions		**-1,710**	**-665**	**+825**	**+930**	**+445**
Total spending policy decisions		-1,545	-1,140	-705	-450	-1,040
Total tax policy decisions		-165	+475	+1,530	+1,380	+1,485

* *Negligible*

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

[2] *At Spending Review 2015, the government set departmental spending plans for resource DEL (RDEL) for the years up to and including 2019-20, and capital DEL (CDEL) for the years up to and including 2020-21. Where specific commitments have been made beyond those periods, these have been set out on the scorecard. Where a specific commitment has not been made, adjustments have been made to the overall spending assumption beyond the period.*

Table 2.2: Measures announced at Autumn Statement 2016 or earlier that will take effect from April 2017 or later (£ million)[1]

		Head	2017-18	2018-19	2019-20	2020-21	2021-22
Measures announced at Autumn Statement 2016							
a	Social Sector Rent downrating: exemptions	Spend	-5	-10	-15	-15	-15
b	Local Housing Allowance: adjusted roll-out and supported housing fund	Spend	0	-310	-260	+165	+130
c	Fuel Duty: freeze in 2017-18	Tax	-990	-985	-1005	-1030	-1060
d	Universal Credit: reduce taper to 63%	Spend	-35	-175	-400	-570	-700
e	NS&I Investment Bond	Spend	-65	-95	-100	-30	0
f	Right to Buy: expand pilot	Spend	-25	-90	-110	-25	0
g	Insurance Premium Tax: 2ppt increase from June 2017	Tax	+520	+840	+840	+845	+855
h	National Insurance contributions: align primary and secondary thresholds	Tax	+180	+150	+155	+155	+155
i	Salary Sacrifice: remove tax and NICs advantages	Tax	+85	+235	+235	+235	+260
j	Money Purchase Annual Allowance: reduce to £4,000 per annum	Tax	+65	+70	+70	+70	+70
k	Company Car Tax: reforms to incentivise ULEVs	Tax	0	0	0	+30	+5
l	VAT Flat Rate Scheme: 16.5% rate for businesses with limited costs	Tax	+165	+135	+135	+130	+125
m	Disguised Remuneration: extend to self-employed and remove company deduction	Tax	+65	+170	+290	+45	+70
n	Adapted motor vehicles: prevent abuse	Tax	+20	+15	+15	+15	+15
o	HMRC: administration and operational measures	Tax	-20	+40	+170	+215	+185
p	Offshore Tax: close loopholes and improve reporting	Tax	+15	+25	+15	+65	+80
q	Money Service Businesses: bulk data gathering	Tax	0	+5	+5	+10	+10
r	Business Rates: support for broadband and increase Rural Rate Relief	Tax	-15	-20	-25	-20	-15
s	Gift Aid: reforms	Tax	*	-10	-15	-15	-20
t	Museums and Galleries tax relief	Tax	-40	-35	-35	-35	-40
u	Social Investment Tax Relief: implement with a £1.5m cap	Tax	+10	+5	+5	*	-5
v	Offpayroll working: implement consultation reforms	Tax	+20	+15	+15	+20	+20
Measures announced at Budget 2016							
w	Public Service Pensions: update to discount rate	Spend	0	0	+1975	+2025	+2070
x	Personal Allowance: increase to £11,500 in April 2017	Tax	-1700	-1950	-1940	-1930	-1995
y	Higher Rate Threshold: increase to £45,000 in April 2017	Tax	-380	-640	-595	-605	-610
z	Lifetime ISA and raise ISA limit to £20,000	Spend	-185	-345	-600	-860	-1160
aa	Savings: remove withholding tax obligations	Tax	-240	-45	-80	-95	-100
ab	Financial Advice Markets Review: increase tax relief on employer provided pension advice	Tax	-10	-10	-5	*	*
ac	Soft Drinks Industry Levy	Tax	0	+385	+390	+385	+380

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		Head	2017-18	2018-19	2019-20	2020-21	2021-22
ad	Business Rates: permanently double the Small Business Rate Relief and extend thresholds	Tax	-1375	-1390	-1440	-1485	-1530
ae	Business Rates: increase threshold for higher multiplier to £51,000	Tax	-110	-110	-115	-115	-125
af	Business Rates: switch from RPI in April 2020	Tax	0	0	0	-270	-830
ag	Corporation Tax: reduce to 17% in April 2020	Tax	0	0	-510	-2640	-2570
ah	Corporation Tax: restrict relief for interest	Tax	+1105	+1140	+1080	+980	+1020
ai	Corporation Tax: reform loss relief	Tax	+495	+355	+305	+255	+215
aj	Corporation Tax: extend first year allowance and lower emission thresholds for business cars	Tax	0	+45	+115	+180	+190
ak	Corporation Tax: defer bringing forward payment for large groups for two years	Tax	+35	+30	-15	-10	*
al	Capital Gains Tax: extend reliefs	Tax	-45	-40	-45	-45	-45
am	Self Employed: abolish Class 2 NICs	Tax	0	-405	-430	-380	-350
an	Sharing Economy: £1,000 allowance for both trading and property income	Tax	-30	-235	-195	-200	-215
ao	Business Energy: abolish Carbon Reduction Commitment and offsetting increase to Climate Change Levy	Tax	0	0	+390	+35	+90
ap	Carbon Price Support Rate: cap at £18/tCO2 in April 2019 and uprate in April 2020	Tax	0	0	0	+20	+35
aq	Off-payroll working: transfer liability to public sector employers	Tax	+185	+105	+150	+170	+190
ar	Aligning the tax and employer NICs treatment of termination payments and preventing manipulation of the rules	Tax	+40	+365	+400	+415	+430
as	Value Added Tax: tackling overseas trader evasion	Tax	+65	+130	+315	+365	+325
at	Gambling Duties: reform treatment of freeplays	Tax	+45	+70	+75	+75	+80
au	Help to Save	Spend	0	0	-25	-85	-65
av	Local Housing Allowance: implement for new tenancies from April 2017	Spend	0	-130	-75	-35	-20
Measures announced at Spending Review and Autumn Statement 2015							
aw	Apprenticeship Levy (funding employer apprenticeship scheme)	Tax	+2630	+2720	+2810	+2925	+3045
ax	Stamp Duty Land Tax: bringing forward payments	Tax	+100	+5	+5	+10	+10
ay	Capital Gains Tax: reduce payment window for residential property	Tax	0	0	+1190	+315	+105
az	Temporary accommodation: impact of new funding mechanism	Spend	+225	+235	+245	+260	+270
ba	Insurance Premium Tax: reform to motor insurance claims rules	Tax	0	-10	-40	-50	-55
bb	Making Tax Digital: reducing errors through record keeping	Tax	0	+10	+400	+805	+965
bc	Housing Benefit: limit social sector rates to the equivalent private sector rate	Spend	0	+440	+570	+660	+740
bd	Pensions automatic enrolment: align with start of tax year	Tax	+315	+360	-30	-35	-35

	Head	2017-18	2018-19	2019-20	2020-21	2021-22
Measures announced at Summer Budget 2015						
be Inheritance Tax: £1m couples allowance from 2020 through new main residence nil-rate band phased in from 2017	Tax	-265	-565	-610	-650	-725
bf Childcare: 30 hour entitlement for working parents of 3 and 4 year olds	Spend	-415	-680	-700	-715	-710
bg Corporation Tax: reduce to 19% from 2017-18, and 18% from 2020-21	Tax	-2280	-2190	-3105	-4890	-5245
bh Corporation Tax: bringing forward payments for large groups	Tax	-35	-30	-20	-20	-20
bi Residential property: restrict finance relief to basic rate, phase from 2017	Tax	0	+225	+430	+655	+940
bj VED: reform for new cars purchased from 2017, hypothecated to roads fund from 2020-21	Tax	+175	+675	+895	+1340	+1735
bk Non-domiciles: abolish permanent status	Tax	-20	+410	+330	+315	+310
bl Non-domiciles: IHT on UK residential property	Tax	+25	+80	+50	+55	+65
bm Limit child element to 2 children for new births in tax credits and new claims in UC	Spend	+310	+765	+1205	+1615	+1990
bn End automatic entitlement for out-of-work 18-21 year olds	Spend	+5	+25	+35	+35	+40
bo Align Work-Related Activity Group rate with JSA for new claims	Spend	+30	+110	+165	+205	+230
bp UC parent conditionality from when youngest child turns 3	Spend	-5	0	+35	+35	+35
bq TV Licence: BBC funding for over-75s	Spend	0	+180	+430	+735	+765
Measures announced at March Budget 2015						
br Affordable housing: Housing Benefit impact	Spend	0	-5	-15	-20	-20
bs Company car taxation: 3ppt increase in 2019-20	Tax	0	0	+305	+315	+325
Measures announced at Autumn Statement 2014						
bt Peer-to-peer lenders: withholding tax regime	Tax	+30	0	+5	+15	+15
bu Bereavement benefits reform	Spend	-25	-25	0	+35	+60
bv Work allowances: maintain current level in 2017-18	Spend	+10	+50	+90	+180	+230
Measures announced at Budget 2014						
bw Company Car Tax: continuing to increase by 2ppt in 2017-18 and 2018-19	Tax	+200	+410	+420	+430	+445
Measures announced at Autumn Statement 2013						
bx HMRC: extending online services	Tax	+15	+25	+25	+25	+25

[*] Negligible

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

3 Tax

Introduction

3.1 From autumn 2017, the government's intention is to move towards a single fiscal event each year, an autumn Budget. The Spring Budget takes the first step in that transition. It will move towards a more stable and certain tax environment, helping businesses and individuals to plan better. Where it is possible to do so without creating a forestalling risk, changes will be announced well ahead of the next financial year.

3.2 From spring 2018, a Spring Statement will respond to the OBR's forecast and will provide the opportunity to launch consultations on future reforms. Aligned with that approach, this Budget launches a number of consultations, looking at fairness, sustainability, and competitiveness in the tax system.

3.3 The government continues to pursue a tax system with competitive rates and a sustainable base. This will ensure that the UK remains one of the best places in the world to set up and grow a business, and builds on its reputation as a competitive and open economy. At the same time, it will ensure that public services can be funded sustainably. This chapter sets out steps the Budget will take towards this.

Personal tax

Income tax & National Insurance

3.4 Since 2010, the government has taken action to reduce taxes and enable working people to keep more of what they earn. Next month, the government will build on this progress by increasing the personal allowance by more than inflation for the seventh consecutive year, raising it by £500 to £11,500. This means the amount someone can earn tax-free in 2017-18 will be over 75% higher than in 2010. Raising the personal allowance to £11,500, alongside a £2,000 increase to the higher rate threshold, will cut income tax for 31 million taxpayers compared to the beginning of this Parliament – including taking 1.3 million out of income tax altogether.[1]

3.5 Class 4 National Insurance contributions (NICs) – The government has already announced that it will abolish Class 2 NICs – a flat-rate charge on the self-employed – from April 2018. On its own this would increase the differential between the rates of National Insurance paid by employees and those paid by the self-employed. Since April 2016, the self-employed also have access to the same State Pension as employees, worth £1,800 a year more to a self-employed individual than under the previous system.[2] To reduce the differential and reflect more equal pension entitlement, the Budget announces that the main rate of Class 4 NICs will increase from 9% to 10% in April 2018, and to 11% in April 2019. Taken together with the abolition of Class 2 NICs, this means that only self-employed individuals with profits above £16,250 will have to pay more NICs. Alongside Matthew Taylor's review into employment practices, the government will consider whether there is a case for greater parity in parental benefits between the employed and self-employed. (15)

[1] HM Treasury analysis based on personal tax parameters, ONS CPI series, HMRC analysis based on Survey of Personal Incomes (SPI) 2013-14 data, and Budget 2016 OBR forecasts.
[2] This is derived from published weekly state pension rates for 2016-17. Further information is available at: https://www.gov.uk/state-pension/what-youll-get and https://www.gov.uk/new-state-pension/what-youll-get

3.6 Dividend allowance – The tax-free dividend allowance will be reduced from £5,000 to £2,000 from April 2018. This will reduce the tax differential between the employed and self-employed on the one hand and those working through a company on the other,[3] and raise revenue to invest in our public services. It will ensure that support for investors is more effectively targeted, and make the total amount of income they can receive tax-free fairer and more affordable. This takes account of the increased ISA allowance, which will rise to £20,000 from this April, as well as further increases to the tax-free personal allowance which is additional to the dividend allowance. A £2,000 dividend allowance will continue to mean that 80% of general investors pay no dividend tax, including those with sizeable investments (typically, up to £50,000). (16)

3.7 Different forms of remuneration – Employers can choose to remunerate their employees in a range of different ways, but the tax system treats these different forms of remuneration inconsistently. The government is considering how the tax system could be made fairer and more coherent, including by looking at the taxation of benefits in kind and employee expenses. The government is consulting on the following:

- **Taxation of benefits in kind** – The government will publish a call for evidence on exemptions and valuation methodology for the income tax and employer NICs treatment of benefits in kind, in order to better understand whether their use in the tax system can be made fairer and more consistent.
- **Accommodation benefits** – The government will publish a consultation with proposals to bring the tax treatment of employer-provided accommodation and board and lodgings up to date. This will include proposals for when accommodation should be exempt from tax and to support taxpayers during any transition.
- **Employee expenses** – The government will publish a call for evidence to better understand the use of the income tax relief for employees' expenses, including those that are not reimbursed by their employer.

Pensions and savings

3.8 The government is committed to supporting savers at all stages of their lives. Recent reforms mean that now 98% of adults pay no savings tax.[4] The government has almost doubled ISA limits since 2010 and will introduce the Lifetime ISA on 6 April this year. The Lifetime ISA allows younger adults to save up to £4,000 each year and receive a generous bonus of up to £1,000 a year on these contributions, which can be withdrawn tax-free to put towards a first home or when they turn 60.

3.9 NS&I Investment Bond final rate – The Budget confirms the rate on the NS&I Investment Bond announced at Autumn Statement 2016. The Investment Bond will offer a market-leading rate of 2.2% over a term of 3 years and will be available for 12 months from April 2017. The Bond will be open to everyone aged 16 and over, subject to a minimum investment limit of £100 and a maximum investment limit of £3,000. At £3,000 the investment limit is enough to cover all the savings of over half of UK households.[5] This will support savers who have been affected by low interest rates.

3.10 Master trust tax registration – The government will amend the tax registration process for master trust pension schemes to align with the Pensions Regulator's new authorisation and supervision regime. This will help to boost consumer protection and improve compliance.

[3] HRMC analysis estimates that the Exchequer cost of the existing discretionary company population, as defined by the OBR in its November 2016 *Economic and fiscal outlook*, will be over £6 billion in 2021-22.
[4] Internal HMRC analysis.
[5] 52% of UK households hold total savings and investments of between £0 and £3,000 ('Family Resources Survey: financial year 2014/15', Department for Work and Pensions, June 2016).

Business tax

3.11 The UK is one of the most open economies in the world, and a highly competitive business tax regime remains a key factor in retaining that position. The UK's corporate tax rate is the lowest in the G20. As set out at Autumn Statement 2016, the government will cut the rate of corporation tax to 19% from April this year and then again to 17% in 2020. Reflecting the move to a single major fiscal event in the autumn, the Budget does not make major changes to the business tax regime, but continues to provide a stable and certain environment to support business investment, consistent with the business tax road map.[6]

Corporate tax

3.12 Research and development (R&D) tax review – The Industrial Strategy green paper sets out the government's ambition to drive up the level of private investment in science, research and innovation across the economy. The review of the R&D tax regime has found that the UK's R&D tax credits regime is an effective and internationally competitive element of the government's support for innovation. To further support investment, the government will make administrative changes to the Research and Development Expenditure Credit to increase the certainty and simplicity around claims and will take action to improve awareness of R&D tax credits among SMEs. The government will continue to keep the competitiveness of the UK environment for R&D under review to ensure that the UK is profoundly pro-innovation.

3.13 Patient capital review – The review aims to ensure that high growth businesses can access the long-term capital that they need to fund productivity enhancing investment. Alongside identifying barriers to institutional investment in long-term finance, the review will also consider existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective, well targeted, and provide value for money.

3.14 Withholding tax on interest – In order to encourage investment in the UK and make it easier for businesses to raise finance, the government will:

- renew and extend the administrative simplifications of the Double Taxation Treaty Passport scheme to assist foreign lenders and UK borrowers. This scheme simplifies access to reduced withholding tax rates on interest that are available within the UK's tax treaties with other countries
- introduce an exemption from withholding tax for interest on debt traded on a Multilateral Trading Facility, removing a barrier to the development of UK debt markets. The government will consult in spring 2017 on implementation of the exemption

Property tax

3.15 Business rates – At Budget 2016 the government announced reductions in business rates worth almost £9 billion over the next 5 years. This included permanently doubling Small Business Rate Relief and extending the thresholds of the relief to ensure that 600,000 businesses will not pay business rates again.

3.16 The business rates revaluation takes effect in England from April 2017. In addition to the £3.6 billion transitional relief which was announced in November 2016, the government will provide £435 million of further support for businesses facing significant increases in bills from the English business rates system. This includes:

- support for small businesses losing Small Business Rate Relief to limit increases in their bills to the greater of £600 or the real terms transitional relief cap for small businesses each year (6)

[6] 'Business tax road map', HM Treasury, March 2016.

- providing English local authorities with funding to support £300 million of discretionary relief, to allow them to provide support to individual hard cases in their local area (5)

3.17 The government will also introduce a £1,000 business rate discount for public houses with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties, for one year from 1 April 2017. (7)

3.18 Local government will be fully compensated for the loss of income as a result of these measures.

3.19 At Budget 2016 the government announced an aim to deliver more frequent revaluations of properties – at least every 3 years. The government will set out its preferred approach for delivering this aim at Autumn Budget 2017 and will consult ahead of the next revaluation in 2022.

3.20 Stamp Duty Land Tax – As a result of consultation, the government will delay the reduction in the filing and payment window until 2018-19. (18)

3.21 Offshore property developers – The government will amend legislation to ensure that all profits realised by offshore property developers developing land in the UK, including those on pre-existing contracts, are subject to tax, with effect from 8 March 2017.

3.22 Rent-a-room relief – The government will consult on proposals to redesign rent-a-room relief, to ensure it is better targeted to support longer-term lettings. This will align the relief more closely with its intended purpose, to increase supply of affordable long-term lodgings.

Energy and transport taxes

3.23 Vehicle Excise Duty (VED) – From 1 April 2017, VED rates for cars, vans and motorcycles registered before April 2017 will increase by Retail Prices Index (RPI).

3.24 HGV VED and Road User Levy – HGV VED and Road User Levy rates will be frozen from 1 April 2017. A call for evidence on updating the existing HGV Road User Levy will be launched this spring. The government will work with industry to update the Levy so that it rewards hauliers that plan their routes efficiently, to incentivise the efficient use of roads and improve air quality. (20)

3.25 Red diesel – The government will publish a call for evidence on the use of red diesel in order to improve understanding of eligible industries and current use. Evidence is particularly sought on the use of red diesel in urban areas.

3.26 Air Passenger Duty (APD) – APD rates for 2018-19 will be uprated in line with RPI. To provide good notice for the airline industry, rates for 2019-20 will be set at Autumn Budget 2017.

3.27 Carbon pricing – The government remains committed to carbon pricing to help decarbonise the power sector. Currently, UK prices are determined by the EU Emissions Trading System and Carbon Price Support. Starting in 2021-22, the government will target a total carbon price and set the specific tax rate at a later date, giving businesses greater clarity on the total price they will pay. Further details on carbon prices for the 2020s will be set out at Autumn Budget 2017.

3.28 Levy Control Framework – The government recognises the need to limit costs to businesses and households as the UK decarbonises its energy supplies. The existing Levy Control Framework has helped to control the costs of low carbon subsidies in recent years, and will be replaced by a new set of controls. These will be set out later in the year.

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3.29 Oil and gas: Tax for late-life oil and gas assets – The UK already has one of the most competitive tax regimes for oil and gas in the world.[7] But to maximise economic recovery the fiscal regime needs to ensure support for the transfer of late-life assets. To determine the best approach, the government will publish a formal discussion paper alongside the Finance Bill on the case for allowing transfers of tax history between buyers and sellers. The government will also establish a new advisory panel of industry experts to ensure appropriate scrutiny of the options. The review will report at Autumn Budget 2017.

3.30 Aggregates Levy – The Aggregates Levy rate for 2017-18 will be frozen at £2 per tonne, continuing the freeze that has been in place since 2009. (19)

3.31 Landfill Tax – The value of the Landfill Communities Fund (LCF) for 2017-18 will remain unchanged at £39.3 million and the cap on contributions by landfill operators will be increased to 5.3%. This cap will be maintained, subject to consideration of Landfill Tax receipts, continued progress in reducing the level of unspent funds held by environmental bodies and the proportion of LCF funds spent on administration costs. The government will also consult on extending the scope of Landfill Tax to illegal disposals of waste made without the required permit or licence.

3.32 Packaging recycling targets – The government will legislate to set new statutory packaging recycling targets for 2018 to 2020, to ensure compliance with the Packaging Directive. By 2020, the government will increase recycling targets for paper to 75.0%, aluminium to 64.0%, steel to 85.0% and for wood packaging to 48.0%. Targets for overall packaging recycling will increase to 75.4% and for recovery to 82.0% by 2020. (21)

Indirect taxes

Alcohol and tobacco

3.33 Alcohol duty rates and bands – From 13 March 2017, the duty rates on beer, cider, wine and spirits will increase by RPI inflation, in line with previous forecasts. The government will also consult on:

- introducing a new duty band for still cider just below 7.5% abv to target white ciders
- the impacts of introducing a new duty band for still wine and made-wine between 5.5% and 8.5% abv

3.34 Tobacco duty rates – As announced at Budget 2014, duty rates on all tobacco products will increase by 2% above RPI inflation. This change will come into effect from 6pm on 8 March 2017.

3.35 Minimum Excise Tax – The government will introduce a Minimum Excise Tax for cigarettes. This will target the cheapest tobacco and promote fiscal sustainability. The rate will be set at £268.63 per 1,000 cigarettes. It will take effect from 20 May 2017.

Other indirect taxes

3.36 Value Added Tax (VAT): Registration and deregistration thresholds – From 1 April 2017 the VAT registration threshold will increase from £83,000 to £85,000 and the deregistration threshold from £81,000 to £83,000.

3.37 Soft Drinks Industry Levy – The levy rate for added sugar drinks with a total sugar content of 5 grams or more per 100 millilitres will be set at 18 pence per litre, and those with 8 grams or more per 100 millilitres will be set at 24 pence per litre.

[7] 'Maximising Economic Recovery UK in practice', Oil and Gas Authority, 26 October 2016.

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3.38 Insurance Premium Tax (IPT) – The government will legislate to introduce anti-forestalling provisions and increase the standard rate of IPT to 12% from 1 June 2017, as announced at Autumn Statement 2016.

Tax administration

3.39 Digital administration – The government will provide an extra year, until April 2019, before Making Tax Digital is mandated for unincorporated businesses and landlords with turnover below the VAT threshold. This will provide them with more time to prepare for digital record keeping and quarterly updates. The government will also consult on the design aspects of the tax administration system, including interest and penalties, with the aim of adopting a consistent approach across taxes. This will simplify the system for taxpayers. (17)

3.40 Tax simplification – Following consultation, the government will increase the cash basis entry threshold to £150,000, and exit threshold to £300,000, and will extend the use of the cash basis to unincorporated landlords. The government will also simplify the rules on capital and revenue expenditure within the cash basis, to make it easier for businesses to work out whether their expenditure is deductible for tax. (17)

3.41 HMRC large business risk review – HMRC will work constructively with businesses and interested parties to consult over the summer on its process for risk profiling large businesses and promoting stronger compliance.

Avoidance, evasion and compliance

3.42 In this Parliament, the government has announced it will legislate for over 35 measures to tackle avoidance, evasion and aggressive tax planning. This builds on the progress of the last Parliament, during which over 40 changes to tax law were made, closing down loopholes and introducing major reforms to the UK tax system. Since 2010, HMRC has secured around £140 billion in additional tax revenue through tackling avoidance, evasion and non-compliance, and the UK's tax gap remains one of the lowest in the world.[8]

Avoidance

3.43 Promoters of Tax Avoidance Schemes (POTAS) – New legislation will ensure that promoters of tax avoidance schemes cannot circumvent the POTAS regime by re-organising their business by either sharing control of a promoting business, or putting a person or persons between themselves and the promoting business. This will ensure that HMRC can apply the POTAS regime as intended.

3.44 Strengthening tax avoidance sanctions and deterrents – As announced at Autumn Statement 2016, the government will introduce a new penalty for a person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC. This new regime reflects an extensive consultation and input from stakeholders. The government will also remove the defence of having relied on non-independent advice as taking 'reasonable care' when considering penalties for a person or business that uses such arrangements. (22)

3.45 Tax treatment of appropriations to trading stock – The government will remove the ability for businesses to convert capital losses into trading losses from 8 March 2017. This will eliminate an unfairness in the tax code which is being exploited by certain businesses. (24)

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[8] 'HMRC'S Annual report and accounts', HMRC, 28 June 2012 and 14 July 2016; 'HMRC quarterly performance updates', HMRC, 16 February 2017; and 'Measuring tax gaps', HMRC, 20 October 2016.

3.46 Qualifying recognised overseas pension schemes (QROPS): introduction of transfer charge – The government will introduce a 25% charge on transfers to QROPS. This charge is targeted at those seeking to reduce the tax payable by moving their pension wealth to another jurisdiction. Exceptions will apply to the charge allowing transfers to be made tax-free where people have a genuine need to transfer their pension, including when the individual and the pension are both located within the European Economic Area. (23)

3.47 VAT: Use and enjoyment provisions for business to consumer mobile phone services – The government will remove the VAT use and enjoyment provisions for business to consumer mobile phone services to individuals. This will resolve the inconsistency where UK VAT is applied to mobile phone use by UK residents when in the EU, but not when outside the EU. It will also ensure mobile phone companies cannot use the inconsistency to avoid UK VAT. This will bring UK VAT rules into line with the internationally agreed approach. (25)

Evasion

3.48 VAT: Fraud in the provision of labour in the construction sector – The government will consult on options to combat missing trader VAT fraud in the provision of labour in the construction sector, in particular, applying the reverse charge mechanism so the recipient accounts for VAT.

3.49 VAT: 'Split Payment' model – Some overseas traders avoid paying UK VAT, undercutting online and high street retailers and abusing the trust of UK consumers who purchase goods via online marketplaces. Building on the measures introduced in Budget 2016, the government will shortly publish a call for evidence on the case for a new VAT collection mechanism for online sales. This would harness technology to allow VAT to be extracted directly by the Exchequer from online transactions at the point of purchase. This is often referred to as a 'Split Payment' model. This is the next step in tackling the non-payment of VAT by some overseas traders selling goods online to UK consumers.

Compliance

3.50 Image rights – The government is aware that some employers pay image rights in respect of employees under separate contractual arrangements to employment income. HMRC will publish guidelines for employers who make payments of image rights to their employees to improve the clarity of the existing rules.

3.51 Employment Allowance – HMRC is actively monitoring National Insurance Employment Allowance compliance following reports of some businesses using avoidance schemes to avoid paying the correct amount of NICs. The government will consider taking further action in the event that this avoidance continues.

Fraud, error and debt

3.52 Tax credit debt – As announced by the Secretary of State on 9 February 2017, DWP will recover a volume of HMRC tax credit debt using its existing powers including the use of Direct Earnings Attachment. (26)

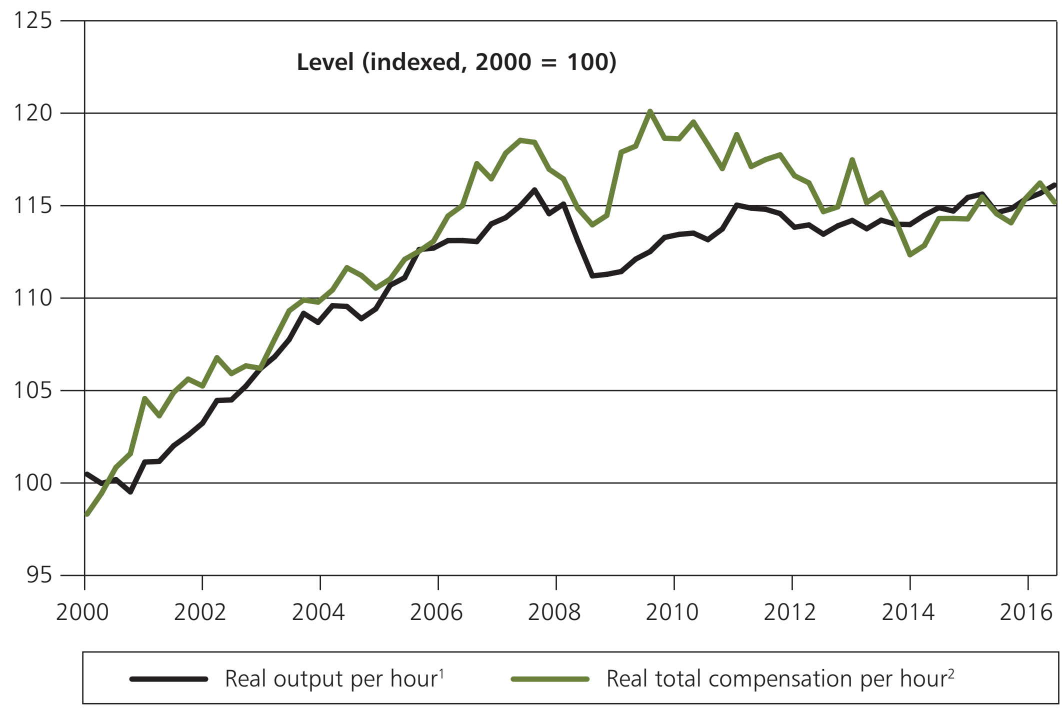
3.53 Benefit fraud and error – As announced by the Secretary of State on 9 February 2017, DWP will work in partnership with an external data provider to better identify fraud and error caused by undeclared partners. (27)

4 Productivity

Introduction

4.1 Over the long term, improving productivity – the amount of output produced per hour worked – is the best way to boost pay and increase living standards. More productive firms pay higher wages, are more competitive and therefore better able to succeed internationally. As set out in Chart 4.1, while wage and productivity growth can differ in the short run, they tend to move together over time. By supporting wages and profits, better productivity increases tax receipts and in turn the government's ability to provide public services.

Chart 4.1: Productivity and employee compensation



[1] Output as measured by GDP.

[2] Total compensation as measured by wages and salaries plus employers' social contributions.

Source: Office for National Statistics.

4.2 It is essential that the UK overcomes the persistent challenge of weak productivity. In 2015, UK output per hour stood 18 percentage points behind the average for other G7 countries, 35 percentage points behind Germany, 27 percentage points behind France, and 30 percentage points behind the USA.[1] The government has already taken major steps to improve the UK's long-term productivity, including through committing over £23 billion of additional investment between 2017-18 and 2021-22 through the National Productivity Investment Fund (NPIF), announced at Autumn Statement 2016.

[1] 'International Comparisons of Productivity – First Estimates 2015', ONS, October 2016.

4.3 The recently published Industrial Strategy green paper set out how the government will create the conditions for firms to invest and grow across the country.[2] It outlined an holistic approach to raising productivity, including through investment in research and innovation, developing the UK's skills base, upgrading infrastructure, and encouraging investment. This chapter sets out further actions the government is taking in these areas.

Skills

4.4 Education and skills are drivers of productivity and growth in the UK economy, and important factors for regional variations in productivity.[3] Weaknesses in the UK's skills base have contributed to its longstanding productivity gap with France and Germany.[4]

4.5 As the UK begins the formal process of exiting the EU, creating a highly-skilled workforce will ensure businesses across the country have the talent and skills needed to succeed in global markets. Employer demand for skills is increasing; over the coming years, 42% of businesses expect to have more jobs requiring intermediate-level skills, and 74% expect to demand more higher-level skills.[5, 6]

4.6 Evidence shows that skills qualifications are also clearly linked to higher wage returns. An individual with a level 3 apprenticeship (broadly equivalent to A-levels) as their highest qualification can expect to earn between £77,000 and £117,000 more on average over their lifetime, compared to individuals with a lower-level qualification.[7]

4.7 Investing in education and skills will help young people succeed in the workplace and increase their earnings, and support businesses of all sizes to thrive.

Further and Higher Education

4.8 The government's ambition, funded in the Budget, is for England's technical education system to match the excellence of its world-leading higher education system. The academic route from GCSEs, to A-levels, to higher education is well regarded and high quality. The UK is home to 12 of the top 100 universities in the world,[8] and there are now more young people from England entering full-time undergraduate study at university than ever before, including record numbers of 18 year olds from disadvantaged backgrounds.[9]

4.9 The government has already strengthened employment-based technical education; the introduction of the apprenticeship levy in April 2017 will support the delivery of 3 million apprenticeship starts by 2020.

4.10 But as the Industrial Strategy green paper outlined, more needs to be done. England's technical education system is confusing for students, with around 13,000 qualifications available – many of them of little value.[10, 11] Employers consistently cite a lack of skills as a major concern.

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[2] 'Building our Industrial Strategy: Green Paper', Department for Business, Energy and Industrial Strategy, January 2017.
[3] 'Unlocking Regional Growth', CBI, December 2016.
[4] 'Fixing the foundations: creating a more prosperous nation', HM Treasury, July 2015.
[5] 'CBI/Pearson education and skills survey 2016', CBI, July 2016.
[6] Firms reporting increased demand minus those reporting decreased demand.
[7] 'Intermediate and low level vocational qualifications: economic returns', BIS, September 2011.
[8] 'Times Higher Education World University Rankings', Times Higher Education, 2017.
[9] 'UCAS End of Cycle Resources 2016', UCAS, 2016.
[10] 'Section 96 – Qualifications (Learning and Skills Act 2000)', DfE, 2000.
[11] 'Report of the Independent Panel on Technical Education', Independent Panel on Technical Education, July 2016.

Box 4.A: Lord Sainsbury's Independent Review on Technical Education

The government commissioned an independent panel, led by Lord Sainsbury, to recommend options for a technical education system to rival our world-leading academic system. The panel's report was published in July 2016,[12] alongside the government's Skills Plan that accepted all of the panel's recommendations.[13] The recommendations included replacing the current system, comprised of thousands of qualifications, with a framework of 15 routes to skilled employment extending from level 2 and level 3 up to higher skill levels, with a streamlined set of valuable qualifications.

Central to the panel's recommendations was that the routes should focus on stretching technical content, shaped by industry professionals who are best placed to advise on the knowledge, skills and behaviours required to succeed.

For 16-19 year olds on college-based technical routes, the panel recommended that programmes last for 2 years. This would start with a core curriculum for the route that all pupils would study, followed by specialisation. Students would also complete a high-quality industry work placement, and be expected to reach a minimum standard of English and maths. Young people would therefore leave college with a quality qualification focused on a specific occupation or set of occupations; experience in their chosen field; and wider employability skills.

4.11 The Budget announces:

- **T-levels: 16-19 Technical education** – The government will deliver the recommendations of Lord Sainsbury's panel. The government will increase the number of programme hours of training for 16-19 year olds on technical routes by more than 50%, to over 900 hours a year on average, including the completion of a high quality industry work placement during the programme. To ensure the routes are well-designed and colleges properly prepared, they will be introduced from 2019-20, increasing funding in line with this roll out, with over £500 million of additional funding invested per year once routes are fully implemented.[14] (1)
- **Further Education maintenance loans** – The government's aim is to encourage students to continue their training at high quality institutions such as National Colleges or Institutes of Technology. This will create real parity with the academic route and develop the higher-level skills employers demand. From 2019-20, the government will provide maintenance loans, like those available to university students, to students on technical education courses at levels 4 to 6 in National Colleges and Institutes of Technology. This will also support adults to retrain at these institutions.

4.12 In the modern global economy, the government recognises that individuals should have the opportunity to retrain and upskill at all points in their life, and to develop skills at the highest level. The Budget sets out further steps to achieve this ambition:

- **Lifelong learning pilots** – The changing nature of work makes retraining and reskilling essential and so the government will spend up to £40 million by 2018-19 to test different approaches to help people to retrain and upskill throughout their working lives.
- **Return to work support** – The government will work with business groups and public sector organisations to identify how best to increase the number of returnships, supported by £5 million of new funding. Returnships offer people who have taken lengthy career breaks a clear route back to employment. (4)

[12] 'Report of the Independent Panel on Technical Education', Independent Panel on Technical Education, July 2016.
[13] 'Post-16 skills plan', DfE, BIS, July 2016.
[14] Based on current hourly rates.

- **Part-time maintenance loans** – To promote equality with full-time undergraduate study and support lifelong learning, the government confirms the terms of maintenance loans for part-time undergraduates, previously announced at Spending Review 2015. These loans will become available for degree level study in 2018-19, with an extension to distance learning and sub-degree study in 2019-20.

- **Doctoral loans** – The government confirms the terms of doctoral loans for 2018-19, previously announced at Budget 2016. These new loans will provide up to £25,000 for doctoral study and have the potential to reach a wider range of students and research than before.

Schools

4.13 The government's aim is for a good school place for every child, whatever their background. Almost 1.8 million more pupils are now taught in good or outstanding schools than in 2010.[15] Free schools and academies programmes have ensured that the best schools and head teachers can extend their success and the new curriculum and qualifications are restoring rigour. The Pupil Premium, introduced for publicly funded schools in England, focuses on the most disadvantaged children; the attainment gap between disadvantaged and other pupils is now narrowing year on year. As a result of these reforms, 89% of schools in England are now rated as good or outstanding – the highest proportion ever recorded.[16]

4.14 However, there are still 1 million children in underperforming schools.[17] At Autumn Statement 2016, the government confirmed £50 million per year of new funding to expand existing grammar schools. The Budget sets out further steps the government is taking to ensure every child has the opportunity of a place at a good school:

- **Schools investment** – The government is committed to giving parents greater choice in finding a good school for their child, and will deliver the manifesto commitment to open 500 new free schools by 2020. The government will extend the free schools programme with investment of £320 million in this Parliament to help fund up to 140 schools, including independent-led, faith, selective, university-led and specialist maths schools. Of these 140 schools, 30 will open by September 2020 and count towards the government's existing commitment. The new free schools will be located where they are most needed to improve the choice of schools available to parents, following a rigorous assessment of local factors. (2)

- **School maintenance** – To improve the condition of the school estate, the Budget provides a further £216 million investment in school maintenance, taking total investment in school condition to well over £10 billion over this Parliament. (3)

- **School transport** – The government wants to ensure that children from disadvantaged backgrounds have every opportunity to access the best possible education, without the cost of transport acting as a barrier. Pupils typically travel nearly three times as far to attend selective schools.[18] The government is therefore expanding the current 'extended rights' entitlement for children aged 11 to 16, who receive free school meals or whose parents claim Maximum Working Tax Credit. They will now get free transport to attend the nearest selective school in their area,[19] bringing it in line with free transport provision for those travelling to their nearest school on faith or belief grounds.

[15] 'Maintained schools and academies inspection outcomes as at 31 August 2016', DfE, November 2016.
[16] 'Maintained schools and academies inspection outcomes as at 31 August 2016', DfE, November 2016.
[17] 'Maintained schools and academies inspection outcomes as at 31 August 2016', DfE, November 2016.
[18] 'Response by Department for Education to Parliamentary Question on 25 October 2016', DfE, October 2016.
[19] Entitlement will apply to pupils attending a selective school within 2 to 15 miles of their home.

National Productivity Investment Fund

4.15 At Autumn Statement 2016, the government established the NPIF to provide over £23 billion of high-value investment between 2017-18 and 2021-22, with a focus on priority areas that are critical for improving productivity: economic infrastructure, housing and R&D. This built on existing plans for major investment over this Parliament, including resurfacing 80% of the strategic road network and the largest investment in the railways since Victorian times.[20]

4.16 The NPIF provides the financial backbone to the government's Industrial Strategy, and will:

- support market roll-out of the fast and reliable full-fibre connections that will help businesses to grow
- tackle congestion and ensure the UK's transport networks are fit for the future
- enhance the UK's position at the forefront of technological progress globally
- accelerate new housing supply

4.17 This will provide a significant boost to the UK's productivity in the long term. The Budget sets out further detail of how NPIF funds will be invested in priority transport, digital communications and R&D programmes.

4.18 Digital infrastructure – The NPIF will invest £740 million in digital infrastructure by 2020-21, to support the next generation of fast and reliable mobile and broadband communications for consumers and businesses. The Budget announces the first steps towards this ambition.

4.19 5G – The government's 5G Strategy, published today, sets out steps for the UK to become a world leader in the next wave of mobile technology and services. This includes:

- a new National 5G Innovation Network to trial and demonstrate 5G applications. The first phase will invest up to £16 million in a cutting edge 5G facility with the technology to run the trials, delivered through cooperation between leading 5G research institutions. A new centre of 5G expertise within government will oversee this programme, working with public and private sector partners. Funding for future trials will be awarded on a competitive basis
- the government's response to the National Infrastructure Commission's Connected Future report and recommendations on 5G.[21] This will include developing commercial options for improving coverage on roads and rail, and working with Ofcom to ensure the UK has a regulatory environment fit for 5G

4.20 Full-fibre broadband – Starting in 2017, the government will invest £200 million to fund a programme of local projects to test ways to accelerate market delivery of new full-fibre broadband networks. These will combine the following approaches:

- bringing together local public sector customers, to create enough broadband demand to reduce the financial risk of building new full-fibre networks
- offering full-fibre broadband connection vouchers for businesses, to increase take-up of services where new networks are built through the programme
- directly connecting public sector buildings, such as schools and hospitals. This will bring fibre closer to more homes and businesses, allowing them to be connected
- opening up public sector assets, such as existing ducts, to allow fibre to be laid more cheaply

[20] 'Largest Investment in railways since Victorian times will continue', Network Rail, November 2015.
[21] 'Connected Future', National Infrastructure Commission, December 2016.

4.21 Complementing the NPIF programmes, the new Digital Infrastructure Investment Fund will be launched in spring 2017. Government investment of £400 million will be at least matched by private sector investors, and will accelerate the deployment of full-fibre networks by providing developers with greater access to commercial finance.

4.22 Transport – Autumn Statement 2016 announced £1.1 billion from the NPIF to support local transport and £220 million to address pinch points on the national road network, improving productivity by making it easier for people and goods to move within and between towns and cities. The government has already made progress on allocating NPIF funding, and the Budget announces further details of support for transport:

- **Local transport** – NPIF allocations have already been made for 2017-18, supporting local projects like improvements in Blackpool town centre, improving the A483 corridor in Cheshire, major maintenance of the Leicester Outer Ring Road, and a new roundabout at Hales in Norfolk. £690 million more will be competitively allocated to local authorities, with £490 million made available by early autumn 2017.
- **National road network** – The government has completed a strategic study on relieving congestion in the south-west sections of the M25 and will now develop options ahead of the next Road Investment Strategy. The Budget announces regional allocations of the £220 million NPIF investment for pinch points on the strategic road network, with details of individual schemes to be announced by Department for Transport shortly.

4.23 R&D – Autumn Statement 2016 announced £4.7 billion from the NPIF for R&D, to support the UK's world-leading research and ensure that the next generation of discoveries are made, developed and commercialised in Britain. The Budget announces the first investments.

4.24 Industrial Strategy Challenge Fund (ISCF) – The new ISCF will support collaborations between business and the UK's science base. An initial investment of £270 million in 2017-18 will kick-start the development of disruptive technologies that have the potential to transform the UK economy. Following engagement with experts in academia and industry, the Budget announces that the first wave of challenges funded from the ISCF will include the following:

- leading the world in the development, design and manufacture of batteries that will power the next generation of electric vehicles, helping to tackle air pollution
- developing cutting-edge artificial intelligence and robotics systems that will operate in extreme and hazardous environments, including off-shore energy, nuclear energy, space and deep mining
- accelerating patient access to new drugs and treatments through developing brand new medicine manufacturing technologies, helping to improve public health

4.25 Talent funding – The NPIF will invest £250 million over the next four years to continue to build the pipeline of high-skilled research talent necessary for a growing and innovative economy:

- £90 million will provide an additional 1,000 PhD places in areas aligned with the Industrial Strategy. Around 85% will be in STEM disciplines, and 40% will directly help strengthen collaboration between business and academia through industrial partnerships
- a further £160 million will support new fellowships for early and mid-career researchers in areas aligned to the Industrial Strategy

4.26 Global research talent – The government will invest over £100 million over the next 4 years to attract the brightest minds to the UK, to help maintain the UK's position as a world-leader in science and research. This includes:

- £50 million of NPIF funding specifically ring-fenced for fellowship programmes to attract global talent
- over £50 million from existing international funds will support fellowships that attract researchers to the UK from emerging research powerhouses like India, China, Brazil and Mexico

Cities and regions

4.27 As set out in the Industrial Strategy green paper, the government's ambition is to support growth in all areas of the UK. The government will shortly be announcing the Midlands Engine Strategy, and is continuing to build the Northern Powerhouse. (8)

4.28 Devolution – The government has agreed a Memorandum of Understanding on further devolution to London. The agreement with the Greater London Authority (GLA) and London Councils includes joint working to explore the benefits of, and scope for, locally-delivered criminal justice services; action to tackle congestion; and a taskforce to explore piloting a new approach to funding infrastructure. The agreement also commits to explore options for devolving greater powers and flexibilities over the administration of business rates and greater local influence over careers services and employment support services, as well as working with the GLA and London Councils to ensure that employers can take advantage of the opportunities offered by the apprenticeship levy. The government and London partners will agree a second Memorandum of Understanding on Health and Social Care. The government is also in discussions with Greater Manchester on future transport funding.

4.29 City deals in Scotland and Wales – The government continues to make good progress towards city deals for Edinburgh and Swansea and is working constructively with local partners and the Scottish and Welsh Governments respectively to achieve this. The government has also opened negotiations for a city deal for Stirling and looks forward to considering proposals as they are brought forward for a Tay Cities Deal and a North Wales Growth Deal.

5 Public services and markets

Introduction

5.1 The government is committed to ensuring public services deliver for everyone – whether by giving individuals the chance to develop skills at every stage of their lives, or supporting those in their old age – while maximising value for current and future taxpayers. The Budget takes further steps to improve the services people care most about, including education, health and social care.

5.2 Public services should be complemented by private markets that work well for consumers. The Budget announces some of the key steps the government is taking to ensure that competition and markets can work more effectively to deliver lower prices and more choice, which will be taken forward as part of the competition and markets green paper later this year.

Social care and the NHS

5.3 Social care – During this Parliament the government has already taken a number of steps to help secure a stable system of social care in England. The government has created the improved Better Care Fund to help support health and social care integration, introduced the new social care precept, and provided councils with funding certainty across every year of the Parliament through the Local Government Finance Settlement.

5.4 Recognising the challenges of an ageing and growing population, last year the government introduced short-term measures to support councils to manage adult social care. This included allowing councils to raise funding sooner from the social care precept, whilst continuing to protect local tax payers from large bill increases.

5.5 At this Budget, the government is building on these with further support in the medium term. The government will provide an additional £2 billion to councils in England over the next 3 years to spend on adult social care services. £1 billion of this will be provided in 2017-18, ensuring councils can take immediate action to fund care packages for more people, support social care providers, and relieve pressure on the NHS locally. Building on the approach to the Better Care Fund, councils will need to work with their NHS colleagues to consider how the funding can be best spent, and to ensure that best practice is implemented more consistently across the country. This funding will be supplemented with targeted measures to help ensure that those areas facing the greatest challenges make rapid improvement, particularly in reducing delayed transfers of care between NHS and social care services. Overall, local government will be able to increase social care-specific resources in real terms in each of the remaining 3 years of the Parliament. (9)

5.6 In the longer term, the government is committed to establishing a fair and more sustainable basis for adult social care, in the face of the future demographic challenges set out in the OBR's Fiscal Sustainability Report.[1] The government will set out proposals in a green paper to put the system on a more secure and sustainable long term footing.

[1] 'Fiscal Sustainability Report 2017', OBR, 2017.

5.7 Accident & Emergency (A&E) capital investment – Recognising the particular pressures in A&E, the government will provide an additional £100 million to the NHS in England in 2017-18 for capital investment in A&E departments. This will enable Trusts to invest in measures to help manage demand on A&E services and ensure that patients are able to access the most appropriate care as quickly as possible. For example, the funding will allow for better assessment of patients when they arrive at A&E and increase the provision of on-site GP facilities. (10)

5.8 Sustainability and Transformation Plans – The government recognises the progress that local NHS leaders have made, working collaboratively with partners, to develop local Sustainability and Transformation Plans. These local plans are an important part of the NHS's commitment to deliver more effective services to patients. The government will invest £325 million over the next three years to support the local proposals for capital investment where there is the strongest case to deliver real improvements for patients and to ensure a sustainable financial position for the health service. In the autumn, a further round of local proposals will be considered, subject to the same rigorous value for money tests. Investment decisions will also consider whether the local NHS area is playing its part in raising proceeds from unused land, to reinvest in the health service. (11)

Competition and consumer markets

5.9 Consumers and markets green paper – The government will shortly bring forward a green paper to examine markets that are not working efficiently or fairly. The Budget sets out the initial steps the government will take to make a difference for consumers, including:

- legislating at the earliest opportunity to allow consumer enforcement bodies, such as the Competition and Markets Authority, to ask the courts to order civil fines against companies that break consumer law. This will be a strong and effective deterrent, and will enable consumer bodies to take tough action against firms that mislead or mistreat consumers
- developing proposals to protect consumers from facing unexpected payments when a subscription is renewed or when a free trial ends
- considering how to make terms and conditions clearer, simpler and shorter for consumers to engage with, building on the call for evidence on terms and conditions last year

5.10 Reducing the burden on small co-operatives – The government will bring forward legislation to reduce the regulatory burden on small co-operatives, increasing the turnover threshold for which co-operatives are required to conduct a full audit from £5.6 million to £10.2 million, and the assets threshold from £2.8 million to £5.1 million. By aligning these thresholds to those of companies, small co-operatives will be able to use more of their resources to benefit their members.

Spending

5.11 Air quality – The government is committed to improving air quality, and will consult on a detailed draft plan in the spring which will set out how the UK's air quality goals will be achieved. Alongside this, the government will continue to explore the appropriate tax treatment for diesel vehicles, and will engage with stakeholders ahead of making any tax changes at Autumn Budget 2017.

5.12 Centenary fund – The government will create a new £5 million fund for projects to celebrate the centenary of voting rights being extended to women for the first time in 1918. (14)

5.13 Tackling domestic violence and abuse – The government will provide an additional £20 million over the Parliament to support organisations working to combat domestic violence and abuse, and to support victims. This builds on the government's commitment to bring forward a Domestic Violence and Abuse Act, and increases the total funding for implementing the government's Ending Violence Against Women and Girls Strategy to £100 million over the Parliament. (12)

5.14 Tampon Tax Fund for women's charities – A range of women's charities across the UK, including those that tackle violence against women and girls, will collectively benefit from £12 million as part of the 2016-17 round of the Tampon Tax Fund. The list of charities will be published before the end of March.

5.15 400th anniversary of the Mayflower crossing – To celebrate the 400th anniversary of the Atlantic crossing of the Mayflower, the government will appoint a Government Representative for Mayflower Anniversary Celebrations to assist in co-ordinating the UK wide events.

5.16 Exceptions to limiting support to two children – As confirmed on 20 January 2017, the government will provide exceptions to limiting support to two children for the child element in Child Tax Credits and Universal Credit. These exceptions are for third and subsequent children where parents face particular circumstances, such as multiple births. (28)

A Financing

A.1 This annex sets out the details of the government's financing plans in 2017-18. Further details can be found in the 'Debt management report 2017-18', available at www.gov.uk.

A.2 The financing arithmetic is set out in Table A.1.

A.3 The Office for Budget Responsibility's (OBR) March 2017 'Economic and fiscal outlook' forecast for the 2017-18 central government net cash requirement (excluding NRAM plc, Bradford and Bingley and Network Rail), which is referred to as CGNCR (ex NRAM, B&B and NR), is £47.4 billion. This measure is used in the financing arithmetic as it reflects the forecast cash requirement of the Exchequer. The relationship between public sector net borrowing and CGNCR (ex NRAM, B&B and NR) is set out in the OBR's March 2017 'Economic and fiscal outlook'.

A.4 The net financing requirement (NFR) for the Debt Management Office (DMO) comprises: CGNCR (ex NRAM, B&B and NR) plus any financing for gilt redemptions, planned financing for the reserves, and other adjustments, less the net contribution to financing from NS&I and any other in-year contributions to financing.

UK Debt Management Office

A.5 The NFR for 2017-18 is projected to be £105.6 billion, reflecting:

- the forecast for the CGNCR (ex NRAM, B&B and NR) of £47.4 billion
- gilt redemptions of £79.5 billion
- a planned short-term financing adjustment of -£14.3 billion resulting from unanticipated overfunding in 2016-17
- financing for the Official Reserves of £6.0 billion
- a net contribution to financing from NS&I of £13.0 billion

A.6 As set out in table A.1, the NFR for 2017-18 will be met by gilt sales of £115.1 billion and a decrease in net Treasury bill issuance of £9.5 billion.

Gilt issuance by method, type and maturity

A.7 Decisions on the skew and split by type of gilt issuance are set annually with reference to the government's debt management objective, as set out in the 'Debt management report 2017-18'.

A.8 Auctions will remain the government's primary method of gilt issuance. It is anticipated that £87.5 billion (76%) of total issuance will be issued by auction in 2017-18, and a minimum of £21.0 billion (18%) will be issued by syndication. The government will continue to use gilt tenders to supplement issuance by auction and syndication.

A.9 Issuance by auction and syndication is planned to be split by maturity and type as follows:

- £27.4 billion of short conventional gilts (24% of total issuance)
- £22.2 billion of medium conventional gilts (19% of total issuance)
- £32.3 billion of long conventional gilts (28% of total issuance)
- £26.6 billion of index-linked gilts (23% of total issuance)

A.10 The financing plans of the DMO include an initially unallocated portion of issuance through which gilts of any maturity or type may be issued, subject to prior notification. This unallocated portion is set at £6.6 billion (6% of total issuance). The unallocated portion is used in such a way as to best respond to evolving market conditions.

Treasury bills

A.11 Treasury bills are forecast to constitute £69.5 billion of the total debt stock at the end of 2016-17. It is currently anticipated that net debt financing from Treasury bills will be -£9.5 billion in 2017-18. Treasury bills are also used for cash management purposes and, consistent with the degree of flexibility now granted to the DMO to use Treasury bills across year-end for cash management, an end-year target stock of Treasury bills is not set. Information on the total stock of Treasury bills is published monthly on the DMO's website.

NS&I

A.12 NS&I will have a net financing target of £13.0 billion in 2017-18, within a range of £10.0 billion to £16.0 billion. This target accommodates NS&I's market-leading Investment Bond which will be open to everyone aged 16 and over, subject to a minimum investment limit of £100 and a maximum investment limit of £3,000. The Investment Bond will support savers affected by low interest rates and will be available for 12 months from April 2017.

Reserves

A.13 The financing arithmetic provides for £6.0 billion of sterling financing for the Official Reserves in 2017-18. The government is planning on the basis of sterling financing for the Official Reserves at a similar level on average in 2018-19 and 2019-20.

Table A.1: Financing arithmetic in 2016-17 and 2017-18 (£ billion)

	2016-17	2017-18
CGNCR (ex NRAM, B&B and NR)[1]	**72.5**	**47.4**
Gilt redemptions	69.9	79.5
Planned financing for the reserves	6.0	6.0
Financing adjustment carried forward from previous financial years	-0.4	-14.3
Gross financing requirement	**148.1**	**118.6**
less:		
NS&I net financing	12.2	13.0
Other financing[2]	0.2	0.0
Net financing requirement (NFR) for Debt Management Office (DMO)	**135.7**	**105.6**
DMO's NFR will be financed through:		
Gilt sales, through sales of:		
Short conventional gilts	38.0	27.4
Medium conventional gilts	29.2	22.2
Long conventional gilts	43.3	32.3
Index-linked gilts	36.0	26.6
Unallocated amount of gilts	0.0	6.6
Total gilt sales for debt financing	**146.5**	**115.1**
Total net contribution of Treasury bills for debt financing	**3.5**	**-9.5**
Total financing	**150.0**	**105.6**
DMO net cash position	14.8	0.5

Figures may not sum due to rounding.

[1] Central government net cash requirement (excluding NRAM plc, Bradford and Bingley and Network Rail).

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

Source: HM Treasury, NS&I, Office for Budget Responsibility and UK Debt Management Office.

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

	2018-19	2019-20	2020-21	2021-22
CGNCR (ex NRAM, B&B and NR)[1]	**49.7**	**28.8**	**38.6**	**37.1**
Gilt redemptions	67.3	96.2	97.6	79.3
Planned financing for the reserves	6.0	6.0	0.0	0.0
Total illustrative gross financing requirement	**123.0**	**130.9**	**136.3**	**116.4**

Figures may not sum due to rounding.

[1] Central government net cash requirement (excluding NRAM plc, Bradford and Bingley and Network Rail).

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

B OBR's Economic and fiscal outlook: selected tables

B.1 The Office for Budget Responsibility (OBR) has published its March 2017 'Economic and fiscal outlook' alongside Spring Budget 2017. 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 B.1: Detailed summary of forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2015	2016	2017	2018	2019	2020	2021
UK economy							
Gross domestic product (GDP)	2.2	1.8	2.0	1.6	1.7	1.9	2.0
GDP per capita	1.4	1.1	1.3	0.9	1.1	1.2	1.4
GDP level (2015=100)	100.0	101.8	103.9	105.5	107.3	109.4	111.5
Nominal GDP	2.8	3.6	3.8	3.1	3.4	3.8	4.0
Output gap (per cent of potential output)	-0.3	-0.0	0.2	-0.0	-0.1	-0.1	-0.0
Expenditure components of GDP							
Domestic demand	1.9	1.6	1.5	1.2	1.7	1.9	2.0
Household consumption[1]	2.4	3.0	1.8	0.9	1.7	1.7	1.9
General government consumption	1.3	0.8	1.2	0.7	0.4	0.9	1.3
Fixed investment	3.4	0.5	0.8	3.0	3.3	3.9	3.4
Business	5.1	-1.5	-0.1	3.7	4.2	3.9	3.6
General government[2]	-2.6	1.4	0.1	1.2	2.1	6.1	3.8
Private dwellings[2]	3.0	4.8	2.5	2.9	2.4	2.9	3.0
Change in inventories3	-0.2	-0.5	0.0	0.0	-0.0	-0.0	0.0
Exports of goods and services	6.1	1.4	3.4	3.0	1.6	0.7	0.5
Imports of goods and services	5.5	2.5	2.1	1.9	1.4	0.8	0.6
Balance of payments current account							
Per cent of GDP	-4.3	-4.4	-3.5	-3.2	-2.6	-2.2	-2.0
Inflation							
CPI	0.0	0.7	2.4	2.3	2.0	2.0	2.0
RPI	1.0	1.7	3.7	3.6	3.1	3.1	3.2
GDP deflator at market prices	0.6	1.7	1.8	1.6	1.6	1.9	1.9
Labour market							
Employment (millions)	31.3	31.7	31.9	32.1	32.2	32.3	32.5
Productivity per hour	0.8	0.5	1.6	1.5	1.7	1.8	1.9
Wages and salaries	3.9	3.2	3.0	3.0	3.3	3.7	3.9
Average earnings4	1.9	2.2	2.6	2.7	3.0	3.4	3.6
LFS unemployment (% rate)	5.4	4.9	4.9	5.1	5.2	5.2	5.1
Claimant count (millions)	0.80	0.78	0.83	0.86	0.87	0.88	0.88
Household sector							
Real household disposable income	3.6	1.6	0.0	0.8	1.0	1.6	1.8
Saving ratio (level, per cent)	6.5	5.6	4.6	5.2	5.4	5.8	5.9
House prices	6.0	7.6	6.5	4.0	4.4	4.5	4.6
World economy							
World GDP at purchasing power parity	3.3	3.1	3.4	3.5	3.6	3.7	3.7
Euro area GDP	1.9	1.7	1.6	1.6	1.5	1.5	1.5
World trade in goods and services	2.6	1.9	3.1	3.6	4.0	4.1	4.1
UK export markets[5]	4.1	2.2	3.1	3.8	4.2	4.3	4.3

[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.*

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Table B.2: Fiscal aggregates

	Per cent of GDP						
	Outturn	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Receipts and expenditure							
Public sector current receipts *(a)*	36.2	36.7	36.7	37.1	37.2	37.1	37.2
Total managed expenditure *(b)*	40.0	39.3	39.6	39.0	38.2	38.0	37.9
of which:							
Public sector current expenditure *(c)*	36.2	35.4	35.5	34.9	34.1	33.6	33.4
Public sector net investment *(d)*	1.7	1.9	2.0	2.0	2.0	2.2	2.3
Depreciation *(e)*	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Fiscal mandate and supplementary target							
Cyclically adjusted net borrowing	3.6	2.6	2.9	1.9	0.9	0.9	0.7
Public sector net debt[1]	83.6	86.6	88.8	88.5	86.9	83.0	79.8
Deficit							
Public sector net borrowing *(b-a)*	3.8	2.6	2.9	1.9	1.0	0.9	0.7
Current budget deficit *(c+e-a)*	2.1	0.8	0.9	-0.1	-1.0	-1.3	-1.6
Cyclically adjusted current budget deficit	1.9	0.8	0.9	-0.1	-1.1	-1.4	-1.6
Primary deficit	2.1	0.9	0.9	0.2	-0.7	-0.7	-0.9
Cyclically adjusted primary deficit	1.9	0.9	1.0	0.2	-0.7	-0.7	-0.9
Financing							
Central government net cash requirement	3.2	3.5	2.3	2.3	1.4	1.7	1.6
Public sector net cash requirement	2.7	6.7	4.7	2.5	1.5	-0.4	-0.1
Alternative balance sheet metrics							
Public sector net debt exc. Bank of England	81.4	80.9	81.1	81.0	79.7	78.2	77.0
Public sector net financial liabilities	76.4	75.8	76.1	75.0	72.8	70.4	67.7
Stability and Growth Pact							
Treaty deficit[2]	4.0	2.7	2.8	1.9	1.1	0.9	0.9
Cyclically adjusted Treaty deficit	3.7	2.7	2.9	1.9	1.0	0.9	0.9
Treaty debt ratio[3]	87.6	87.5	87.7	87.7	86.5	84.8	83.6
	£ billion						
Public sector net borrowing	71.7	51.7	58.3	40.8	21.4	20.6	16.8
Current budget deficit	40.1	15.2	18.2	-1.1	-21.3	-29.6	-37.1
Cyclically adjusted net borrowing	67.4	51.8	59.3	40.4	19.8	19.3	16.5
Cyclically adjusted current budget deficit	35.8	15.2	19.3	-1.5	-22.9	-30.9	-37.5
Public sector net debt	1606	1730	1830	1885	1918	1904	1904
Memo: Output gap (per cent of GDP)	*-0.2*	*0.1*	*0.1*	*-0.1*	*-0.1*	*-0.1*	*-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 B.3: Changes in public sector net debt since November

	Per cent of GDP						
	Estimate	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
November forecast	84.2	87.3	90.2	89.7	88.0	84.8	81.6
March forecast	83.6	86.6	88.8	88.5	86.9	83.0	79.8
Change	-0.6	-0.7	-1.4	-1.2	-1.1	-1.9	-1.8
of which:							
Change in nominal GDP[1]	-0.4	-1.0	-0.9	-0.3	0.1	0.1	0.2
Change in cash level of net debt	-0.2	0.3	-0.5	-0.9	-1.2	-2.0	-2.0
	£ billion						
November forecast	1610	1725	1840	1904	1945	1950	1952
March forecast	1606	1730	1830	1885	1918	1904	1904
Change in cash level of net debt	-4	5	-10	-19	-27	-46	-48
of which:							
Borrowing	-4	-21	-22	-27	-28	-28	-28
APF modelling changes	0	-1	-3	-6	-10	-13	-20
APF yield curve changes	0	-1	-3	-4	-5	-2	-9
APF Term Funding Scheme	0	17	5	5	5	-12	0
Gilt premia	0	2	7	6	4	5	5
Other factors	0	8	6	8	7	4	4

[1] *Non-seasonally-adjusted GDP centred end-March.*

Table B.4: Public sector net borrowing since November

	£ billion						
	Outturn	**Forecast**					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
November forecast	76.0	68.2	59.0	46.5	21.9	20.7	17.2
Accounting treatment change	-1.4	-3.0	-1.0	-2.2	-0.9	0.8	-0.4
November forecast restated	74.7	65.2	58.0	44.3	21.0	21.5	16.8
Total forecast changes	-3.0	-13.4	-2.8	-5.3	-1.4	0.1	0.6
of which:							
Receipts	-1.2	-7.5	-4.3	-4.6	-1.5	1.5	2.4
CG debt interest spending	0.0	-0.3	2.7	-0.4	0.9	1.2	1.2
Other spending	-1.8	-5.7	-1.2	-0.3	-0.7	-2.7	-3.0
March forecast pre-policy decisions	**71.7**	**51.7**	**55.2**	**39.0**	**19.7**	**21.6**	**17.4**
Total effect of Government decisions			3.1	1.8	1.7	-1.0	-0.6
of which:							
Scorecard receipts measures			0.2	-0.5	-1.5	-1.4	-1.5
Scorecard AME measures			-0.1	-0.1	-0.2	-0.1	-0.1
Total RDEL policy changes			1.4	1.2	2.4	2.5	2.5
Total CDEL policy changes			-0.8	-0.6	1.0	-0.9	-1.0
Non-scorecard receipts and AME measures			2.3	2.0	0.1	-0.8	-0.4
Indirect effect of Government decisions			0.1	-0.2	-0.1	-0.2	-0.1
March forecast	**71.7**	**51.7**	**58.3**	**40.8**	**21.4**	**20.6**	**16.8**
Memo items:							
Overall change since November	*-4.4*	*-16.4*	*-0.7*	*-5.7*	*-0.6*	*-0.2*	*-0.4*
Overall like-for-like change since November	*-3.0*	*-13.4*	*0.3*	*-3.5*	*0.3*	*-0.9*	*-0.0*
Direct effect of policies on the scorecard			*1.7*	*0.7*	*-0.8*	*-0.9*	*-0.4*
Direct effect of policies not on the scorecard			*1.3*	*1.3*	*2.6*	*0.2*	*-0.0*

Note: 2015-16 reflects outturn data and has not been adjusted for ONS classification decisions that have been announced but not yet implemented.
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.

Table B.5: Current receipts

	£ billion						
	Outturn	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Income tax (gross of tax credits)[1]	168.9	174.7	174.9	183.6	191.9	200.6	211.2
of which: Pay as you earn	*146.2*	*148.5*	*153.3*	*157.9*	*164.3*	*171.7*	*180.2*
Self assessment	*24.3*	*28.7*	*24.8*	*29.1*	*31.2*	*32.5*	*34.5*
National insurance contributions	114.1	125.0	130.3	134.5	140.0	146.2	152.4
Value added tax	116.4	120.7	125.4	130.8	136.2	141.6	146.7
Corporation tax[2]	45.6	53.6	54.1	55.5	54.9	53.9	54.7
of which: Onshore	*45.2*	*52.8*	*52.7*	*54.2*	*53.5*	*52.5*	*53.3*
Offshore	*0.4*	*0.8*	*1.4*	*1.3*	*1.5*	*1.4*	*1.4*
Petroleum revenue tax	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Fuel duties	27.6	27.9	27.5	28.0	28.5	29.2	30.0
Business rates	28.8	28.8	29.6	31.0	32.2	33.0	33.7
Council tax	29.0	30.4	32.1	33.7	34.9	35.9	37.0
VAT refunds	14.1	13.8	13.8	13.9	13.9	14.3	14.7
Capital gains tax	7.1	8.7	9.1	10.0	11.8	11.2	12.8
Inheritance tax	4.7	4.7	5.0	5.2	5.5	5.8	6.2
Stamp duty land tax[3]	10.9	11.6	13.1	14.0	14.8	15.9	17.0
Stamp taxes on shares	3.3	3.6	3.4	3.5	3.6	3.7	3.9
Tobacco duties	9.1	8.7	8.9	9.0	9.0	9.0	8.9
Spirits duties	3.1	3.3	3.6	3.6	3.8	3.9	4.0
Wine duties	4.0	4.1	4.4	4.6	4.8	5.1	5.3
Beer and cider duties	3.6	3.6	3.8	3.9	4.0	4.0	4.1
Air passenger duty	3.0	3.2	3.4	3.5	3.7	3.8	4.0
Insurance premium tax	3.7	5.0	5.7	6.0	6.0	6.0	6.1
Climate change levy	1.8	1.9	1.8	2.0	2.2	2.2	2.2
Other HMRC taxes[4]	7.1	7.4	7.3	7.5	7.6	7.6	7.7
Vehicle excise duties	5.7	5.8	6.0	6.2	6.3	6.6	6.8
Bank levy	3.2	3.0	2.9	2.7	2.7	2.2	1.3
Bank surcharge	0.4	1.5	1.4	1.4	1.4	1.4	1.5
Apprenticeship levy	0.0	0.0	2.6	2.7	2.8	2.9	3.0
Licence fee receipts	3.1	3.2	3.2	3.3	3.4	3.4	3.5
Environmental levies	4.6	6.9	8.7	10.7	11.9	12.6	13.5
EU ETS auction receipts	0.5	0.5	0.4	0.4	0.4	0.3	0.4
Scottish taxes[5]	0.6	0.6	0.7	0.7	0.8	0.8	0.9
Diverted profits tax	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Soft drinks industry levy	-0.0	0.0	0.0	0.4	0.4	0.4	0.4
Other taxes	6.7	7.2	7.5	7.3	7.7	8.0	8.4
National Accounts taxes	**630.0**	**668.6**	**690.3**	**719.2**	**746.7**	**771.2**	**802.0**
Less own resources contribution to EU	-3.1	-3.3	-3.5	-3.5	-3.5	-3.5	-3.5
Interest and dividends	6.2	5.6	6.1	7.6	9.1	10.3	11.8
Gross operating surplus	46.4	47.9	49.3	51.1	52.3	54.7	57.5
Other receipts	2.7	2.2	2.0	1.9	2.0	2.0	1.8
Current receipts	**682.3**	**721.1**	**744.2**	**776.4**	**806.5**	**834.8**	**869.5**
Memo: UK oil and gas revenues[6]	*-0.2*	*0.1*	*0.9*	*0.8*	*1.0*	*1.0*	*0.9*

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

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

[3] Forecast for SDLT is for England, Wales and Northern Ireland.

[4] Consists of landfill tax (excluding Scotland), aggregates levy, betting and gaming duties and customs duties.

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

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

Table B.6: Total managed expenditure

	£ billion						
	Outturn	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Public sector current expenditure (PSCE)							
PSCE in RDEL	**309.0**	**313.0**	**318.3**	**320.8**	**322.8**	**328.6**	**335.3**
PSCE in AME	**373.3**	**382.2**	**401.2**	**410.0**	**416.4**	**428.6**	**446.9**
of which:							
Welfare spending	216.1	217.9	221.1	224.4	226.8	231.9	240.3
of which:							
Inside welfare cap	120.0	119.3	119.6	120.0	120.0	122.4	125.1
Outside welfare cap	96.2	98.6	101.5	104.3	106.8	109.5	115.2
Company and other tax credits	2.8	3.2	3.5	3.6	3.7	3.9	4.0
Net public service pension payments	11.3	11.5	12.1	13.7	13.2	14.2	15.7
National lottery current grants	1.3	1.3	1.3	1.3	1.3	1.4	1.4
BBC current expenditure	3.5	3.8	4.0	3.7	3.7	3.6	3.6
Network Rail other current expenditure[1]	0.8	0.7	0.7	0.2	-0.2	-0.2	-0.3
Other PSCE items in departmental AME	1.4	0.7	0.7	0.8	0.8	0.8	0.8
Expenditure transfers to EU institutions	10.5	8.8	11.5	12.6	-	-	-
Assumed domestic spending in lieu of EU transfers[2]	-	-	-	-	12.7	13.1	13.7
Locally financed current expenditure	41.8	43.8	46.6	48.7	49.1	50.5	52.0
Central government debt interest, net of APF[3]	33.4	36.0	41.5	39.1	40.1	40.9	44.0
Public corporations' debt interest	3.3	3.8	3.9	4.0	4.2	4.3	4.4
General government depreciation	29.4	30.5	32.0	33.4	34.9	36.6	38.6
Current VAT refunds	11.9	12.1	12.2	12.3	12.3	12.5	12.8
Environmental levies	4.2	6.9	8.8	11.0	12.4	13.7	14.6
Local authority imputed pensions	2.0	2.1	2.2	2.3	2.4	2.5	2.6
Other National Accounts adjustments	-0.5	-0.9	-1.0	-1.0	-1.0	-1.1	-1.2
Total public sector current expenditure	**682.4**	**695.1**	**719.5**	**730.9**	**739.2**	**757.2**	**782.2**
Public sector gross investment (PSGI)							
PSGI in CDEL	**43.0**	**46.2**	**49.0**	**52.2**	**55.4**	**64.3**	**67.7**
PSGI in AME	**28.6**	**31.5**	**33.9**	**34.1**	**33.3**	**33.9**	**36.4**
of which:							
Tax litigation	0.0	0.0	1.6	1.6	1.6	1.6	1.6
Network Rail capital expenditure	6.4	6.5	5.8	5.7	6.4	6.5	6.7
Other PSGI items in departmental AME	0.5	1.0	1.3	1.6	1.9	2.4	2.7
Locally financed capital expenditure	7.3	7.7	7.2	6.4	5.8	5.0	5.5
Public corporations' capital expenditure	14.5	17.1	18.5	19.2	18.2	18.5	20.0
Other National Accounts adjustments	-0.1	-0.8	-0.5	-0.4	-0.6	-0.2	0.0
Total public sector gross investment	**71.6**	**77.7**	**82.9**	**86.3**	**88.7**	**98.2**	**104.1**
Less public sector depreciation	-40.0	-41.2	-42.8	-44.4	-46.0	-48.0	-50.2
Public sector net investment	**31.6**	**36.5**	**40.1**	**41.9**	**42.7**	**50.2**	**53.9**
Total managed expenditure	**753.9**	**772.8**	**802.4**	**817.2**	**827.9**	**855.4**	**886.4**

Note: Forecasts for PSGI in CDEL and PSGI in AME include a methodological change that routes some capital grants to housing associations via local government. This increases PSGI in CDEL and reduces PSGI in AME by the amounts shown in Table 4.19, from 2016-17 onwards.

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

[2] As we do not have sufficient detail about the Government's negotiation preferences, or the chances of achieving them, we are not able to forecast how spending will be affected after the UK leaves the EU. We therefore make the fiscally neutral assumption that any reduction in transfers to the EU would be recycled into extra domestic spending. See the section on this below.

[3] Includes reductions in debt interest payments due to the APF. For further detail, see Table 4.30.

List of abbreviations

AME	Annually Managed Expenditure
APD	Air Passenger Duty
B&B	Bradford and Bingley
CAPSNB	Cyclically-Adjusted Public Sector Net Borrowing
CGNCR	Central Government Net Cash Requirement
CPI	Consumer Prices Index
DEL	Departmental Expenditure Limits
DMO	Debt Management Office
DWP	Department for Work and Pensions
EU	European Union
GDP	Gross Domestic Product
GLA	Greater London Authority
HGV	Heavy Goods Vehicle
HMRC	Her Majesty's Revenue and Customs
IPT	Insurance Premium Tax
ISA	Individual Savings Account
ISCF	Industrial Strategy Challenge Fund
LCF	Landfill Communities Fund
NFR	Net Financing Requirement
NICs	National Insurance Contributions
NPIF	National Productivity Investment Fund
NR	Network Rail
NS&I	National Savings and Investments
OBR	Office for Budget Responsibility
ONS	Office for National Statistics
POTAS	Promoters of Tax Avoidance Schemes
PSCE	Public Sector Current Expenditure
PSGI	Public Sector Gross Investment
PSNB	Public Sector Net Borrowing
PSND	Public Sector Net Debt
PSND ex BoE	Public Sector Net Debt excluding the Bank of England
PSNFL	Public Sector Net Financial Liabilities
QROPS	Qualifying Recognised Overseas Pension Schemes
R&D	Research and Development
RHDI	Real Household Disposable Income
RPI	Retail Prices Index
SMEs	Small to Medium Enterprises
STEM	Science, Technology, Engineering and Mathematics
TFS	Term Funding Scheme
TME	Total Managed Expenditure
UKAR	UK Asset Resolution
VAT	Value Added Tax
VED	Vehicle Excise Duty

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