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COVER NOTE

From:	Mark Bowman, Director General - International Finance, HM Treasury
date of receipt:	30 March 2016
To:	Mr Carsten PILLATH, Director General, Council of the European Union
Subject:	2015-16 Convergence Programme for the United Kingdom

Delegations will find attached the first part of the Convergence Programme for the United Kingdom.

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Dear Carsten,

The UK's 2015-16 Convergence Programme and the 2016 National Reform Programme.

I am writing to provide you with the UK's Convergence Programme for this year (2015-16) and also the 2016 National Reform Programme.

The Convergence Programme sets out the UK's medium term fiscal plans and is drawn from the UK's Autumn Statement 2015, Budget 2016 and the independent Office for Budget Responsibility's 2016 economic and fiscal outlook.

In uncertain times and against a deteriorating global economic outlook, the government has taken decisive action at Budget 2016 to control spending and make savings, and in 2019-20 Britain is set to run a surplus.

The government remains committed to bringing the UK's Treaty deficit in line with the 3% target set out in the Stability and Growth Pact. The OBR's forecast indicates that this forecast will be met in 2016-17, and the deficit is forecast to remain below 3% over the forecast horizon.

The National Reform Programme articulates the main policy actions that the government is taking to address the major structural reform challenges facing the UK. It reports on progress towards the Europe 2020 national targets for smart, sustainable and inclusive growth, as well as progress against the Country-specific Recommendations that were agreed at the June 2015 European Council: fiscal consolidation; housing market reforms; and skills shortages and childcare. The government has taken a wide range of actions to address the challenges it faces, including most recently at Budget 2016 and Autumn Statement and Spending Review 2015.

As in previous years, the UK's 2016 National Reform Programme has been prepared jointly with other government departments and the devolved administrations of Scotland, Wales and Northern Ireland.

I am writing in similar terms to Marco Buti, Director-General, Economic and Financial Affairs, and Alexander Italianer, Secretary-General. I am also copying this letter to Sir Ivan Rogers, the UK's Permanent Representative to the EU, and Shan Morgan, the UK's Deputy Permanent Representative to the EU.

Yours

Mark

Mark Bowman
Director General – International Finance
HM Treasury

HM Treasury

2015-16 Convergence Programme for the United Kingdom:

submitted in line with the Stability and Growth pact

March 2016

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Contents

Foreword

The UK is forecast by the Organisation for Economic Co-operation and Development (OECD) to be the fastest growing major advanced economy this year, with employment at a record rate of 74.1%. But the challenges are growing.

Since the Spending Review and Autumn Statement was published in November 2015, the outlook for the global economy has worsened and global growth has slowed, with the International Monetary Fund (IMF) predicting global growth of 3.4% in 2016, 0.2 percentage points lower than its October forecast. In advanced economies, there are growing concerns about productivity growth, high debt levels and deflationary risks. Productivity growth since the financial crisis of 2008 and 2009 has been weaker in all the major advanced economies, including the UK.

In emerging economies risks have also increased, with falling oil prices hitting commodity-exporting economies, Russia and Brazil in recession, and China's rebalancing leading to lower growth in a number of countries.

Uncertainty about global growth prospects has been reflected in volatility in financial markets, with world stock markets seeing $8 trillion wiped off their value at the start of the year. As one of the most open economies in the world, the UK is not immune to global slowdowns and shocks. All this means the challenge of delivering a sustained rise in living standards following the financial crisis is greater here in Britain than the Office for Budget Responsibility (OBR) had previously forecast.

This is precisely why the UK has been working through its long-term economic plan. Since 2010 the plan has been focussed on reducing the deficit, while delivering the supply side reforms necessary to improve long-term productivity growth. That has allowed an active monetary policy to support the economy while ensuring the fiscal position is sustainable in the long-term.

As a result, the 2015-16 deficit at 3.8% (public sector net borrowing) is forecast to be down by almost two thirds from its peak, bank capital ratios have doubled and there are over 2 million new jobs since 2010.

Eight years ago, the UK was one of the worst prepared to face the financial crisis. Today, in the face of a cocktail of global risks, the UK is one of the best prepared. The UK is responding to lower productivity growth and a more difficult global economy by:

- maintaining credible public finances and running a surplus in 2019-20
- cutting taxes for business and enterprise
- investing in infrastructure and devolving power
- improving education and healthcare
- supporting savings
- cutting taxes for working people

1 Introduction

1.1 The Stability and Growth Pact (SGP) requires member states to provide information on economic developments in their country for the purposes of the multilateral surveillance procedure under Articles 121 and 126 of the EU Treaty. Member states submit either annual Stability Programmes (euro area countries) or annual Convergence Programmes (non euro area countries) setting out their medium-term fiscal policies.

1.2 The UK is not a member of the single currency and cannot face sanctions under the EU's SGP. The UK's obligation under the SGP is to "endeavour to avoid an excessive government deficit" as a result of its Protocol to the EU Treaties (Protocol 15). The Convergence Programme sets out the UK's medium-term fiscal policies.

1.3 Major fiscal events since the last Convergence Programme have been Summer Budget 2015, Autumn Statement 2015 which also included Spending Review 2015, and Budget 2016. This Convergence Programme draws on those publications, particularly Budget 2016.

1.4 The forecasts for the economy and public finances included in the UK's Convergence Programme are prepared by the independent Office for Budget Responsibility (OBR), information on which is set out in Chapter 5. The forecasts set out in the Convergence Programme are from the OBR's March 2016 Economic and fiscal outlook, which was published alongside Budget 2016.

1.5 Under Section 5 of the European Communities (Amendment) Act 1993, Parliament is required to approve the government's assessment of the UK's medium-term economic and budgetary position. This forms the basis of the UK's Convergence Programme. The UK presents copies of assessments of its Convergence Programme to Parliament.

Structure of the Convergence Programme

1.6 The first five chapters of this Convergence Programme set out the government's policy on the fiscal position, sustainability of the public finances and the macro-economy, as required by the Stability and Growth Pact Code of Conduct.

1.7 Detail on the OBR's economic and fiscal forecasts is set out separately in Annex A of the Convergence Programme, drawing upon the OBR's March 2016 'Economic and fiscal outlook' and 2015 'Fiscal sustainability report'.

1.8 Annex B provides details of the financial impact of Summer Budget 2015, Autumn Statement 2015, and Budget 2016 policy decisions. Annex C provides supplementary data.

2 Overall policy framework and objectives

2.1 This section contains Chapter 1 of Budget 2016.

1 Budget Report

The UK economy and public finances

Britain and the global economy

1.1 Britain is forecast to grow faster than any other major advanced economy in 2016.[1] GDP in Q4 2015 was 12.6% higher than it was in Q1 2010.[2] But the challenges the country faces are growing.

1.2 The global economic outlook has deteriorated since the Spending Review and Autumn Statement 2015. Both the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) have revised down their global forecasts for GDP in 2016. The IMF predicts global growth of 3.4% in 2016, 0.2 percentage points lower than its October forecast while the OECD forecasts growth of 3.0% in 2016, 0.3 percentage points below its November forecast.[3, 4]

1.3 These downgrades, which reflect a pattern of disappointing post-crisis growth in many countries, are partly driven by concerns over productivity growth. Christine Lagarde, Managing Director of the IMF, recently noted that weaker productivity growth – the rate the economy increases output per hour worked – and echoes of the financial crisis of 2008 and 2009, are still holding back global growth.[5] Angel Gurria, Secretary-General of the OECD, said "Productivity growth – a central ingredient in the pursuit of well-being – has been decelerating in a vast majority of countries".[6]

1.4 All G7 economies have seen lower productivity growth since the financial crisis. The UK was hit hard by the financial crisis, and productivity fell 2.2% from its pre-crisis peak.[7] Since 2012, output per hour has grown each year and increased by 0.8% in 2015 to exceed its pre-crisis peak.

1.5 But as the Office for Budget Responsibility (OBR) says, with a period of weak productivity growth after the financial crisis continuing to lengthen, they have placed more weight on the post-financial crisis period as a guide to future prospects.

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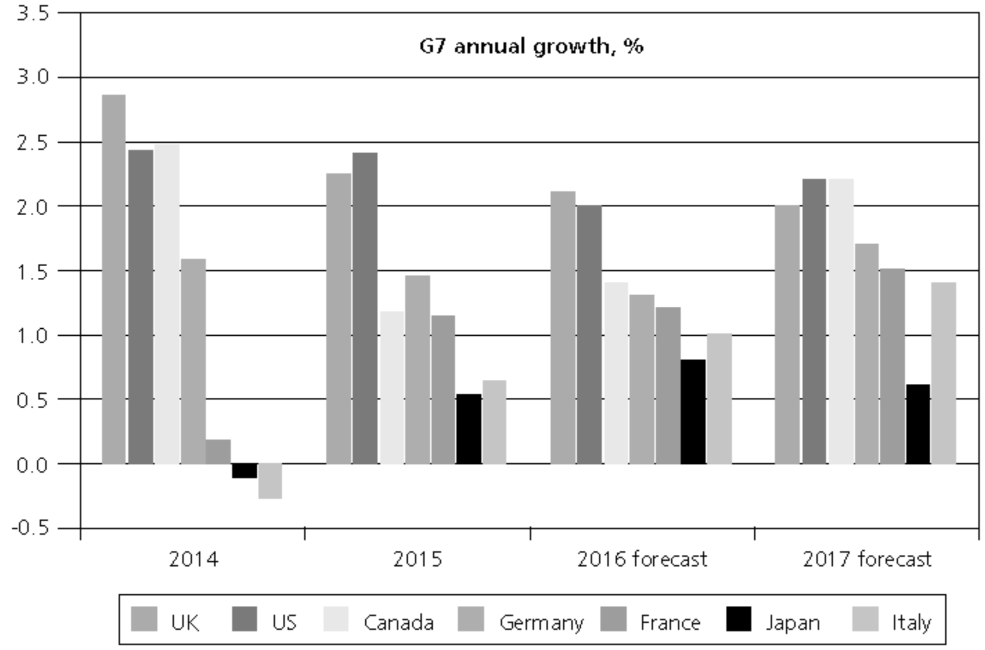
[1] 'Interim Assessment', Organisation for Economic Co-operation and Development (OECD), February 2016.
[2] All UK economy data from Office for National Statistics (ONS) unless otherwise stated. Further detail can be found in 'Budget 2016 Data Sources'.
[3] 'World Economic Outlook Update', International Monetary Fund (IMF), January 2016.
[4] 'Interim Assessment', Organisation for Economic Co-operation and Development (OECD), February 2016.
[5] Christine Lagarde, International Monetary Fund (IMF), Article IV press conference, December 2015.
[6] Angel Gurria, Organisation for Economic Co-operation and Development (OECD), February 2016.
[7] From a pre-financial crisis peak in 2007 to its trough in 2009.

Chart 1.1: International comparison of GDP growth



Source: Organisation for Economic Co-operation and Development.

Global outlook

1.6 Prospects for key emerging markets have deteriorated recently. For 2016, the IMF forecasts growth in emerging markets to be 4.3%, compared to 4.7% a year ago.[8] These economies face a number of risks. As China rebalances towards domestic consumption, the emerging markets whose exports are geared to China's previous manufacturing and investment-led growth are suffering. And after a decade of cheap debt, emerging markets are facing tighter credit conditions. Over $735 billion in capital flowed out of emerging markets last year.[9]

1.7 These concerns about growth prospects have been reflected in financial market volatility since the turn of the year. Global stock markets had their worst six-week start to the year for more than 45 years, with over $8 trillion wiped off world markets.[10]

1.8 Having fallen by 70% from June 2014 to December 2015, the price of oil fell further to $27 per barrel at the end of January 2016 and has averaged under $33 for the first two months of 2016.[11] At the time of the Spending Review and Autumn Statement 2015, markets expected the price of oil to rise gradually to $50 per barrel in early 2016. While a sustained fall in the oil price is a net benefit to oil importing economies like the UK, it impacts on particular sectors including the North Sea oil and gas industry. The speed and intensity of the falls in commodity prices in the last 18 months have increased financial stress and worsened the economic outlook for commodity exporters like Brazil, Russia and many countries in the Middle East.

1.9 The combination of lower global growth and cheaper oil has meant inflation has fallen across advanced economies, with every major central bank revising down its inflation forecast. As a result, market expectations of the timing of interest-rate rises have been pushed back.

[8] 'World Economic Outlook Update', IMF, January 2016 and January 2015.
[9] Capital Flows to Emerging Markets, Institute of International Finance, January 2016.
[10] MSCI World Index and Bloomberg World Market Capitalisation Index.
[11] ICE Brent Crude Oil Front Month Futures.

1.10 Together, the prospects of weaker growth and inflation have reduced the outlook for GDP measured at current prices, i.e. nominal GDP. Global nominal GDP growth is estimated by the IMF to have been half the rate in 2015 that it was in 2007, making it harder to bring down debt-to-GDP ratios.[12]

OBR economic 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
GDP growth	**2.2**	**2.0**	**2.2**	**2.1**	**2.1**	**2.1**
Main components of GDP						
Household consumption[2]	2.9	2.4	2.2	2.1	2.0	1.9
General government consumption	1.7	0.2	0.6	0.5	0.2	0.7
Fixed investment	4.2	2.9	4.5	4.1	4.0	4.3
Business	4.7	2.6	6.1	5.8	5.5	4.4
General government[3]	2.2	0.2	1.9	-0.3	-0.2	6.5
Private dwellings[3]	3.4	5.1	2.8	3.0	3.0	2.9
Change in inventories[4]	-0.4	0.2	0.0	0.0	0.0	0.0
Net trade[4]	-0.5	-0.4	-0.1	-0.1	-0.1	-0.1
CPI inflation	**0.0**	**0.7**	**1.6**	**2.0**	**2.1**	**2.0**
Employment (millions)	**31.2**	**31.6**	**31.7**	**31.9**	**32.0**	**32.1**
LFS unemployment (% rate)[5]	**5.4**	**5.0**	**5.0**	**5.2**	**5.3**	**5.3**

[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 Budget Responsibility, Office for National Statistics.

1.11 The UK is one of the most open trading economies in the world and is not immune to the weaker global outlook. And as in other major advanced economies, the UK's productivity growth has been slower since the financial crisis. Combined, this means that the challenge of delivering a sustained rise in living standards following the financial crisis of 2008 and 2009 is greater here in the UK than the OBR previously forecast, with GDP growth, inflation and nominal GDP growth now forecast to be weaker than at the time of the Spending Review and Autumn Statement 2015.[13]

1.12 The OBR forecasts GDP growth to be 2.0% in 2016, rising to 2.2% in 2017 and 2.1% in 2018.

1.13 The main driver of the reduced GDP forecast is a lower forecast for potential productivity growth – the amount of output growth per hour worked the economy is capable of producing sustainably – with the OBR placing more weight on post-crisis weakness in productivity growth. Productivity is expected to grow by 1.0% in 2016 and 1.7% in 2017, before rising to 2.0% for the remainder of the forecast period.

[12] 'World Economic Outlook', IMF, October 2015.
[13] All forecasts refer to the Office for Budget Responsibility (OBR) 'Economic and fiscal outlook', March 2016, unless otherwise stated.

1.14 Disappointing productivity growth is evident in many other major advanced economies in recent years, leading other forecasters to revise down their expectations. For example, Table 1.2 from the OBR 'Economic and fiscal outlook' March 2016, shows that OBR forecasts for potential productivity growth between 2010 and 2020 have been revised down by 7.5 percentage points. This is similar to the Congressional Budget Office (CBO) in the US which has reduced its forecast for potential productivity growth by 8.9 percentage points. The impact on potential GDP growth has been smaller in the UK, however, largely because the labour market participation rate has held up much more than in the US.

Table 1.2: Contributions to potential output growth between 2010 and 2020

	Potential productivity[1]	Potential average hours	Potential participation rate[2]	Potential unemployment rate[2,3]	Potential population[2]	Potential output growth[4]
OBR estimates for the UK						
June 2010	21.9	-2.0	-1.8	0.0	5.8	24.1
March 2016	14.4	-1.0	0.0	-0.2	6.7	20.6
Change	-7.5	0.9	1.8	-0.2	0.9	-3.5
OBR calculations based on CBO estimates for the US						
August 2010	24.3	-0.8	-3.0	0.0	9.5	30.8
January 2016	15.4	-0.6	-5.6	0.3	10.6	20.0
Change	-8.9	0.2	-2.6	0.3	1.1	-10.8

[1] Output per hour.

[2] Corresponding to those aged 16 and over.

[3] Percentage point growth between 2010 and 2020.

[4] Changes may not sum due to rounding and interaction effects.

Note: Non-farm business employment forecasts are not available for the US, and so we have assumed that non-farm business employment grows at the same rate as whole economy employment.

Source: Office for Budget Responsibility.

1.15 The OBR predicts the UK's strong labour market performance to continue. The OBR revised up its forecast for employment in 2016 from 31.5 million to 31.6 million, and in 2017 employment reaches 31.7 million. The OBR forecast employment to rise by 0.9 million by 2020, meaning that employment will have risen by 3 million since 2010. Wages and salaries are forecast to grow faster than inflation, rising by 3.6% in 2016, and thereafter by an average of 4.0% until 2020. The OBR forecasts CPI inflation to be below the 2.0% target in 2016 before returning to target in 2018.

Britain in a stronger position to face the challenge ahead

1.16 Since 2010, the government's long-term economic plan has been focussed on ensuring sound public finances, while delivering the supply-side reforms necessary to improve long-term productivity. That has allowed active monetary policy to support the economy while ensuring the fiscal position is sustainable. As a result of the government's action to date:

- the public finances have improved. In 2010, the IMF forecast the UK to have the largest budget deficit in the G20, at 11.4% of GDP.[14] As a result of the action that the government has taken, the OBR forecast that the UK's deficit as a share of GDP will be reduced by almost two-thirds to 3.8% of GDP in 2015-16

[14] 'Fiscal Monitor', IMF, May 2010.

- the financial sector is much more resilient. Since 2010, the government has legislated for the ring-fencing of large banks' retail arms from their investment banking arms, insulating these core functions vital to households and SMEs, and put the Bank of England back in charge of bank prudential regulation. As the Governor of the Bank of England said, "UK banks are now significantly more resilient than before the global financial crisis. Capital requirements for the largest banks have risen ten-fold. Their holdings of liquid assets have increased four-fold. Their trading assets are down by a third, and inter-bank exposures have shrunk by two-thirds"[15]
- household finances are more robust. Debt-to-income ratios have fallen from 155% in Q1 2010 to 142% in Q3 2015. The share of households with very high mortgage debt-to-income ratios has been falling and is now back at levels seen in the 1990s.[16] Interest payments as a proportion of income were 4.8% in Q3 2015, the lowest on record and down from 6.3% in Q1 2010

1.17 The long-term economic plan has delivered considerable economic gains since 2010. The UK was the fastest growing major advanced economy in 2014, the second fastest in 2015 and the OECD forecast the UK to be the fastest growing in 2016.

Employment and earnings

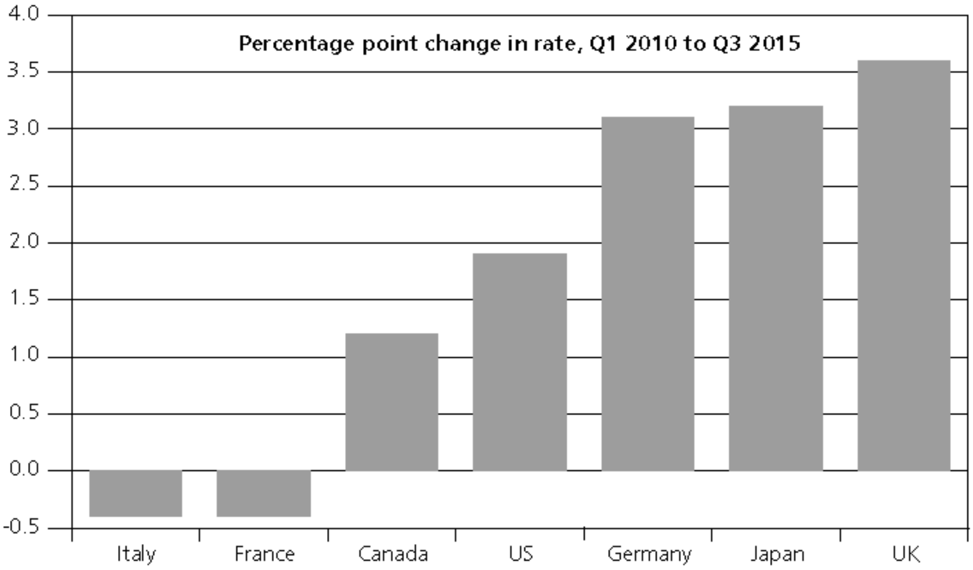
Employment

1.18 Government action to reward work and reform benefits has delivered a stronger labour market in the UK, with an employment rate that has risen faster in the UK than in any other G7 country since 2010 making progress towards the government's goal of full employment.[17] The data for 2015 showed:

- a record employment rate of 74.1% in Q4 2015
- the employment rate of women had risen to 69.1% by the end of 2015, a record high
- 74% of the increase in employment in 2015 was driven by full-time workers
- high and medium skill occupations accounted for 92% of the growth in employment in the year to Q4 2015
- a strong demand for labour with 767,000 vacancies in Q4 2015, a record high
- the claimant count fell to a 40 year low in 2015
- working age inactivity fell by over 600,000 from 2010 to 2015

[15] Mark Carney, Governor of Bank of England, Financial Stability Report Press Conference, December 2015.
[16] Very high mortgage debt-to-income ratio is defined as a ratio greater than 500%. 'Quarterly Bulletin 2015 Q4', Bank of England, December 2015.
[17] 'Short-Term Labour Market Statistics', OECD.

Chart 1.2: International comparison of employment



Source: Organisation for Economic Co-operation and Development.

Earnings

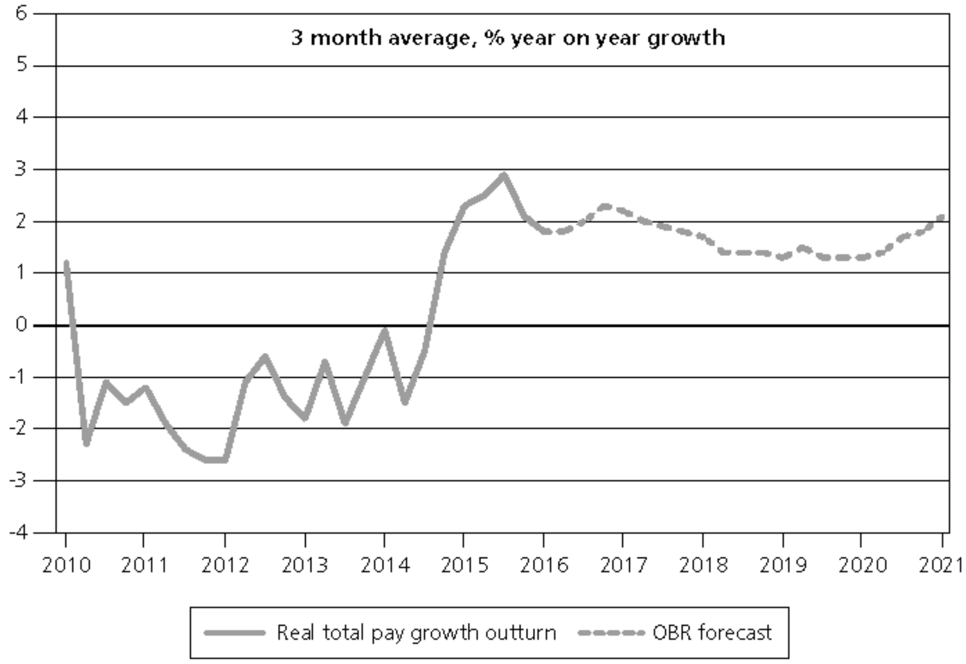
1.19 This strong employment performance has been accompanied by rising real wages (see Chart 1.2). Earnings growth picked up in much of 2015, with total annual pay rising 2.5% on the year in nominal terms, and 2.3% in real terms. This represents the highest annual growth in nominal and real earnings since 2008.

1.20 Wages had been rising above inflation for 15 consecutive months by the end of 2015. Living standards, as measured by real household disposable income (RHDI) per capita, are expected to have risen in 2015 at their fastest rate in 14 years, driven by rising earnings and low inflation.

1.21 The government has taken unprecedented action to support those on lower pay. From 1 April 2016, low wage workers aged 25 and above will see a pay rise as a result of the introduction of the National Living Wage (NLW). Initially set at £7.20, it will mean a £900 cash increase for a full-time worker on the current National Minimum Wage (NMW) – the largest annual increase in a minimum wage rate across any G7 country since 2009, in cash and real terms.[18] 2.9 million workers are expected to benefit directly, and the OBR estimated up to 6 million could see a pay rise as a result of a ripple effect causing pay to rise further up the earnings distribution.[19]

[18] HMT calculations using OECD minimum wage statistics, 2016.
[19] 'Economic and fiscal outlook', OBR, March 2016 and 'Economic and fiscal outlook', OBR, July 2015.

Chart 1.3: Real total pay growth



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

Long-term solutions to long-term problems

1.22 Given the concerns over slowing growth in advanced economies, policymakers face a choice over how to respond. The OBR forecasts little spare capacity in the economy – as measured by the output gap – for the forecast period. This suggests that there is little benefit to policy increasing overall demand without taking measures to expand supply. Attempting to spend more than the country can afford would not address the challenges Britain faces.

1.23 In the UK, debt levels remain high. Short-term, discretionary fiscal stimulus would simply increase public debt without expanding supply.

1.24 Furthermore, the Monetary Policy Committee (MPC) forecasts inflation to return to the 2% target in the medium term. As the Governor of the Bank of England has recently said, "the G20 needs to use the time purchased by monetary policy to develop a coherent and urgent approach to supply-side policies".[20]

1.25 The long-term solution is structural reform. These policies seek to make economies more efficient, competitive and productive. Both the IMF and OECD recognise that structural reform is needed to boost long-term growth.[21] Their research shows that the most effective structural reforms include lowering the rates of distortive taxes, ensuring that product markets are flexible and competitive, and cutting or simplifying business regulation.[22] These policies are critical to delivering sustainable growth for the next generation.

[20] Mark Carney, Governor of the Bank of England, 'Redeeming an unforgiving world', G20 conference speech, February 2016.
[21] 'World Economic Outlook', IMF, October 2015; 'Economic Outlook', OECD, November 2015.
[22] 'Economic Growth and the Role of Taxation – Disaggregate Data', OECD, 2009; 'The New Normal: A Sector-Level Perspective on Productivity Trends in Advanced Economies', IMF, 2015; 'Raising potential growth after the crisis: A quantitative assessment of the potential gains from various structural reforms in the OECD area and beyond', OECD, 2010.

1.26 Since 2010 the government has acted to reform the supply side of the UK economy including by lowering taxes, cutting regulation, investing in infrastructure, and introducing the National Living Wage and Apprenticeship levy. The government set out comprehensive reforms to support productivity growth in 'Fixing the Foundations: creating a more prosperous nation'.[23] In October 2015 the National Infrastructure Commission was established to provide the government with expert independent advice on the country's infrastructure needs.

1.27 This Budget announces further measures to drive productivity growth across the UK:

- reducing distortive taxes by continuing to lower both income tax and business taxes
- improving education by accelerating fairer schools funding and committing to full academisation of schools in England
- promoting enterprise through business rate cuts for small businesses, cutting Capital Gains Tax and extending entrepreneurs' relief to external investors in unlisted trading companies
- delivering long-term infrastructure improvements, by giving the green light to major projects recommended by the National Infrastructure Commission including Crossrail 2, and High Speed 3 between Leeds and Manchester
- improving economic decision-making by devolving power to cities and regions, including new devolution deals for the East and West of England

Economic rebalancing

1.28 The financial crisis of 2008 and 2009 revealed an unstable and unbalanced model of economic growth in the UK. Since 2010 the government has taken steps to support more balanced growth across sectors and regions and to promote savings and investment.

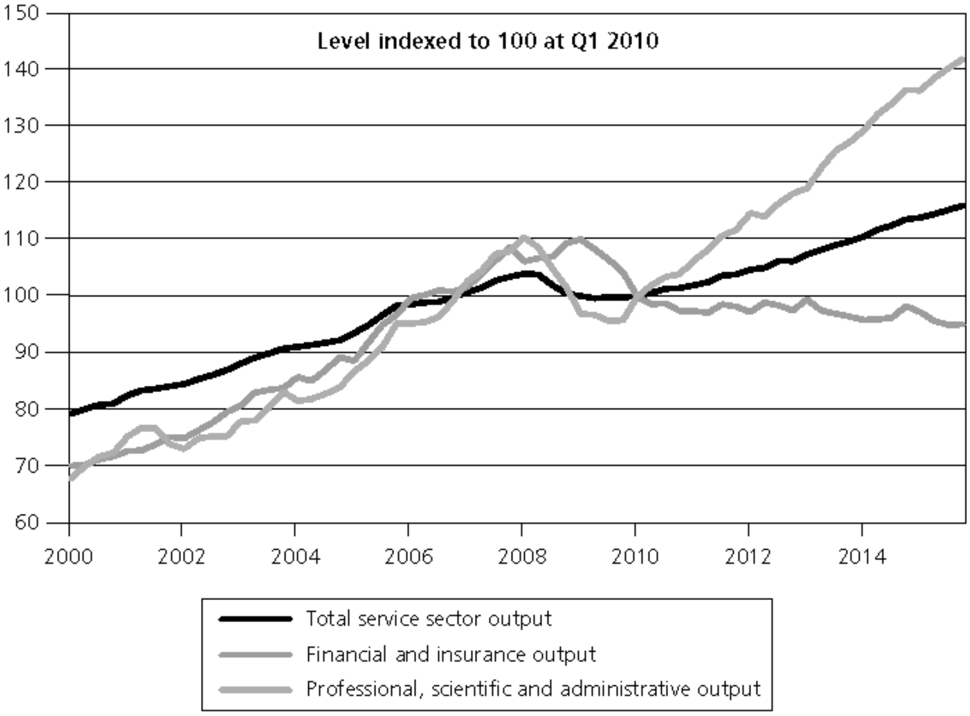
Sector rebalancing

1.29 The UK is making progress in shifting towards high-value added sectors in both manufacturing and services. The manufacturing, construction and service sectors are now all larger than at the beginning of 2010. By the end of 2015, 62.6% of all employment growth since 2010 has been in high skilled occupations. Within manufacturing, aerospace production has grown by almost 30% and car production has increased by over 60% since the start of 2010. Between 2010 and 2014, 16,000 new jobs in car production have been created and in 2015 car manufacturing exports reached a record high.

1.30 Within services, output has been strong across different high-value added sectors. Scientific research and development has grown by 24.4% and architecture and engineering activities have grown by 42.5% since 2010. Rebalancing within the services sector has been particularly strong.

[23] 'Fixing the foundations: creating a more prosperous nation', HM Treasury, July 2015.

Chart 1.4: Rebalancing within the services sector



Source: Office for National Statistics.

1.31 Investment in productive assets, from plant and machinery to software and patents, is vital for a thriving economy. During the financial crisis investment was hit hard in the UK, falling by 24%. Since then it has picked up, and investment grew faster than in any other major advanced economy in 2015 and is forecast by the OECD to continue to increase at the fastest rate in 2016 and 2017.[24] Business investment has continued to pick up as the economy has recovered, increasing by 25.8% since Q1 2010, more than twice as fast as household consumption. In 2015, business investment increased by 4.7% and it is now 4.2% higher than its pre-crisis peak.

Regional rebalancing

1.32 Regional economic disparities have long been a problem, with London and the South East having higher growth than the UK average for decades. The government is determined to rebalance the economy by building the Northern Powerhouse and the government's devolution revolution is creating powerful elected mayors, allowing local governments to reduce and retain business rates, and giving local leaders across the country new powers and rewards for driving local growth.

1.33 Since 2010, unemployment in the North of England has fallen by a third and the median earnings of full-time employees grew faster in all regions of the North than they did in London.[25] In 2015, employment grew faster in the North than the South and by the end of 2015, the employment rate in the North was at its highest on record, at 72.2%.

[24] 'Economic Outlook No 98', OECD, November 2015.
[25] The North is defined as the North East, North West, and the Yorkshire and the Humber regions. The South is defined as London, the South East and South West regions.

1.34 Between 2010 and 2015, labour markets in the regions have performed strongly. Unemployment fell and employment rose in every region, with two-thirds of the increase in employment from outside London and the South East. Labour markets in the regions strengthened in 2015, with every region reaching a record number of people in work.[26]

1.35 In 2015 there were over half a million more businesses outside London and the South East compared to 2010, including nearly 160,000 more businesses in the North and over 95,000 more businesses in the Midlands.[27, 28] The South West has had the fastest rate of business growth outside of London.

External rebalancing

1.36 The outlook for world trade continues to be revised down, reflecting both cyclical and structural factors. This weighs on the outlook for UK trade, as the external demand for UK exports is expected to be weaker. In 2015, the sum of UK exports and imports amounted to 57% of GDP, twice the US level. As an open economy, the UK is not immune to developments in the global economy. The OBR have revised down their outlook for UK export markets compared to their November forecast as the inevitable result of lower global growth.

1.37 The UK's current account deficit has narrowed, falling to -3.7% in Q3 2015, but it remains high. This has been driven by a deterioration in the UK's net investment income. This likely reflects the relatively strong performance of the UK economy compared to its trading partners, which has meant that the income earned on the UK's overseas assets has been relatively weaker. The current account deficit is forecast to narrow gradually over the forecast period.

The UK and the EU

1.38 On 23 June, the British people will be asked whether they think the UK should remain a member of the EU or leave, in the first referendum on the UK's membership of the EU since 1975. The government position is to recommend that Britain remains in a reformed EU.

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[26] Between 3 months to December 2014 and 3 months to December 2015.
[27] The Midlands is defined as the East Midlands and the West Midlands regions.
[28] 'Business Population Estimate for the UK and Regions', BIS, October 2015.

Economic opportunities and risks linked to the UK's membership of the European Union

Membership of the EU has increased the UK's openness to trade and investment, reinforcing the dynamism of the economy. The Treasury has highlighted openness as a key driver of productivity, wages and living standards.[29] The UK's full access to the single market, through its EU membership, clearly increases the openness of the British economy, creating jobs and supporting livelihoods.

At the February 2016 European Council, the Prime Minister secured a new settlement for the UK in a reformed EU. The agreement covered four key areas: economic governance; competitiveness; sovereignty; and welfare and free movement. Together, the new settlement and the UK's existing opt-outs from the single currency and common border-free area give the UK a special status in the EU.[30]

Voting to leave the EU would create a profound economic shock and years of economic uncertainty.[31] Such a vote would be the start of a series of lengthy, interlocking negotiations with the EU and with other international partners. The associated uncertainty would have a material effect on jobs, the economy and the public finances. Some of the concerns related to such an outcome are already becoming apparent in financial markets. In their discussion of external analysis of the impact of an exit from the EU the OBR conclude that "Leaving aside the debate over the long-term impact of 'Brexit', there appears to be a greater consensus that a vote to leave would result in a period of potentially disruptive uncertainty while the precise details of the UK's new relationship with the EU were negotiated".[32]

The UK's current full access to the single market cannot be matched by any existing alternative. UK firms and consumers enjoy tariff-free trade and reductions in non-tariff barriers across the EU. The UK is also inside the customs union, eliminating the need for customs compliance for trade between EU member states. None of the alternative arrangements with the EU would provide the same level of access, particularly for services, which accounts for 79% of the UK economy. A new relationship which gives the UK the access to the single market that it needs would involve contributing financially to the EU, accepting the free movement of people and adopting EU rules without having any say over them.

In their discussion of current risks and uncertainties the OBR highlight that "whatever the long-term pros and cons of the UK's membership of the European Union, a vote to leave in the forthcoming referendum could usher in an extended period of uncertainty regarding the precise terms of the UK's future relationship with the EU. This could have negative implications for activity via business and consumer confidence and might result in greater volatility in financial and other asset markets".[33] The OBR note that, reflecting their statutory remit to prepare forecasts based on current government policy, it is not for them to judge at this stage what the impact of leaving the EU might be on the economy and public finances.

Remaining in a reformed EU will make the UK stronger, safer and better off. It will allow a reformed EU to continue supporting UK productivity. And it will offer certainty for UK businesses and consumers and those foreign firms investing in the UK. As Christine Lagarde, the Managing Director of the IMF has made clear, a vote to leave the EU would create uncertainty in the UK: "no economic player likes uncertainty. They don't invest, they don't hire, they don't make decisions in times of uncertainty."[34]

[29] 'Fixing the foundations: creating a more prosperous nation', HM Treasury, July 2015.
[30] 'The best of both worlds: the United Kingdom's special status in a reformed European Union', HM Government, February 2016.
[31] 'The process for withdrawing from the European Union', HM Government, February 2016.
[32] 'Economic and fiscal outlook', OBR, March 2016.
[33] 'Economic and fiscal outlook', OBR, March 2016.
[34] Christine Lagarde, International Monetary Fund (IMF) Managing Director, CNN interview, 24 February 2016.

1.39 The Treasury will set out a comprehensive assessment of the costs and benefits of membership of a reformed EU in the coming months.

Monetary policy and credit easing

1.40 The steps taken by the government to fix the public finances and put banks and household finances on a surer footing have allowed monetary policy to play an active role in supporting the recovery.

1.41 The MPC has full operational independence to set policy to meet the inflation target. **Budget 2016 reaffirms the inflation target of 2.0% for the 12-month increase in the CPI, which applies at all times.** This target is symmetric, meaning deviations below the target are treated the same way as deviations above the target. Symmetric targets help to ensure that inflation expectations remain anchored and that monetary policy can play its role fully. **The government also confirms the Asset Purchase Facility (APF) will remain in place for the financial year 2016-17.**

1.42 Inflation was 0.3% in January, well below the 2.0% target. In February, as required by the MPC remit, the Governor of the Bank of England wrote to the Chancellor a fifth open letter setting out that the current low level of inflation predominantly reflects the effect of external inflationary pressure, citing falling food, energy and other goods prices as explaining 'the vast majority of the deviation of inflation from the target'.[35]

1.43 Some measures of banks' funding costs, in particular the price that banks pay in wholesale markets to fund lending to the wider economy, have increased in recent months. However, they remain much lower than at the time of the launch of the Funding for Lending Scheme (FLS) in 2012. The FLS will continue to support lending to small and medium-sized enterprises (SMEs) until 2018. Annual growth in the stock of lending to SMEs continues to improve, and reached 1.4% in January. This is up from a low of -4.5% in August 2012.[36] Net lending to SMEs by participants in the FLS extension was also positive for the fourth quarter in a row, at £0.6bn in Q4 2015.[37]

1.44 The government fundamentally restructured the UK's system of financial regulation in 2013. As part of this, the government created the Financial Policy Committee (FPC) as the UK's macroprudential authority, within the independent Bank of England. This macroprudential role did not feature in the regulatory architecture before the government took action. The FPC is responsible for identifying, monitoring and addressing risks to the system as a whole. In 2014 and 2015, the FPC undertook stress tests of the UK banking system. The FPC concluded that the UK's banking system has become more resilient and has the capacity to maintain its core functions, including lending capacity, in these stress scenarios.[38]

[35] Open letter from the Governor of the Bank of England to the Chancellor of the Exchequer, February 2016.
[36] 'Monetary financial institutions loans to non-financial businesses, by business size', Bank of England, February 2016.
[37] 'Funding for Lending Scheme usage and lending data publication – Q4 2015', Bank of England, March 2016.
[38] 'Financial Stability Report', Bank of England, December 2015.

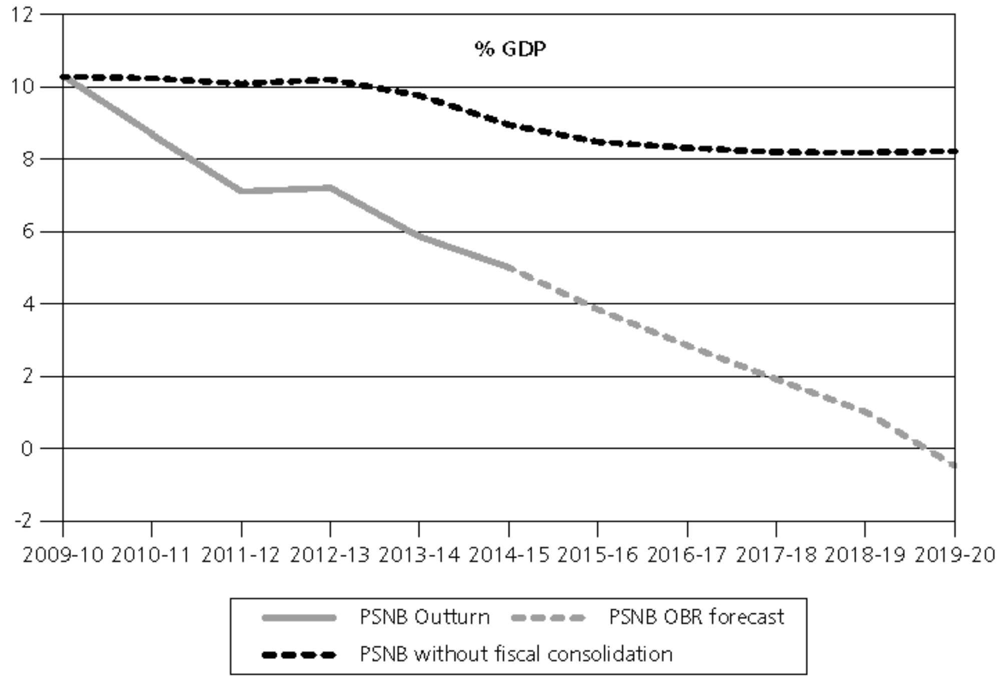
The government's fiscal plan

1.45 Significant progress has been made since 2010 in fixing the public finances. In 2009-10, the government borrowed around £1 in every £4 it spent. In 2015-16 the government is forecast to borrow around £1 in every £10 it spends and this is expected to reduce to around £1 in every £14 in 2016-17.[39]

1.46 The deficit as a share of GDP is forecast to be cut by almost two thirds from its 2009-10 post-war peak and will reach 3.8% of GDP in 2015-16.[40] The government has addressed the rapid rise in public sector net debt (PSND) which more than doubled as a share of GDP between 2007-08 and 2011-12. Net debt as a share of GDP is forecast to fall over this Parliament, reaching 77.2% of GDP by the end of 2019-20.[41]

1.47 The public finances would be in a much worse position had the government not undertaken the fiscal consolidation that has occurred since 2010. Analysis in Chart 1.5 shows that the government would have borrowed an additional £930 billion over the period 2010-11 to 2019-20 compared to the outturn and the OBR forecast.[42] This is calculated as the path of public sector net borrowing if cyclically adjusted public sector net borrowing (the structural deficit) had been fixed as a share of GDP since 2009-10 at its 2009-10 level. The chart shows the cyclical improvement in the economy since 2009-10 which would have reduced public sector net borrowing from its post war peak of 10.3% of GDP. However, the persistence of the structural deficit means that borrowing would have been higher in every year from 2010-11.

Chart 1.5: Public sector net borrowing (PSNB) with and without fiscal consolidation



Outturn series (2009-10 to 2014-15) is published ONS data. Forecast series (2015-16 to 2019-20) is from OBR March 2016 Economic and Fiscal Outlook. PSNB without fiscal consolidation series (2009-10 to 2019-20) is HMT analysis which calculates the path of PSNB if cyclically-adjusted PSNB had been fixed as a share of GDP since 2009-10 at its 2009-10 level. GDP reflects ONS outturn data and OBR forecasts. Indirect effects of fiscal consolidation are not calculated.
Source: Office for National Statistics, Office for Budget Responsibility, HM Treasury analysis.

[39] 'Public Sector Finances', ONS, January 2016; 'Economic and fiscal outlook', OBR, March 2016.
[40] 'Public Sector Finances', ONS, January 2016; 'Economic and fiscal outlook', OBR, March 2016.
[41] 'Public Sector Finances', ONS, January 2016; 'Economic and fiscal outlook', OBR, March 2016.
[42] 'Public Sector Finances', ONS, January 2016; 'Economic and fiscal outlook', OBR, March 2016 and HM Treasury calculations.

1.48 However more work needs to be done – the deficit and debt levels are still too high. The government remains committed to continuing the job of returning the public finances to surplus by 2019-20 and running a surplus thereafter in normal times so Britain bears down on its debt and is better placed to withstand future economic shocks. In a low inflationary environment, with the risk of economic shocks, the only reliable way to bring debt down as a share of GDP is to run a surplus.

1.49 This Budget sets out the action the government is taking to meet the fiscal mandate, achieving an overall surplus of £10.4 billion on the headline measure of public sector net borrowing in 2019-20 and a surplus of £11.0 billion in 2020-21.

1.50 Table 1.3 sets out the OBR forecast of the key fiscal aggregates at March Budget 2016.

Table 1.3: Comparison of key fiscal aggregates between Budget 2016 and Autumn Statement 2015

	Outturn	Forecast					
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Public sector net borrowing (£ billion)							
Budget 2016	91.9	72.2	55.5	38.8	21.4	-10.4	-11.0
Autumn Statement 2015[1]	94.7	73.5	49.9	24.8	4.6	-10.1	-14.7
Change compared to Autumn Statement 2015	*-2.8*	*-1.3*	*5.5*	*14.0*	*16.8*	*-0.3*	*3.7*
Public sector net borrowing (% GDP)							
Budget 2016	5.0	3.8	2.9	1.9	1.0	-0.5	-0.5
Autumn Statement 2015[1]	5.2	3.9	2.5	1.2	0.2	-0.5	-0.6
Change compared to Autumn Statement 2015	*-0.2*	*0.0*	*0.3*	*0.7*	*0.8*	*0.0*	*0.1*
Public sector net debt (% GDP)[2]							
Budget 2016	83.3	83.7	82.6	81.3	79.9	77.2	74.7
Autumn Statement 2015[1]	83.1	82.5	81.7	79.9	77.3	74.3	71.3
Change compared to Autumn Statement 2015	*0.2*	*1.3*	*0.9*	*1.4*	*2.6*	*2.9*	*3.4*

[1] Outturn figures for Autumn Statement are given as estimated at Autumn Statement.
[2] Debt at end March. GDP centred on end March.
Source: Office for Budget Responsibility and Office for National Statistics.

1.51 At the Summer Budget 2015 and Spending Review and Autumn Statement 2015, the government set out detailed measures to secure a surplus in 2019-20. As a result of the revision in the OBR's fiscal forecast, the government is taking action to ensure a surplus is still achieved in 2019-20. Table 2.1 shows £14 billion of new measures by 2019-20.

1.52 The government is maintaining a balanced pace of deficit reduction, with public sector net borrowing forecast to fall as a share of GDP at the same average annual rate over 2015-16 to 2019-20 as was achieved over 2010-11 to 2014-15.[43]

Fixing the public finances and achieving a surplus

Public spending

1.53 The government will build on the measures set out at Spending Review 2015 to deliver a surplus and ensure the sustainability of the public finances. Over the last five years government expenditure was reduced from the unsustainable level of 45% of GDP in 2010-11.[44] Spending

[43] 'Public Sector Finances', ONS, January 2016, 'Economic and fiscal outlook', OBR, March 2016.
[44] 'Public Sector Finances', ONS, January 2016.

Review 2015 set out savings of £21.5 billion, of which £9.5 billion was reinvested in the government's priorities. This Budget sets out that the government is adjusting those plans and will **find a further £3.5 billion of savings from public spending in 2019-20, in line with continuing action to ensure maximum efficiency from every pound of public spending.** This is equivalent to less than 0.5% of total spending, in 2019-20.

1.54 Total Managed Expenditure (TME) as a share of GDP will be 37.0% in 2019-20 and 36.9% in 2020-21.[45] After the public finances move into surplus in 2019-20, total departmental resource spending will grow in line with inflation from 2019-20 to 2020-21. Departmental spending will fall in real terms by an average of 0.9% per annum from 2015-16 to 2019-20, compared to 1.7% from 2010-11 to 2015-16.[46]

1.55 The government has already shown that savings can be delivered from spending while protecting core services and that a well-run state can do more for less – crime has fallen by more than a quarter since 2010, there are more young people going to study full time at university than ever before and record numbers of children are now taught in good or outstanding schools.[47]

Delivering further efficiency savings

1.56 The Chief Secretary to the Treasury, with the support of the Paymaster General, will lead an efficiency review, which will report in 2018. This will review the efficiency of all departmental spending to inform future expenditure decisions.

1.57 The government's spending priorities remain unchanged. As set out in Spending Review 2015, the defence and overseas aid commitments, the real-terms protections for the NHS in England, schools funding in England, the police and science will be maintained. The NHS has an ambitious programme of work underway to deliver £22 billion of efficiency savings and this is unchanged.

Sound financial management

1.58 The government's policy is to review the discount rate used to set employer contributions to the unfunded public service pension schemes every 5 years. The discount rate is based on the OBR's long term projections of GDP growth. **Budget 2016 sets out that the recent assessment has resulted in a reduction in the discount rate which will increase the contributions employers pay to the schemes from 2019-20 onward**. This will ensure that the costs of providing pension benefits in the future are fairly reflected in the contributions paid by employers, and that the pension promises made today are on a sustainable basis to ensure fairness to future tax payers.

1.59 As set out in the Spending Review, the government will continue to meet the commitment to spend 0.7% of Gross National Income (GNI) on Official Development Assistance (ODA) in every year of the Parliament. **In line with the commitment, the ODA budget will be adjusted to reflect the latest economic forecasts, taking existing plans into account.** The ODA budget will therefore be reduced by £650 million in 2019-20.

1.60 At Spending Round 2013, the government announced a control total to limit payments under PFI and PF2 contracts in nominal terms in each future Parliament. The control total is set at £70 billion and the Treasury is on track to meet this target, with forecast cumulative

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[45] 'Economic and fiscal outlook', OBR, March 2016.
[46] HM Treasury analysis based on OBR Budget 2016 forecasts.
[47] Crime Survey for England and Wales, ONS, April 2014. https://www.gov.uk/government/news/record-number-of-pupils-in-good-or-outstanding-schools; https://www.ucas.com/corporate/data-and-analysis/ucas-undergraduate-releases/ucas-undergraduate-end-cycle-data-resources.'

spending from 2015-16 to 2019-20 for payments on all PFI and PF2 contracts funded by central government standing at £51.7 billion.[48]

Capital investment

1.61 The Spending Review prioritised long term investment over day-to-day spending. This Budget accelerates its commitment to invest £100 billion in infrastructure by 2020-21. The government is now accelerating its investment plans in priority areas to deliver **around £1.5 billion investment in areas such as housing, schools and transport over the next three years that would otherwise have taken place at the end of the decade.** This will include bringing forward funding for the Highways Maintenance Challenge Fund and the Pothole Action Fund, and enabling the delivery of thirteen thousand shared ownership homes two years early. As set out in Spending Review 2015, capital budgets will be £12 billion higher than planned at Summer Budget 2015.

Overview of the OBR central fiscal forecast

1.62 As a result of the measures the government is taking, the OBR forecast a surplus of £10.4 billion will be achieved in 2019-20. Table 1.4 sets out the OBR forecasts for key fiscal aggregates.

Table 1.4: Overview of the OBR's central fiscal forecast

	% GDP, unless otherwise stated						
	Outturn	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Deficit							
Public sector net borrowing	5.0	3.8	2.9	1.9	1.0	-0.5	-0.5
Public sector net borrowing (£ billion)	91.9	72.2	55.5	38.8	21.4	-10.4	-11.0
Cyclically-adjusted net borrowing	4.3	3.6	2.7	1.9	1.0	-0.5	-0.5
Primary balance	-3.4	-2.2	-1.1	-0.1	0.9	2.2	2.1
Treaty deficit[1]	5.0	3.9	2.9	2.0	1.1	-0.3	-0.4
Debt							
Public sector net debt[2]	83.3	83.7	82.6	81.3	79.9	77.2	74.7
Treaty debt[3]	87.4	88.9	88.3	87.1	85.6	83.0	80.3
Memo: Output gap	*-0.7*	*-0.3*	*-0.1*	*0.1*	*0.0*	*0.0*	*0.0*
Memo: Total policy decisions[4]	-	-	*0.0*	*-0.4*	*-0.2*	*-0.6*	*-0.2*

[1] General government net borrowing on a Maastricht basis.
[2] Debt at end March; GDP centred on end March.
[3] General government gross debt on a Maastricht basis.
[4] Equivalent to the 'Total policy decisions' line in Table 2.1.
Source: Office for National Statistics, Office for Budget Responsibility and HM Treasury calculations.

Performance against the government's fiscal targets

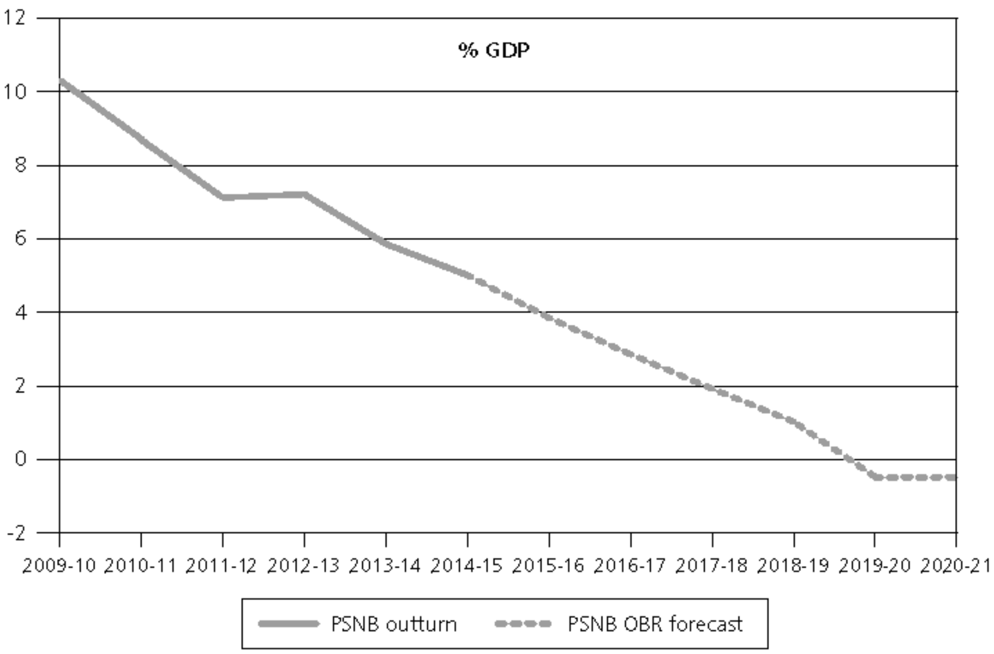
1.63 The Charter for Budget Responsibility was approved by the House of Commons on 14 October 2015.[49] It defines the government's fiscal mandate as a surplus on the headline measure of Public Sector Net Borrowing (PSNB) by 2019-20, maintaining a surplus in normal times thereafter. This is supplemented by a target for debt as a share of GDP to be falling in each year until 2019-20. The simplicity and clarity of the metrics ensure that governments will be held to account for their fiscal policy when the economy is performing well.

[48] 'Private Finance Initiative and Private Finance 2 projects: 2015 summary data', HM Treasury, March 2016.
[49] 'Charter for Budget Responsibility: autumn 2015 update', HM Treasury, October 2015.

1.64 Under the updated Charter, the surplus rule will be suspended if the economy is hit by a significant negative shock (defined as 4 quarter-on-4 quarter GDP growth below 1%). This provides flexibility to allow the automatic stabilisers to operate freely when needed. Following a shock, the government of the day will be required to set a plan to return to surplus, including appropriate fiscal targets. The framework does not prescribe what the targets should be, allowing the government of the day to respond to the circumstances. However, the targets will be voted on by the House of Commons and assessed by the OBR.

1.65 The OBR's March 2016 'Economic and fiscal outlook' provides an assessment of the government's performance against its fiscal targets. It confirms the government is on track to meet its fiscal mandate, achieving a surplus of £10.4 billion on the measure of public sector net borrowing in the target year of 2019-20 and to maintain a surplus in the following year, 2020-21.[50] The OBR's judgement is that the government's policies are more likely than not to achieve the mandate in 2019-20.[51]

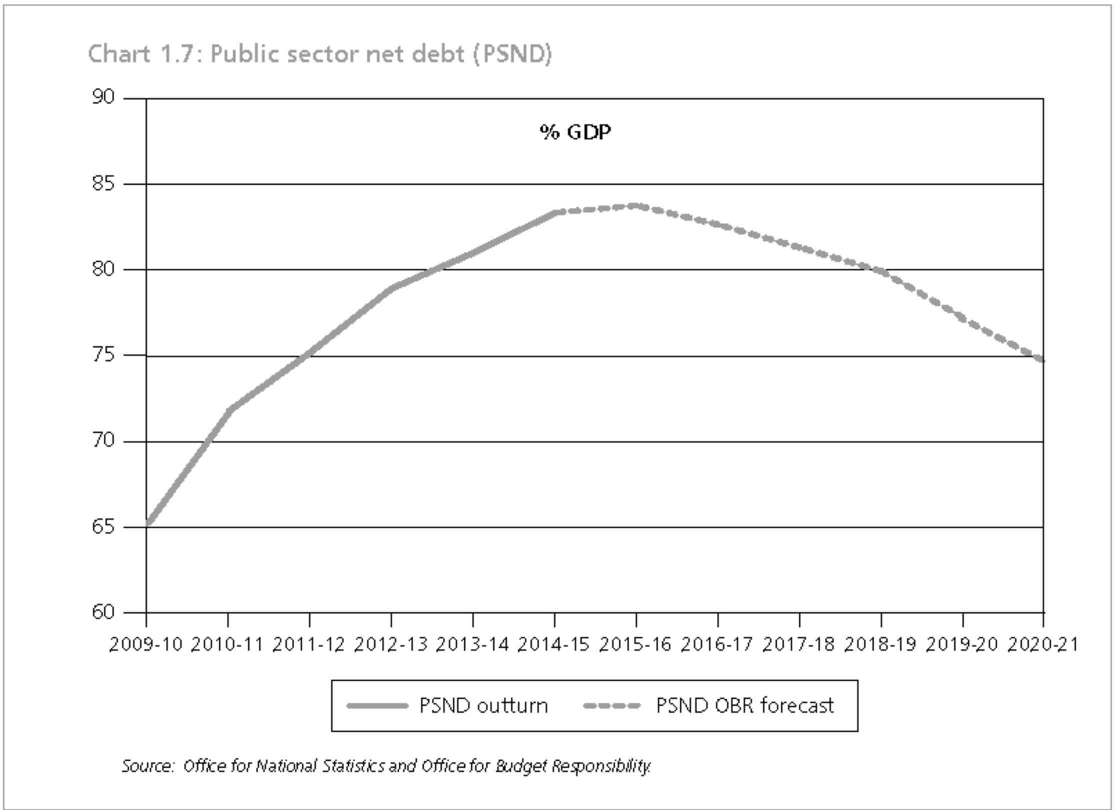
Chart 1.6: Public sector net borrowing (PSNB)



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

1.66 The fiscal mandate is supplemented by a target for public sector net debt to be falling as a share of GDP in each year to 2019-20. Chart 1.7 shows PSND as a percentage of GDP. Public sector net debt is forecast to fall from 2016-17 to the end of the Parliament, reaching 77.2% of GDP by the end of 2019-20.[52] The OBR forecasts that the level of cash debt at the end of 2015-16 will be £1591 billion, down from £1599 billion in its November forecast. Debt as a share of GDP is forecast to rise to 83.7% of GDP at the end of 2015-16 because the economy is smaller in nominal terms in 2015-16 than forecast in November, largely due to lower inflation. The government has also delayed the sale of the remaining shares in Lloyds Banking Group as a result of market conditions.[53]

[50] 'Economic and fiscal outlook', OBR, March 2016.
[51] 'Economic and fiscal outlook', OBR, March 2016.
[52] 'Economic and fiscal outlook', OBR, March 2016.
[53] 'Economic and fiscal outlook', OBR, March 2016.



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

Welfare Cap

1.68 The government introduced the Welfare Cap at Budget 2014 to strengthen control of welfare spending, support fiscal consolidation and improve Parliamentary accountability for the level of welfare spending. The cap applies to welfare spending in Annually Managed Expenditure (AME) with the exception of the state pension and the automatic stabilisers. It is assessed at Autumn Statements.

1.69 Summer Budget 2015 and Autumn Statement 2015 announced reforms to ensure that the welfare system is both fair and sustainable. The Welfare Reform and Work Bill legislates for the majority of these reforms. As announced by the Secretary of State for Work and Pensions, the Department for Work and Pensions (DWP) will continue to deliver Personal Independence Payments (PIP) in line with their original intention of supporting claimants with the greatest need in helping them meet the extra costs of their disability or long-term health condition. Spending in 2015-16 on PIP and its predecessor, the Disability Living Allowance, is expected to be over £3 billion higher in real terms than in 2009-10.[54] Spending on these benefits is forecast to be higher in real terms in 2019-20 than in 2009-10.

1.70 The government's intention is for the cap to be met by the end of the Parliament when the OBR conducts its next assessment at Autumn Statement 2016.

[54] 'DWP Benefit Expenditure and caseload tables for Autumn Statement 2015, 'Economic and fiscal outlook' OBR, March 2016 and HMT calculations'.

1.71 The Charter for Budget Responsibility requires the Treasury to set out the level of the welfare cap in the Budget Report. This is in Table 1.5. OBR forecasts of the level of welfare spending are set out in the 'Economic and fiscal outlook', March 2016.

Table 1.5: The welfare cap

	£ billion				
	2016-17	2017-18	2018-19	2019-20	2020-21
Welfare cap set at Summer Budget 2015	115.2	114.6	114.0	113.5	114.9
Forecast Margin (2%)	2.3	2.3	2.3	2.3	2.3

Source: HM Treasury

Financial sector and other state-owned asset sales

1.72 The government is committed to returning the financial sector assets acquired in 2008-09 to the private sector. As there is no longer a policy need for the government to hold these assets, it will seek to dispose of them, reducing PSND while maximising value for taxpayers.

1.73 Since 2010, the government has recovered over £75 billion, including further progress in 2015-16 in getting taxpayers' money back.[55] This included:

- £2.1 billion from an initial sale of Royal Bank of Scotland (RBS) shares in August 2015[56]
- approximately £7.5 billion through the continuation of the Lloyds Banking Group trading plan[57]
- receipt of the final payment of £740 million from the Landsbanki estate in Iceland[58] and
- a further £5.1 billion in payments received from our holdings in UK Asset Resolution (UKAR).[59]

1.74 Decisions on disposals will be made taking into account market conditions and value for money.

1.75 The government is committed to launching a retail sale of Lloyds Banking Group shares and to fully returning its stake to the private sector in 2016-17. UK taxpayers' money was used to bail out the banks, so it is right to give the public the opportunity to invest in Lloyds Banking Group. The government will shortly receive the final payment from RBS of £1.2 billion for the retirement of the Dividend Access Share (DAS), and it continues to seek further opportunities to dispose of its holding in RBS.[60] From both the DAS and share disposals, the government expects to raise up to £25 billion from RBS by the end of 2019-20.

1.76 Following the recent successful sale of £13 billion of former Northern Rock mortgages, the Treasury, UK Financial Investments (UKFI) and UKAR have been exploring further sales of UKAR mortgages: in particular, a programme of sales designed to raise sufficient proceeds for Bradford & Bingley (B&B) to repay the £15.65 billion debt to the Financial Services Compensation Scheme (FSCS) and, in turn, the corresponding loan from the Treasury.[61] It is expected that this programme of sales will have concluded in full before the end of 2017-18.

[55] 'Economic and fiscal outlook', OBR, March 2016.
[56] 'Government begins sale of its shares in the Royal Bank of Scotland', HM Treasury, 4 August 2015, available on www.gov.uk
[57] 'Chancellor extends Lloyds trading plan', HM Treasury, 4 December 2015, available on www.gov.uk.
[58] 'UK authorities receive final payment from Icesave', HM Treasury, 15 January 2016, available on www.gov.uk.
[59] 'Economic and fiscal outlook', OBR, March 2016.
[60] 'Economic and fiscal outlook', OBR, March 2016.
[61] HMT, UKFI and UKAR have received 'highly confident' letters from a consortium of the main Financial Services Compensation Scheme (FSCS) member banks, setting out the in-principle terms on which they would expect to provide debt funding to support a major sales programme of B&B mortgages. Discussions with the banking consortium will continue. Any sales will be subject to market conditions and ensuring value for money.

1.77 The government is making progress towards achieving a further £5 billion of corporate and financial asset sales by March 2020. The process to transfer the Green Investment Bank to private ownership has begun and the government will shortly consult on options to move the operations of the Land Registry to the private sector. In addition, the government is continuing to pursue the sale of the pre-2012 income contingent repayment student loan book, with a first sale in 2016-17.

Debt and reserves management

1.78 The Official Reserves, which include the government's foreign currency assets, were \$134 billion in February 2016, almost 90% larger than in June 2010.[62] This reflects a total of £42 billion of additional financing provided for the reserves since 2010 and changes in the market prices of the assets held. The government will provide £6 billion of sterling financing for the Official Reserves in 2016-17.

1.79 The government's financing plans for 2016-17 are summarised in Annex A. They are set out in full in the 'Debt management report 2016-17', published alongside the Budget.

[62] 'UK official holdings of international reserves', HM Treasury, 3 March 2016, available on www.gov.uk.

Support for working people

1.80 The Budget puts the next generation first, providing security and opportunity from childhood to working age and through to retirement. This means building an economy based on lower taxes, so that people can take home more of what they earn. It also means investing in education to equip the next generation for the future, tackling childhood obesity and investing in school sports. It means building the housing Britain needs and it means providing the next generation with better incentives to save, and more choice and flexibility as they do so. It means delivering on the government's aim to reach full employment, increasing wages so that more people are in work and earning more.

1.81 The Budget continues to reform public services in a way that is fair. The policies of this government mean that the richest are paying an increasing share of taxes, with those lower down the income distribution continuing to pay less. Distributional analysis published today confirms that half of public spending continues to go to the poorest 40% of households, and that the richest 20% will pay over half of taxes in 2019-20.[63] In addition, the richest 1% paid over 28% of all income tax revenue in 2013-14 – a higher proportion than in any year of the last two decades.[64]

Lower tax society: cutting tax for working people

1.82 The government is determined to support those in work by continuing to cut taxes and has committed to **raise the personal allowance to £12,500, and the higher rate threshold to £50,000 by the end of this parliament.**

1.83 The personal allowance will be 70% higher in April of this year than in 2010-11.[65] **At Budget 2016, the government takes another significant step towards this commitment, by increasing the personal allowance from £11,000 in 2016-17 to £11,500 in 2017-18.** This continues to ensure that no-one working 30 hours per week on the National Minimum Wage (NMW) will pay income tax in 2017-18, and will bring the total number of taxpayers taken out of income tax since the start of this parliament to 1.3 million.[66] As a result, a typical basic rate taxpayer will pay over £1,000 less income tax in 2017-18 than in 2010-11.[67]

1.84 The government also wants to ensure that the tax system encourages individuals to progress. At Summer Budget 2015 the government announced that the higher rate threshold would rise from £42,385 in 2015-16, to £43,000 in April this year.

1.85 This Budget goes further. **The government will increase the higher rate threshold by £2,000 to £45,000 in 2017-18**. This will be the biggest above inflation cash increase to this threshold since it was introduced by Lord Lawson in 1989.[68] This delivers the government's ambition to reverse the trend whereby an increasing number of individuals are faced with paying the higher rate. In 2017-18, there will be 585,000 fewer higher rate taxpayers than at the start of the parliament.[69]

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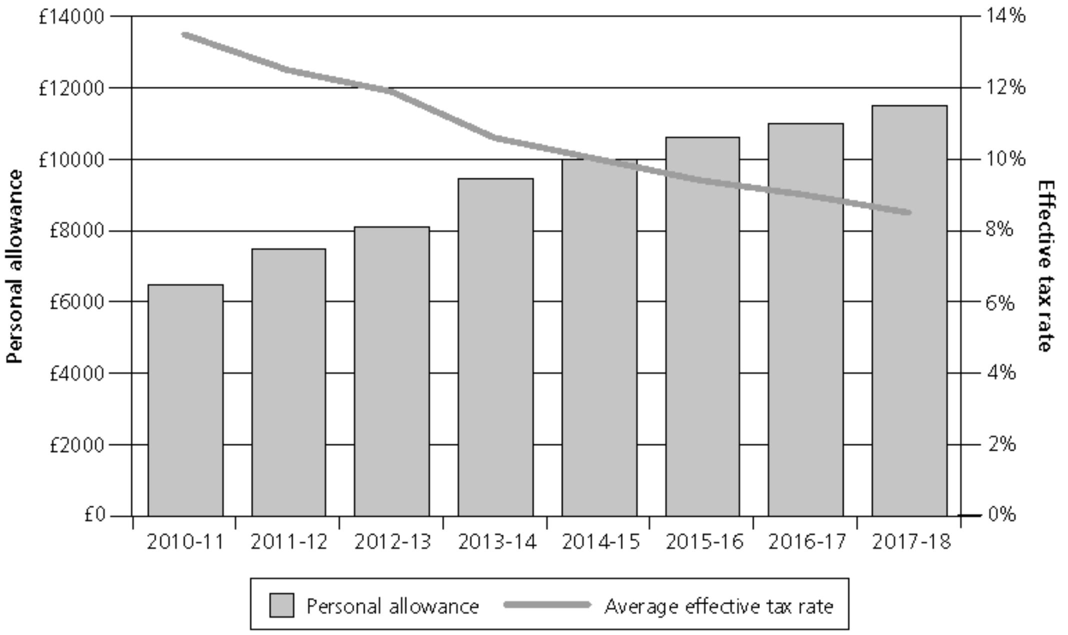
[63] Impact on Households: distributional analysis to accompany Budget 2016, available at gov.uk.
[64] HMRC Personal Income Statistics, 2013-14.
[65] HM Treasury analysis based on personal tax parameters, ONS CPI series, HMRC analysis based on Survey of Personal Incomes (SPI) 2013-14 data and Budget 2016 OBR forecasts.
[66] 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.
[67] 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.
[68] 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.
[69] 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.

Chart 1.8: Personal allowance increases since 2010



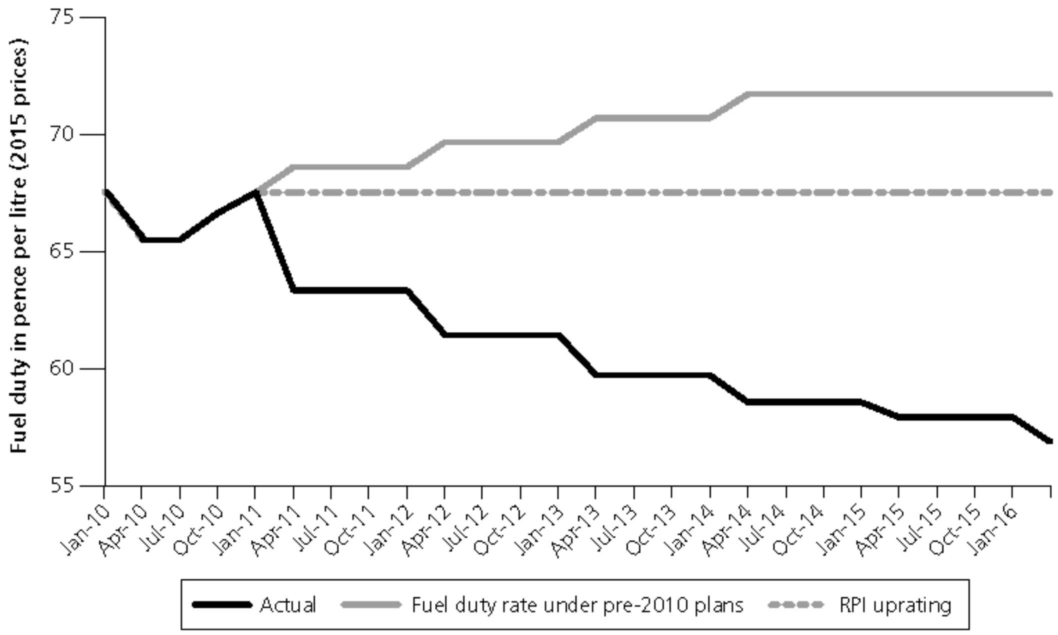
Source: HMT analysis of personal tax parameters.
[1] This is based on an individual with earnings of £20,000 in each year.
[2] The average effective tax rate is for income tax only.

Freezing fuel duty

1.86 Budget 2016 announces that, for the 6th successive year, the government will freeze the main rate of fuel duty at 57.95 pence per litre for 2016-17. This marks the longest fuel duty freeze in over 40 years.[70] Since Budget 2011, fuel duty has been kept at this level, delivering year-on-year real cuts for motorists. The average driver will save around £75 every year in duty compared to pre-2010 fuel duty escalator plans.[71] Pump prices are now 18 pence per litre lower than they would have been if the government had maintained pre-2010 fuel duty escalator plans,[72] and the typical motorist now spends £450 a year less on motor fuel than they did in 2011 when the freeze began.[73]

[70] 'Petrol and diesel prices' (Standard Note SN/SG/4712, p23), House of Commons Library, 28 Jan 2014.
[71] HM Treasury/HMRC calculations, based on DfT and ONS data on distance travelled per car, OBR RPI data and manufacturer's specifications for a Ford Focus 1.6 diesel car.
[72] HM Treasury/HMRC calculations based on RPI.
[73] HM Treasury/HMRC calculations, based on DfT and ONS data on distance travelled per car, DECC data on pump prices and manufacturer's specifications for a Ford Focus 1.6 diesel car.

Chart 1.9: Fuel duty rates in 2015 prices



Source: HM Treasury
Rates uprated to April 2015 prices using RPI.

Freezing alcohol duties

1.87 Pubs play an important role in their local communities. The British Beer and Pub Association report that beer duty rate changes since Budget 2013 have helped support both pubs and over 19,000 jobs.[74] **To continue this support, the duty rates on beer will be frozen in cash terms this year**.

1.88 The Scotch whisky industry is a great British success story. Exports are worth around £4 billion a year making up around a fifth of UK food and drink exports.[75] **To continue to support the Scotch whisky industry, the duty rate on spirits will be frozen this year. The duty rates on most ciders will also be frozen this year** in recognition of the important role cider makers play in rural communities. Other alcohol duty rates will rise by inflation. Beer and wine duties will continue to be broadly similar.

[74] British Beer and Pub Association Budget Submission, 2016.
[75] HMRC analysis based on UK Trade Statistics data and DEFRA's Food Statistics Pocketbook 2015.

Investing in the next generation

Education

1.89 This Budget accelerates the government's schools reforms and takes steps to create a gold standard education throughout England. The government will:

- **drive forward the radical devolution of power to school leaders, expecting all schools to become academies by 2020, or to have an academy order in place to convert by 2022.** The academies programme is transforming education for thousands of pupils, helping to turn around struggling schools while offering our best schools the freedom to excel even further
- **accelerate the move to fairer funding for schools. The arbitrary and unfair system for allocating school funding will be replaced by the first National Funding Formula for schools from 2017-18.** Subject to consultation, the government's aim is for 90% of schools who gain additional funding to receive the full amount they are due by 2020. **To enable this the government will provide around £500 million of additional core funding to schools over the course of this Spending Review, on top of the commitment to maintain per pupil funding in cash terms.** The government will retain a minimum funding guarantee
- **ask Professor Sir Adrian Smith to review the case for how to improve the study of maths from 16 to 18,** to ensure the future workforce is skilled and competitive, including looking at the case and feasibility for more or all students continuing to study maths to 18, in the longer-term. The review will report during 2016
- **invest £20 million a year of new funding in a Northern Powerhouse Schools Strategy.** This new funding will ensure rapid action is taken to tackle the unacceptable divides that have seen educational progress in some parts of the North lag behind the rest of the country. In support of this, **Sir Nick Weller will lead a report into transforming education across the Northern Powerhouse**

Soft drinks industry levy to pay for school sport

1.90 Childhood obesity is a national problem. The UK currently has one of the highest overall obesity rates amongst developed countries.[76] In England 1 in 10 children are obese when they start primary school, and this rises to 2 in 10 by the time they leave.[77]

1.91 The evidence shows that 80% of children who are obese between the ages of 10 and 14 will go on to become obese adults,[78] and this has widespread costs to society, including through lost productivity and the direct costs of treating obesity-related illness. The estimated cost to the UK economy today from obesity is approximately £27 billion,[79] with the NHS currently spending over £5 billion on obesity-related costs.[80]

1.92 Sugar consumption is a major factor in childhood obesity, and sugar-sweetened soft drinks are now the single biggest source of dietary sugar for children and teenagers.[81] A single 330ml can of cola can contain more than a child's daily recommended intake of added sugar.[82] Public

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[76] 'Healthy Weight, Healthy Lives: A toolkit for developing local strategies', Dr Kerry Swanton for the National Heart Forum/Cross Government Obesity Unit/Faculty of Public Health, 2008.
[77] Public Health England (PHE), figures based on 2014/15 data.
[78] 'Foresight', Government Office for Science, 2007.
[79] 'The Economic burden of Obesity', National Obesity Observatory, PHE, October 2010.
[80] 'Sugar Reduction: the Evidence for Action', PHE, October 2015.
[81] 'Sugar Reduction: the Evidence for Action', PHE, October 2015.
[82] Press Release, PHE, January 2016.

health experts have identified sugar-sweetened soft drinks of this kind as a major factor in the prevalence of childhood obesity.[83]

1.93 Budget 2016 announces a new soft drinks industry levy targeted at producers and importers of soft drinks that contain added sugar. The levy will be designed to encourage companies to reformulate by reducing the amount of added sugar in the drinks they sell, moving consumers towards lower sugar alternatives, and reducing portion sizes.

1.94 Under this levy, **if producers change their behaviour, they will pay less tax.** The levy is expected to raise £520 million in the first year. The OBR expect that this number will fall over time as the total consumption of soft drinks in scope of the levy drops, in part as a result of producers changing their behaviour and helping consumers to make healthier choices.[84]

1.95 In England, **revenue from the soft drinks industry levy over the scorecard period will be used to:**

- **double the primary school PE and sport premium from £160 million per year to £320 million per year** from September 2017 to help schools support healthier, more active lifestyles. This funding will enable primary schools to make further improvements to the quality and breadth of PE and sport they offer, such as by introducing new activities and after school clubs and making greater use of coaches
- **provide up to £285 million a year to give 25% of secondary schools increased opportunity to extend their school day** to offer a wider range of activities for pupils, including more sport
- **provide £10 million funding a year to expand breakfast clubs** in up to 1,600 schools starting from September 2017, to ensure more children have a nutritious breakfast as a healthy start to their school day

1.96 The Barnett formula will be applied to spending on these new initiatives in the normal way.

Improving health

1.97 The government is committed to investing in the next generation's health, and will:

- **invest £1.5 million in child prosthetics,** giving hundreds of children with limb deficiency access to sports prosthetics, and creating a fund to incentivise the development of new breakthrough innovative prosthetic products for the NHS
- tackle the health impacts of smoking, by continuing the tobacco duty escalator, ensuring tobacco duties rise by more than inflation each year in this Parliament. Hand-rolling tobacco is currently taxed at a lower rate than cigarettes. **The government will therefore increase the duty on hand-rolling tobacco by an additional 3% above the escalator from 6pm on Budget day**

Apprenticeships

1.98 The government is committed to increasing the quality and quantity of apprenticeships, and will deliver 3 million apprenticeship starts by 2020. As announced at the Autumn Statement 2015, an apprenticeship levy will be introduced in April 2017, and employers that are committed to training will be able to get out more than they put in.

1.99 From April 2017, employers will receive a 10% top-up to their monthly levy contributions in England and this will be available for them to spend on

[83] Duncan Selbie; Press Release, PHE, July 2015.
[84] 'Economic and fiscal outlook', Office for Budget Responsibility (OBR), March 2016.

apprenticeship training through their digital account. The government will set out further details on the operating model in April and draft funding rates will be published in June.

Lifetime learning, from basic skills to PhDs

1.100 The digital revolution is transforming the world of work. As working lives lengthen and jobs change, adults will need more opportunities to retrain and up-skill. This Budget announces that, for the first time, **direct government support will be available to adults wishing to study at any qualification level, from basic skills right the way up to PhD.** During this parliament, loans will be introduced for level 3 to level 6 training in further education, part-time second degrees in STEM, and postgraduate taught master's courses.

1.101 From 2018-19, loans of up to £25,000 will be available to any English student without a Research Council living allowance who can win a place for doctoral study at a UK university. They will be added to any outstanding master's loan and repaid on the same terms, but with the intention of setting a repayment rate of 9% for doctoral loans and a combined 9% repayment rate if people take out a doctoral and master's loan. The government will launch a technical consultation on the detail. Those who take out only a master's loan will still repay at 6%, as announced at Autumn Statement 2015. **The government will also extend the eligibility of master's loans to include three-year part-time courses with no full-time equivalent.**

1.102 To promote retraining and prepare people for the future labour market, **the government will review the gaps in support for lifetime learning, including for flexible and part-time study. The government will bring together information about the wages of graduates of different courses and the financial support available across further and higher education** to ensure that people can make informed decisions about the right courses for them.

1.103 The government will continue to free up student number controls for alternative providers predominantly offering degree level courses for the 2017-18 academic year. The best providers can also grow their student places further through the performance pool.

Supporting people to save for the long term and buy their own home

1.104 The government has taken significant steps to support savers. It has nearly tripled the amount of cash that people can save in ISAs and made them more flexible, abolished tax on savings for 17 million people through the introduction of the Personal Savings Allowance,[85] and given people the freedom to take their pension savings in a way that best suits their needs without being bound by the straitjacket of having to buy an annuity. To further help savers at a time of unprecedentedly low interest rates, **the ISA allowance will rise from £15,240 to £20,000 in April 2017.**

1.105 Since their launch, the Help to Buy: equity loan and mortgage guarantee schemes have helped over 150,000 people to buy a home.[86] More than 350,000 first time buyers have opened a Help to Buy: ISA with someone signing up every 30 seconds.[87] Over 45,000 people have bought their home under Right to Buy since the scheme was reinvigorated in 2012.[88]

[85] HMRC calculations using data from the Survey of Personal Incomes.
[86] HM Treasury Help to Buy: mortgage guarantee scheme quarterly statistics and DCLG Help to Buy (equity loan scheme) and Help to Buy NewBuy statistics: Data to 31 December 2015.
[87] Data collected by the Tax Incentivised Savings Association (TISA) from the Help to Buy: ISA providers.
[88] 'Annual Right to Buy sales for England', DCLG, 2015.

1.106 The government consultation 'Strengthening the incentive to save' looked at the way pensions are taxed.[89] The consultation found that while the current system gives everyone an incentive to save into a pension, and people like the 25% tax free lump sum, it is also inflexible and poorly understood. Young people in particular are not saving enough, often because they feel they have to choose between saving for their first home and saving for retirement.[90] Budget 2016 therefore addresses both of these concerns, continuing to prioritise transparency, choice and flexibility for savers.

A brand new flexible saving opportunity for the next generation

1.107 Building on the success of the Help to Buy: ISA, Budget 2016 gives the next generation a brand new opportunity to save in one place for a home and for retirement, and introduces new support for those who find it hardest to save.

The Lifetime ISA

1.108 The government wants to help young people save flexibly for the long term and ensure they do not have to choose between saving for retirement and saving for their first home. **The Budget announces that from 6 April 2017 any adult under 40 will be able to open a new Lifetime ISA. They can save up to £4,000 each year and will receive a 25% bonus from the government on every pound they put in.**

1.109 Contributions can continue to be made with the bonus paid up to the age of 50. **Funds can be used to buy a first home with the government bonus at any time from 12 months after opening the account, and can be withdrawn from the Lifetime ISA with the government bonus from age 60 for use in retirement.**

1.110 The government will set the limit for property purchased using Lifetime ISA funds at £450,000. This limit will apply nationally. People can continue to open a Help to Buy: ISA until November 2019, as planned. They can also choose to open a Lifetime ISA, but will only be able to use the government bonus from one of their accounts to buy their first home. During the 2017-18 tax year, those who already have a Help to Buy: ISA will be able to transfer the savings they have built up into the Lifetime ISA and still save an additional £4,000.

1.111 Whilst this is a product aimed at encouraging saving for the long term, the government understands that circumstances change so wants to ensure that people can access their own money if they need it whilst also keeping an incentive to leave funds invested for the long term. **The government will consider whether Lifetime ISA funds plus the government bonus can be withdrawn in full for other specific life events in addition to buying a first home**.

1.112 The government proposes that savers can make withdrawals at any time for other purposes, but with the bonus element of the fund plus any interest or growth on it returned to the government, and a small 5% charge applied. The government will also explore with the industry whether there should be the flexibility to borrow funds against the Lifetime ISA without incurring a charge if the borrowed funds are fully repaid. In the US some retirement plans allow 50% to be borrowed up to a maximum of $50,000. Further details on the Lifetime ISA are set out in the document published alongside Budget.

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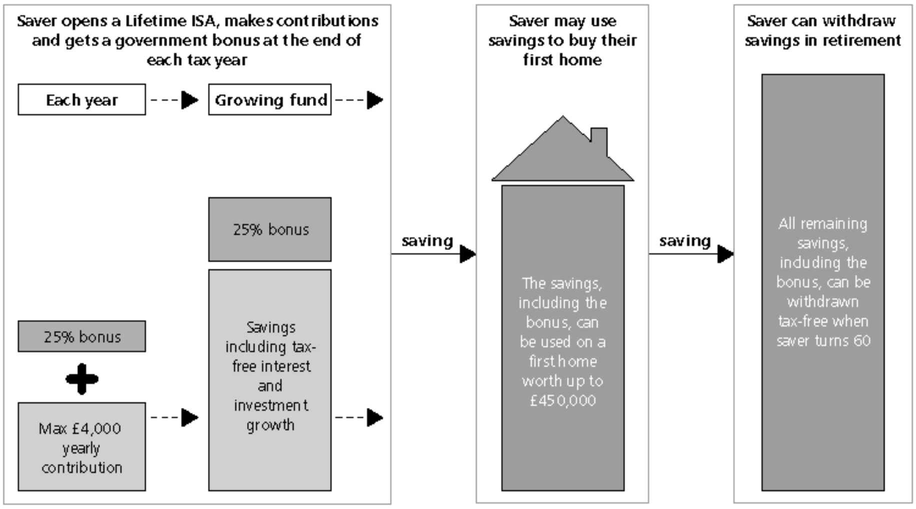
[89] 'Strengthening the incentive to save: a consultation on pensions tax relief', HM Treasury, July 2015.
[90] 'Strengthening the incentive to save: summary of responses to the consultation on pensions tax relief', HM Treasury, March 2016.

Figure 1: The Lifetime ISA



Help to Save

1.113 To help the people who find it hardest to save, **the government will introduce a new Help to Save scheme for those on low incomes** who wish to regularly set aside some of their income. The scheme will be open to 3.5 million adults in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage, or those in receipt of Working Tax Credit.[91] It will work by **providing a 50% government bonus on up to £50 of monthly savings into a Help to Save account**. The bonus will be paid after two years with an option to save for a further two years, meaning that people can save up to £2,400 and benefit from government bonuses worth up to £1,200. People will be able to use the funds in any way they wish.

Understanding pension savings

1.114 As people work longer and change jobs more often, pension savings can become confusing. The average person will move employers 11 times over their working life, meaning they could end up with 11 or more private pensions by the time they retire.[92] Research shows that over a third of people approaching retirement find it difficult to keep track of their pension pots.[93] To help the next generation to clearly view their pensions savings, the government will **ensure the industry designs, funds and launches a pensions dashboard by 2019.** This will mean an individual can view all their retirement savings in one place.

Financial advice

1.115 The government welcomes the recommendations of the Financial Advice Market Review (FAMR),[94] which aims to support the provision of affordable and accessible advice for everyone, at all stages of their lives. FAMR was a joint review between the Financial Conduct Authority and Her Majesty's Treasury, and its recommendations were published on 14 March. **The government commits to implement all of the recommendations for which it is responsible, and will:**

[91] HMRC and DWP forecasts of welfare claimants using data from Family Resources Survey and HMRC tax credit administration data.
[92] 'Making automatic enrolment work', DWP, October 2010.
[93] 'Half of over-50s don't know value of their pension', Which?, March 2016.
[94] 'Financial Advice Market Review: Final report', HM Treasury/ FCA, March 2016.

- **consult on introducing a single clear definition of financial advice** to remove regulatory uncertainty and ensure that firms can offer consumers the help they need
- **increase the existing £150 Income Tax and National Insurance relief for employer-arranged pension advice to £500**
- **consult on introducing a Pensions Advice Allowance. This will allow people before the age of 55 to withdraw up to £500 tax free from their defined contribution pension to redeem against the cost of financial advice.** The exact age at which people can do this will be determined through consultation. This means that a basic rate taxpayer could save £100 on the cost of financial advice

1.116 The government will also **restructure the delivery of public financial guidance to make it more effective.**[95]

Home ownership

1.117 The government supports home ownership and first time buyers. In addition to helping young people to buy their own home through the Lifetime ISA and Help to Buy, the Budget sets out further measures to deliver more housing.

1.118 The Autumn Statement 2015 set out the government's commitment to delivering 400,000 affordable housing starts by 2020-21, including 200,000 Starter Homes and 135,000 Help to Buy Shared Ownership properties. This constitutes the most ambitious affordable housing programme since the 1970s. To deliver on these plans **the Budget announces**:

- **the launch of the Starter Homes Land Fund prospectus**, inviting Local Authorities to access £1.2 billion of funding to remediate brownfield land to be used for housing, to deliver at least 30,000 Starter Homes
- **the delivery of 13,000 affordable homes two years early by bringing forward £250 million of capital spending to 2017-18 and 2018-19**

1.119 Consumers spend £270 million each year on failed housing transactions.[96] The government will shortly publish a call for evidence on how to make the process better value for money and more consumer-friendly.

A more streamlined planning system

1.120 The government has undertaken a series of reforms to streamline and simplify the planning system. Annual housing starts are now at an 8-year high and planning permission was granted for more than 250,000 homes last year alone.[97] Further reform is needed to deliver the government's commitment to deliver 400,000 affordable housing starts by 2020-21, while continuing to protect the Green Belt. **Budget 2016 therefore announces:**

- **the government's intention to move to a more zonal and 'red line' planning approach**, where local authorities use their local plans to signal their development strategy from the outset and make maximum use of permission in principle, to give early certainty and reduce the number of stages developers must go through to get planning permission
- **measures to speed up the planning system**, including minimising the delays caused by planning conditions, and ensuring the delivery of local plans by 2017

[95] 'Public Financial Guidance Review: Proposal for consultation', HM Treasury, March 2016.
[96] Department for Business, Innovation and Skills, research and analysis, to be published alongside the call for evidence.
[97] 'Planning applications in England: October to December 2015', DCLG, 8 March 2016.

- **a consultation on options for increasing transparency in the property market,** including by increasing the visibility of information relating to options to purchase or lease land
- that the government will deliver provisions to provide **greater freedoms and flexibilities for the deployment of mobile infrastructure**, including reducing planning restrictions for existing telecoms infrastructure and allowing taller new ground based masts to be built

Unlocking more land for housing

1.121 The government is committed to bringing more land into the planning system to ensure more families have a chance to own a home. At the Autumn Statement 2015 the government committed to releasing enough public sector land for 160,000 homes, over 50% more than in the last Parliament. **The government will now go even further to release public sector land for housing:**

- **for the first time ever Local Authorities are collaborating with central government on a local government land ambition, working with their partners to release land with the capacity for at least 160,000 homes, helping to support the government's policy on estates regeneration**
- **the Homes and Communities Agency will work in partnership with Network Rail and local authorities to provide land around stations for housing, commercial development and regeneration.** The government will set out shortly which sites will take part in the scheme

1.122 To increase densities on brownfield land, following the consultation on 'building up' in London, the government will consult on providing similar powers through devolution deals.

Garden towns, cities, and villages

1.123 The government supports the construction of a new wave of garden towns and cities across the country, with the potential to deliver over 100,000 homes. The Budget announces that the government will **legislate to make it easier for local authorities to work together to create new garden towns**, as well as **consult on a second wave of Compulsory Purchase Order (CPO) reforms** with the objective of making the CPO process clearer, fairer and quicker.

1.124 For areas that want to establish smaller settlements, **the government will provide technical and financial support to areas that want to establish garden villages and market towns of between 1,500 to 10,000 homes**. The government will shortly announce what planning and financial flexibilities will be offered to local authorities that submit proposals for settlements that deliver a significant number of additional houses.

Additional properties

1.125 As part of the government's commitment to support home ownership and first-time buyers, the Autumn Statement 2015 announced that from 1 April 2016, higher rates of Stamp Duty Land Tax (SDLT) will apply to purchases of additional residential properties, such as second homes and buy-to-let properties. The higher rates will be 3 percentage points above the current SDLT rates and will apply to purchases of additional residential properties in England, Wales and Northern Ireland.

1.126 Following consultation, the government has decided:

- **to help those moving in difficult circumstances, purchasers will have 36 months rather than the originally proposed 18 months to either claim a refund from the higher rates or before the higher rates will apply, in the event that there is a period of overlap or a gap in ownership of a main residence**

- **there will be no exemption from the higher rates for significant investors, and the higher rates will apply equally to purchases by individuals and corporate investors**

1.127 The government will provide £60 million of the additional receipts from higher rates on additional residential properties to enable community-led housing developments, including through Community Land Trusts, in rural and coastal communities where the impact of second homes is particularly acute.

Preventing homelessness

1.128 The Autumn Statement 2015 announced a real terms protection for central funding for homelessness, demonstrating the government's commitment to support the most vulnerable in society. This funding will support wider work to reform and refocus the system on preventing homelessness.

1.129 To further support rough sleepers off the streets and to help those who are recovering from a homelessness crisis, Budget 2016:

- **invests £100 million to deliver low-cost 'second stage' accommodation for rough sleepers leaving hostel accommodation and domestic abuse victims and their families moving on from refuges.** This will provide at least 2,000 places to enable independent living for vulnerable households and individuals, freeing up hostels and refuges for those in most acute need
- **invests £10 million over two years to support and scale up innovative ways to prevent and reduce rough sleeping**, particularly in London, building on the success of the No Second Night Out initiative
- **doubles the funding for the Rough Sleeping Social Impact Bond announced at the Autumn Statement 2015 from £5 million to £10 million**, to drive innovative ways of tackling entrenched rough sleeping, including 'Housing First' approaches
- **takes action to increase the number of rough sleeping EU migrants returning to their home countries.** Building on the success of the Operation Adoze pilot, the government will roll out a new approach in which immigration officials work with Local Authorities and outreach workers to connect rough sleepers to services that can return them home

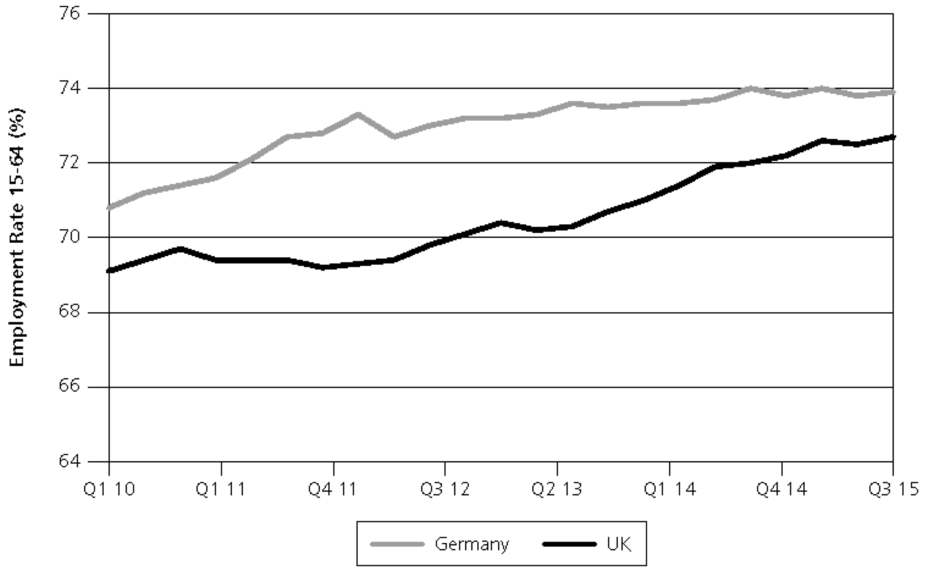
1.130 The government recognises the important work of providers of supported accommodation, including the providers of homelessness shelters and other services for those who may otherwise be sleeping rough. On 1 March 2016 the government confirmed that the date from which Local Housing Allowance caps apply to new tenancies in the supported accommodation sector will be delayed by one year. It will now apply to tenancies in this sector signed after 1 April 2017. The evidence review of the supported accommodation sector, due to report in the spring, will provide a foundation to support further decisions on protections for the supported housing sector in the long term.

Delivering full employment

1.131 A productive, dynamic economy is one that makes full use of its workforce, ensuring that as many people as possible can benefit from a growing economy and higher wages. The government has set out an ambition to achieve the highest employment rate among major economies by the end of the parliament. As Chart 1.10 shows, the difference between the employment rate in the UK and Germany, the country with the highest employment rate in the G7, has more than halved since 2011. On current population levels, an extra 500,000 people would need to move into employment to equal Germany[98] and deliver on the government's full employment ambition.

[98] OECD Labour Force Statistics.

Chart 1.10: UK and German employment rates (15-64)



Source: Organisation for Economic Co-Operation and Development statistics.

1.132 Much of the contribution to the increase in working-age employment seen over the last parliament came from substantial reductions in unemployment. Unemployment is at a 10 year low.[99] It has fallen by 820,000 since 2010, and at the end of last year, the claimant count was the lowest since 1975.[100] In order to meet the government's full employment goal, it is crucial to continue to reduce unemployment but also economic inactivity. In particular, the government wants to remove the barriers to work for key groups – notably women and the disabled, building on the progress made in the last parliament. The government will also introduce measures to support the self-employed, as set out in the business and enterprise section of this document.

Disability employment reform

1.133 The government is delivering on its manifesto pledge to halve the disability employment gap. The number of disabled people in employment has increased by 150,000 to over 3.25 million people over the last year[101] and the government is taking action to increase this further. At Summer Budget 2015, the government allocated funding to provide additional help for those on Employment and Support Allowance to move closer to the labour market.

1.134 This Budget announces that the government is accepting the recommendations of an independent stakeholder group and will offer new peer and specialist support for those suffering from mental health conditions and young disabled people. Later this year, the government will publish a White Paper focusing on the roles that the health, care and welfare sectors can play in supporting disabled people and those with health conditions to get into and stay in work.

[99] 'UK Labour Market', ONS, February 2016.
[100] 'UK Labour Market', ONS, February 2016.
[101] Table A08, 'UK Labour Market', ONS, February 2016.

Support for parents in employment

1.135 Significant progress has been made in achieving greater equality of opportunity for women. Female employment is at a record high and the number of women in full time jobs has increased by over 30% since 1992, when records began.[102] Yet it is still the case that 90% of those who aren't working because they are caring for a family or home are women,[103] and there are over 1 million women who aren't currently able to work who want a job.[104] The OECD have said equalising the roles of men and women in the labour force could raise UK GDP by 10% by 2030.[105]

1.136 **To support families in this Budget, government will launch a consultation in May 2016 on how to implement its commitment to extend Shared Parental Leave and Pay to working grandparents.** The consultation will also cover options for streamlining the system, including simplifying the eligibility requirements and notification system, and will explore the potential to make better use of digital technology.

1.137 The government **will work with the Behavioural Insights Team to look at new ways to support parents in choosing how and when to return to work.**

1.138 From early 2017, the government is introducing Tax-Free Childcare to help working parents with the cost of childcare, ensuring more parents who want to can go out to work or increase the number of hours they work. **Tax-Free Childcare will be rolled out in such a way that allows the youngest children to enter the scheme first, with all eligible parents brought in by the end of 2017. The existing scheme Employer-Supported Childcare will remain open to new entrants until April 2018 to support the transition between the schemes.** This will sit alongside doubling the free childcare entitlement from 15 hours to 30 hours a week for working families with three and four year olds from September 2017.

1.139 Last year, the Economic Secretary to the Treasury asked Jayne-Anne Gadhia, CEO of Virgin Money, to lead a review into the representation of women in senior managerial roles in the financial services industry. It is the sector with the highest pay in the UK and the widest gender pay gap.[106] **The review will launch its report on the 22 March at the Bank of England** with recommendations on how to improve gender diversity and will complement wider government work to eliminate the gender pay gap.

Higher wage society: the National Living Wage and National Minimum Wage

1.140 The new mandatory National Living Wage (NLW) will come into effect from 1 April 2016, set at £7.20 an hour for workers aged 25 and above. This will represent a £900 cash increase in earnings for a full-time worker on the current National Minimum Wage (NMW) – the largest annual increase in a minimum wage rate across any G7 country since 2009, in cash and real terms.[107] Around 65% of those who will benefit directly from the NLW are women, and the OBR estimate that by 2020 1.9 million women will be earning the NLW.[108]

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[102] 'UK Labour Market', ONS, February 2016.
[103] 'UK Labour Market', ONS, February 2016.
[104] 'UK Labour Market', ONS, February 2016.
[105] 'Effects of Reducing Gender Gaps in Education and Labour Force Participation on Economic Growth in the OECD', Thevenon, Ali, Adema & Salva Del Pero, OECD Social, Employment and Migration Working Papers No. 138, 2012.
[106] 'Trailblazing Transparency: Mending the Gap', Government Equalities Office/Deloitte, February 2016.
[107] HM Treasury calculations using OECD Minimum Wage Statistics, 2016.
[108] 'Number of employees paid the National Living Wage - November 2015 Economic and fiscal outlook', OBR, November 2015.

1.141 The government has asked the Low Pay Commission (LPC) to set out how the new NLW will reach 60% of median earnings by 2020.[109] Based on the OBR's March 2016 earnings forecasts, a NLW of 60% of median earnings would be £9 in 2020,[110] in line with the government's objective.

1.142 The Budget announces that the government will set the main rate of the NMW, which applies for workers aged between 21 and 24, at £6.95 from October 2016, in line with the Low Pay Commission's recommendations.[111] This increase means the main NMW rate will reach its highest ever level in real terms.[112] The government has also accepted the LPC's recommendations for the youth and apprentice rates of the NMW.

Addressing imbalances in the tax system

1.143 The government wants to see lower taxes for all, while continuing to put the public finances on a more sustainable footing. To do this in a fair way, this Budget takes steps to better align the tax treatment of different forms of remuneration and removes some imbalances in the tax system.

Different forms of remuneration

1.144 Long-standing anomalies in the tax system mean that employer-provided benefits are taxed more favourably than cash salaries, and individuals who work through their own company can pay lower taxes. The measures in this Budget aim to treat different forms of income in a similar way, to fund a fairer, more sustainable tax system for everyone.

Tax and NICs rules for pay-offs

1.145 Certain forms of termination payments are exempt from employee and employer National Insurance contributions and the first £30,000 is income tax free. The rules are complex and the exemptions incentivise employers to manipulate the rules, structuring arrangements to include payments that are ordinarily taxable such as notice and bonuses to minimise the tax and National Insurance due.

1.146 From April 2018, the government will tighten the scope of the exemption to prevent manipulation and align the rules so employer National Insurance contributions are due on those payments above £30,000 that are already subject to income tax. The government will continue to support those individuals who lose their job. The first £30,000 of a termination payment will remain exempt from income tax and the full payment will be outside the scope of employee NICs.

Salary sacrifice

1.147 Salary sacrifice arrangements enable employees to give up salary in return for benefits-in-kind that are often subject to more favourable tax treatment than salary. The government wants to encourage employers to offer certain benefits but is concerned about the growth of salary sacrifice schemes: clearance requests for salary sacrifice arrangements from employers to HMRC have increased by over 30% since 2010. **The government is therefore considering limiting the range of benefits that attract income tax and NICs advantages when they are provided as part of salary sacrifice schemes.** However, the government's intention is that pension saving, childcare and health-related benefits such as Cycle to Work should continue to benefit from income tax and NICs relief when provided through salary sacrifice arrangements.

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[109] 'Low Pay Commission Remit 2016', BIS, July 2015.
[110] 'Economic and fiscal outlook', OBR, March 2016.
[111] 'National Minimum Wage Report', Low Pay Commission, March 2016.
[112] HM Treasury calculations using OECD minimum wage statistics.

Off-payroll engagement in the public sector

1.148 Some individuals who work through their own limited company are undertaking jobs that would ordinarily mean they are employees of the business that they are working for. In those circumstances, existing legislation on off-payroll working requires them to pay broadly the same taxes as employees. However, non-compliance with these rules is costing the taxpayer around £440 million a year – and these costs are rising.[113]

1.149 Public sector bodies have a responsibility to taxpayers to ensure that the people working for them are paying the right tax. **From April 2017, where the public sector engages an off-payroll worker through their own limited company, that body (or the recruiting agency if the public sector body engages through one) will become responsible for determining whether the rules should apply, and for paying the right tax.** This strengthens the public sector's role in ensuring that the workers it engages comply with the rules.

1.150 The government also recognises that the current rules are seen as complex and can create uncertainty. It will therefore consult on a simpler set of tests and online tools that will provide a clear answer as to whether and when the rules should apply.

Loans to participators

1.151 The loans to participators rules aim to prevent owners of close companies avoiding Income Tax and National Insurance contributions by remunerating themselves through loans or advances that are not repaid, rather than taking dividends or salary. Budget 2016 announces an increase in the rate of tax payable by close companies under the loans to participators rules so that it continues to mirror the higher rate of dividend tax. **The loans to participators tax rate will be increased from 25% to 32.5% in April 2016, with effect for loans, advances and arrangements made on or after 6 April 2016.**

[113] HMRC analysis of taxpayer data.

Backing business and enterprise

1.152 Businesses are the lifeblood of the economy, and it is enterprise and innovation by British business which will deliver growth and opportunity for the next generation. In particular, the government recognises the importance of small businesses, responsible in 2015 for almost half of employment and a third of turnover in the private sector.[114]

1.153 Since 2010, the government's economic plan has delivered security for British business. Reducing the deficit and fixing the public finances is continuing to provide the strong and stable environment which businesses need. Reforms to the banking sector have made the UK economy more resilient and ensured that banks lend again. By supporting capital investment – committing over £100 billion to infrastructure over this Parliament and setting up the National Infrastructure Commission – the government is continuing to take the long term steps to make the UK the best place in the world to do business.

Competitive taxes in a global economy

1.154 Since 2010, the government has provided a competitive environment for business by cutting taxes. Budget 2016 builds on this success by setting out a business tax road map for this Parliament with a clear plan to deliver low taxes, but low taxes which must be paid. The road map will implement international best practice and focus on supporting small business. This approach will help to raise productivity, create job opportunities and increase wages for the next generation.

1.155 Reforms to business tax have been a central part of the government's strategy to boost economic growth. Since 2010, these reforms have included:

- cutting the main rate of corporation tax from 28% to 20% – the lowest rate in the G20[115] – with further cuts to 19% in 2017 and 18% in 2020 to come
- introducing the Employment Allowance, reducing the cost of employer National Insurance contributions by up to £2,000 every year for businesses and charities. The allowance will increase to £3,000 from April 2016
- increasing the permanent level of the Annual Investment Allowance to £200,000, meaning 99% of firms will receive 100% first-year relief on all qualifying investment[116]
- extending the doubling of small business rate relief to April 2017, meaning that over 400,000 properties continue to receive 100% business rates relief[117]
- introducing the Diverted Profits Tax to target contrived arrangements so that multinational enterprises pay more tax on their UK profits, forecast to raise £1.3 billion over the next 5 years

Business tax road map

1.156 In 2010, the government set out a corporate tax road map for the first time. This outlined plans to back business through lower corporation tax rates and the modernisation of tax rules and administration. The road map gave businesses the certainty to invest, and a clear and consistent direction for reform. Investment has grown by 30% since 2010, twice as fast

[114] Business population estimates 2015, Department for Business, Innovation and Skills, 14 October 2015
[115] Corporate tax rates table, KPMG, 2015
[116] HMRC analysis of corporation and self-assessment tax return data
[117] Department of Communities and Local Government (DCLG) calculation using DCLG and Valuation Office Agency data

as consumption over the same period.[118] Meanwhile, the UK was the number one recipient for inward investment in the EU in 2014,[119] creating job opportunities across the UK.

1.157 The government is building on its achievements in the last Parliament, with a new plan to focus support on small businesses through ambitious reforms to business rates. The business tax road map will support investment while continuing to crack down on avoidance and aggressive tax planning, making sure rules are fair and taxes paid. In particular, the road map will:

- cut tax rates to drive growth and support small businesses
- modernise the business tax system in line with international best practice
- ensure a level playing field, with large multinationals paying their fair share of tax

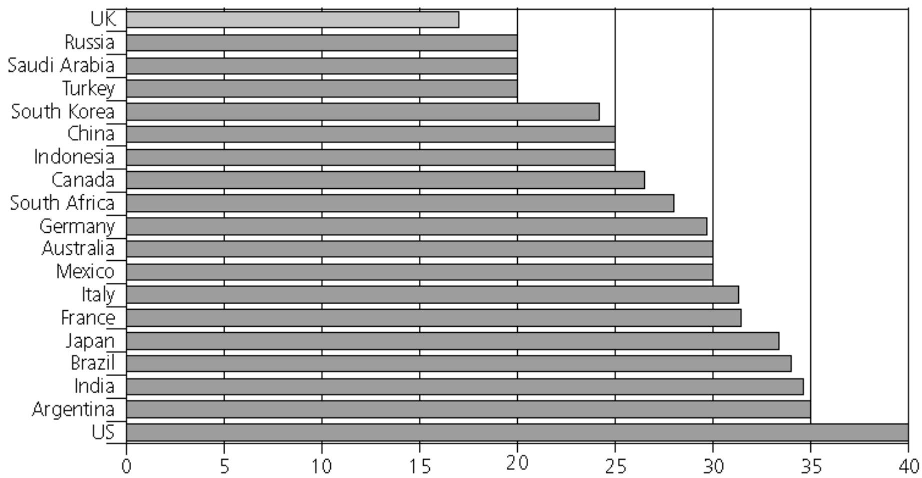
Lower tax rates to drive growth and support small businesses

Lower corporation tax

1.158 In the last Parliament, the government cut the main rate of corporation tax from 28% to 20%. The small profits rate was also cut to 20%, and the two rates were unified, in a major simplification of the tax system. Future reductions in this unified rate have already been announced: to 19% in 2017 and 18% in 2020 to support small and large businesses alike.

1.159 Budget 2016 announces that the government will cut corporation tax further, so the rate will fall to 17% in 2020. This measure will benefit over a million companies, large and small.[120] It will ensure the UK has the lowest tax rate in the G20, as set out in Chart 1.11 below. Overall, the cuts to corporation tax delivered since 2010 will be worth almost **£15 billion a year** to business by 2021.[121]

Chart 1.11: G20 Corporate Tax Rates in 2020*



Source: KPMG Corporate Tax Rates Table.
** Based on legislated plans.*

[118] 'UK Quarterly National Accounts – Q3 2015', ONS, 23 December 2015
[119] 'World Investment Report 2015', United Nations Conference on Trade and Development (UNCTAD), 24 June 2015
[120] HMRC analysis based on taxpayer data
[121] Policy measures database, OBR

Cutting business rates

1.160 The government has concluded the business rates review and has decided to cut the burden on ratepayers in England by £6.7 billion over the next 5 years,[122] cutting business rates for all properties and ensuring that the smallest businesses pay no rates at all, while modernising the tax to make it fit for the 21st century.

1.161 The government recognises that business rates represent a higher fixed cost for small businesses and **this Budget cuts business rates from next year for half of all properties** – 900,000 smaller properties – starting 1 April 2017. The government will:

- **permanently double Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses. Businesses with a property with a rateable value of £12,000 and below will receive 100% relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief.** 600,000 small businesses, **occupiers of a third of all properties**, will pay no business rates at all – a saving worth up to £5,900 in 2017-18. An additional 50,000 will benefit from tapered relief[123]
- **increase the threshold for the standard business rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate.**[124] This will reduce business rates for many small businesses – including some high street shops

1.162 From April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI to be consistent with the main measure of inflation, currently CPI, in line with the government's previous commitment to consider moving the indexation of indirect taxes from RPI once fiscal consolidation is complete. This represents a business rates cut every year from 2020.[125] In 2020-21 alone it is worth £370 million to businesses and the benefit will grow significantly thereafter.[126]

1.163 The government will also modernise the administration of business rates to revalue properties more frequently and make it easier for businesses to pay the taxes that are due:

- **the government will aim to introduce more frequent business rate revaluations (at least every 3 years) and will publish a discussion paper in March 2016 outlining options on how to achieve this to support both businesses and the stability of local authority funding**
- the government will transform business rates billing and collection. **By 2022, local authority business rate systems will be linked to HMRC digital tax accounts** so that businesses can manage their rates bills in one place alongside other taxes. **As a first step, the government will work with local authorities across England to standardise business rate bills and ensure ratepayers have the option to receive and pay bills online by April 2017**
- once local authority and HMRC systems are linked, **the government will consider the feasibility of replacing SBRR with a business rates allowance for small businesses** – this would be applied to a business's total property portfolio across local authority areas allowing businesses that grow and acquire more property to benefit from relief

[122] HM Treasury calculations
[123] HM Treasury calculations based on DCLG and Valuation Office Agency data
[124] DCLG calculation
[125] HM Treasury calculations based on OBR forecasts of RPI and CPI
[126] HM Treasury calculations based on OBR forecasts of RPI and CPI

1.164 These measures build on the devolution revolution confirmed at Autumn Statement 2015, which will allow local government to keep the rates they collect from business, give councils the power to cut business rates to boost growth, and give elected city-wide mayors the power to levy a business rates premium for local infrastructure projects – with the support of local business. Local government will be compensated for the loss of income as a result of the business rates measures above, and the impact considered as part of **the government's consultation on the implementation of 100% business rate retention in summer 2016**.

Table 1.6: Impact of business rate measures

Property rateable value £	Type of premises	Ratepayer's bill in 2017-18 after Budget 2016 measures applied £	Total value of Budget 2016 support in 2017-18 £	Total value of Budget 2016 support over the period 2017-21 £
6,000	Guest house	0	1,476	6,162
12,000	Small shop	0	5,904	24,648
14,000	Hairdresser	4,592	2,296	9,641
30,000	Pub	14,760	390	1,740
50,000	High street shop	24,600	650	2,900
1,000,000	Department store	505,000	0	6,000

Source: HMT calculations

Supporting the self-employed

1.165 Self-employment is a major part of the British economy and this Budget offers new support to the self-employed.

1.166 The government announced its intention to reform self-employed National Insurance contributions (NICs) in the March 2015 and July 2015 Budgets. This Budget delivers on that commitment. **From April 2018, Class 2 NICs will be abolished. This represents an annual tax cut for 3.4 million self-employed people of £134 on average.**[127] This will allow millions of self-employed individuals to keep more of their money and invest it back into growing their business, as well as ending an outdated and complex feature of the NICs system.

1.167 **The government will reform Class 4 NICs, so that self-employed individuals continue to build entitlement to the State Pension and other contributory benefits, following the abolition of Class 2 NICs.** The government will set out its plans for the contributory benefit tests in its response to the recent consultation on this reform.

1.168 The Lifetime ISA provides a more flexible way for the self-employed to save for their retirement, with greater freedom to withdraw funds if needed. For the self-employed who pay the basic rate of tax it is at least as generous as a private pension, and more so if they expect to pay tax in retirement.

1.169 The government wants to help low-earning self-employed people to grow their businesses. **The Budget provides self-employed Working Tax Credit claimants with access to business support** and will **extend the mentoring support offered on the New Enterprise Allowance scheme to self-employed Universal Credit claimants.** The government will also trial **face-to-face support from Jobcentre advisors for self-employed Working Tax Credit claimants**, with a view to national roll out if successful.

[127] HMRC calculation

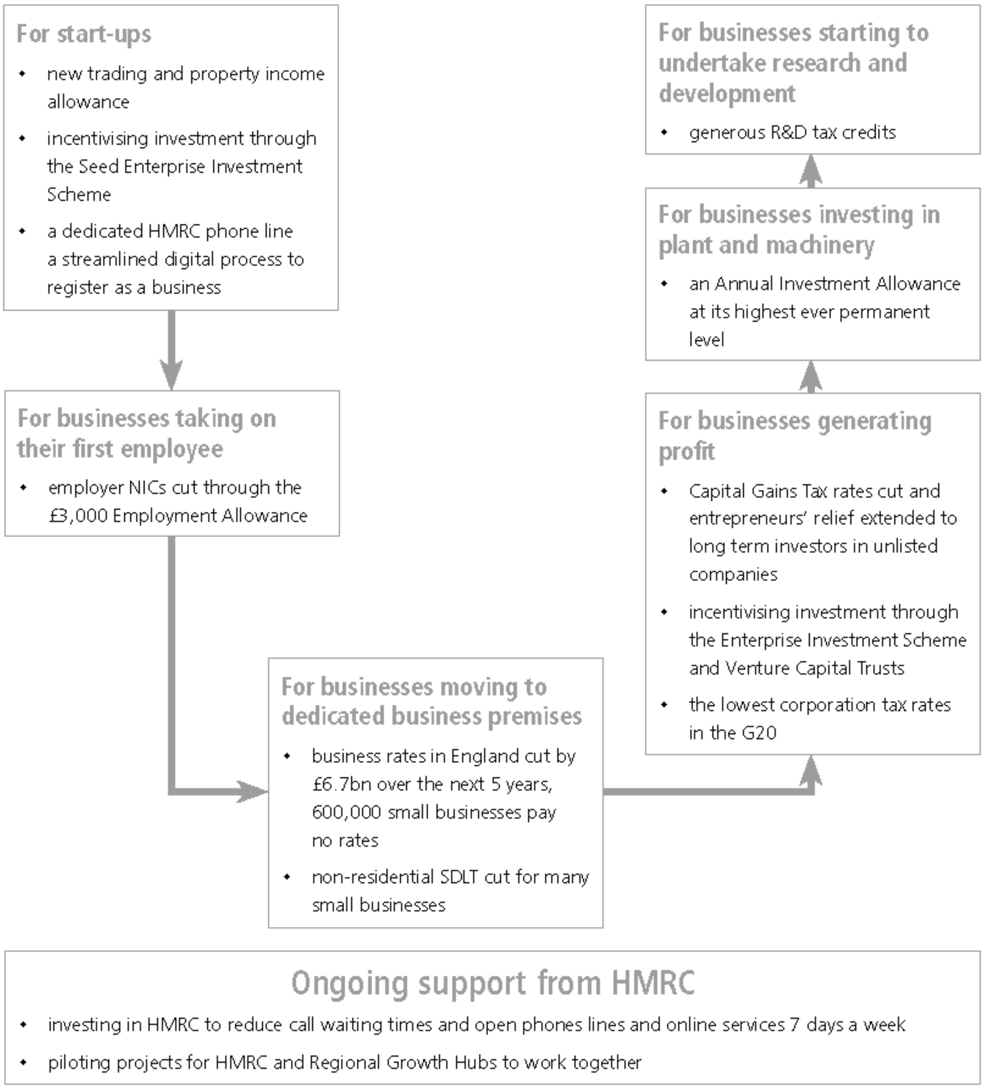
1.170 The rapid growth of the digital and sharing economy means it is becoming easier for more and more people to become 'micro-entrepreneurs'. However, for those making only small amounts of income from trading or property, the current tax rules can seem daunting or complex. To help make the tax position more certain and simple for these individuals, **from April 2017 the Budget introduces two new £1,000 allowances for property and trading income**. Individuals with property income or trading income below the level of allowance will no longer need to declare or pay tax on that income. Those with relevant incomes above £1,000 can benefit by simply deducting the allowance instead of calculating their exact expenses.

Cutting Capital Gains Tax

1.171 The government wants to ensure that companies have the opportunity to access the capital they need to grow and create jobs, and wants the next generation to be backed by a strong investment culture. **Budget 2016 announces that, from 6 April 2016, the higher rate of Capital Gains Tax (CGT) will be reduced from 28% to 20%, and the basic rate will be reduced from 18% to 10%.** There will be an 8 percentage point surcharge on these new rates for carried interest and for gains on residential property. This will ensure that CGT provides an incentive to invest in companies over property. Private Residence Relief will continue to ensure that an individual's main home is not subject to CGT.

1.172 In addition, **entrepreneurs' relief will be extended to long term investors in unlisted companies**. This will provide a 10% rate of CGT for gains on newly issued shares in unlisted companies purchased on or after 17 March 2016, provided they are held for a minimum of three years from 6 April 2016, and subject to a separate lifetime limit of £10 million of gains.

Figure 2: How the government is using the tax system to support businesses as they grow



Simplifying and modernising business tax

1.173 The government will continue to simplify and modernise the tax system to keep pace with a changing world, including implementing international best practice. Businesses that comply with tax rules fairly and consistently should find the tax system easy to understand and navigate. The government also believes in keeping pace with a changing economy, recognising the increasing role of micro-entrepreneurs and the self-employed.

Corporation tax loss relief

1.174 Loss relief is an important part of the corporation tax regime, but the current system is outdated and in need of reform.

1.175 First, under the current system, losses carried forward can only be used by the company that incurred the loss, and not used in other companies in a group. In addition, some losses carried forward can only be set against profits from certain types of income, for example trading losses can only be set against trading profits. This produces unfair outcomes and is out of step with the way businesses now operate. So the Budget makes these rules more flexible, benefiting over 70,000 companies.[128] **For losses incurred on or after 1 April 2017, businesses will be able to use carried forward losses against profits from other income streams or from other companies within a group.**

1.176 Second, the current rules enable companies to offset all of their eligible taxable profits through losses carried forward. This can lead to a situation where a large company pays no tax in a year when it makes substantial profits. To address this, **the Budget applies a restriction of the amount of profit that can be offset through losses carried forward**. The majority of G7 countries already have restrictions of this kind in place.[129] From 1 April 2017 the government will restrict to 50% the amount of profit that can be offset through losses carried forward. **The restriction will only apply to profits in excess of £5 million.** This allowance will ensure that 99% of all companies are unaffected by the restriction.[130]

1.177 This package of reforms will ensure that large companies make a tax contribution when they make significant profits. It will modernise one of the most outdated elements of the tax regime, and bring the UK into line with international best practice. The government will consult on the design of the reforms in 2016, and will legislate in 2017.

1.178 At the same time, **the government will reduce the amount of profit that banks can offset with pre-2015 losses from 50% to 25% from 1 April 2016**. This will rightfully maintain the exceptional treatment of banks' losses relating to the financial crisis and subsequent misconduct scandals. Banks' post-2015 losses, as well as any pre-2015 losses covered by the existing reliefs for new-entrant banks and building societies, will be treated in the same way as other industry groups.

Stamp duty on commercial property

1.179 The government will reform Stamp Duty Land Tax (SDLT) on non-residential property transactions. This will cut the tax for many businesses purchasing property.

1.180 Currently, SDLT rates on freehold and lease premium transactions operate on a slab system, where one tax rate is due on the entire transaction value. This creates distortions in the market and leads to large increases in SDLT as transactions move into higher tax bands. A small business buying a property for £250,000 pays £2,500 in SDLT. If the price is just £1 higher, their tax bill is trebled. **This Budget announces that these rates will be reformed to a slice system, so that SDLT is payable on the portion of the transaction value which falls within each tax band. The new rates will be 0% for the portion of the transaction value between £0 and £150,000; 2% between £150,001 and £250,000; and 5% above £250,000.** This means that all freehold and lease premium transactions below £1.05 million will pay the same or less in SDLT.[131]

1.181 The government will also introduce a new 2% rate for leasehold rent transactions where the net present value is above £5 million. These transactions are already taxed on a slice basis. All leasehold rent transactions up to £5 million will remain unaffected.

[128] HMRC analysis based on taxpayer data
[129] 'Worldwide tax summaries: Corporate taxes 2015/16', PwC
[130] HMRC analysis based on taxpayer data
[131] HMRC analysis based on taxpayer data

1.182 In combination, these changes ensure that businesses purchasing the highest value freeholds and leases make a larger contribution whilst delivering a tax cut for those purchasers, often smaller businesses, who purchase less expensive properties. Around 42% of commercial property transactions pay no SDLT at all due to the generous nil-rate bands.[132] Of the remainder that do pay SDLT, **around 43% will pay less tax and a further 42% will pay the same.**[133] As a result of these changes, over **90% of non-residential property transactions will pay the same or less in SDLT,**[134] **with only 9% paying more.**

1.183 These changes will take effect on 17 March 2016. For those transactions which have already exchanged contracts but not completed when the changes come into force, transitional rules will ensure taxpayers will not lose out.

Modernising tax collection

1.184 At the March 2015 Budget the government committed to transform the tax system through digital technology and end the need for annual tax returns. Spending Review and Autumn Statement 2015 announced a major investment in HMRC to deliver this. To make further progress towards this transformation, the Budget announces that:

- **from 2018 businesses, self-employed people and landlords who are keeping their records digitally and providing regular digital updates to HMRC will if they wish be able to adopt pay-as-you-go tax payments** – this will enable them on a voluntary basis to choose payment patterns that suit them and better manage their cashflow
- **the government will explore options to simplify the tax rules for businesses, landlords, and the self-employed**, to reduce administrative burdens and ensure that regular digital updates work smoothly

1.185 The government will consult on these measures in 2016, alongside publishing detailed proposals for other elements of the Making Tax Digital programme announced previously.

1.186 Individuals and businesses should be able to get the help and support they need from HMRC, when they need it. By the end of this Parliament, HMRC's digital transformation will have made it quicker and easier for customers to report and pay their taxes online. But the government recognises that more needs to be done now, and is investing £71 million to improve the service it provides taxpayers. This investment will deliver:

- **a 7-day a week service by 2017**, with extended hours and Sunday opening on online services and the tax and tax credits phone lines, so that people and businesses have more opportunity to contact HMRC outside of working hours
- **improved telephone services and reduced call waiting times** by recruiting over 800 new staff into HMRC call centres
- **a dedicated phone line and online forum for new businesses and self-employed individuals** to get help and support about filing and paying their taxes for the first time, and on the transition to using digital services

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[132] HMRC analysis based on taxpayer data
[133] HMRC analysis based on taxpayer data
[134] HMRC analysis based on taxpayer data

Simplifying the tax rules

1.187 The government will increase the VAT registration threshold in line with inflation to £83,000 from 1 April 2016. This will save around 2,000 small businesses from having to register for VAT by the end of the 2016-17 financial year.[135]

1.188 The government welcomes the Office of Tax Simplification's (OTS's) reviews of small companies[136] and the closer alignment of income tax and National Insurance contributions (NICs).[137] These reports provide a valuable contribution to the debate on long-term reform and will help the government to make the tax system quicker, simpler and easier for taxpayers. **The government will commission the OTS to review the impacts of moving employee NICs to an annual, cumulative and aggregated basis and moving employer NICs to a payroll basis. It will also commission the OTS to review the options to simplify the computation of corporation tax.** The terms of reference for both reviews will be published shortly.

Bringing forward corporation tax payments

1.189 At Summer Budget 2015, the government announced that corporation tax payment dates for the largest and most profitable companies in the UK – those with profits in excess of £20 million – would be brought forward, so tax is paid closer to the point at which these companies make a profit. These companies will be required to make payments in the third, sixth, ninth and twelfth months of their accounting period. The government will defer the introduction of this measure, to give businesses more time to prepare for the transition to the new payment schedule. The new schedule will apply to accounting periods starting on or after 1 April 2019, and it will have a broadly neutral impact on the public finances over the scorecard period.

Energy taxes

1.190 The government is committed to meeting the UK's ambitious environmental targets in a cost-effective way, ensuring value for money for the taxpayer and retaining protection for the smallest and most energy intensive businesses. **This Budget announces the biggest business energy tax reforms since the taxes were introduced**, in response to the business energy efficiency tax review. To simplify the landscape and drive business energy efficiency the government will:

- **abolish the CRC energy efficiency scheme (CRC) following the 2018-19 compliance year**, ending a complex scheme with bureaucratic and costly administrative requirements. It will significantly streamline the business energy tax landscape by moving to a system where businesses are only charged one energy tax administered by suppliers rather than CRC participants being required to forecast energy use, buy and surrender allowances
- **increase the Climate Change Levy (CCL) from 2019**, to recover the revenue from abolishing the CRC in a fiscally-neutral reform, and incentivise energy efficiency among CCL-paying businesses

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[135] HMRC analysis
[136] 'Small company taxation review', OTS, 3 March 2016
[137] 'The closer alignment of income tax and National Insurance contributions', OTS, 7 March 2016

- **rebalance CCL rates for different fuel types to reflect recent data on the fuel mix used in electricity generation**, moving to a ratio of 2.5:1 (electricity:gas) from April 2019. In the longer term, the government intends to rebalance the rates further, reaching a ratio of 1:1 (electricity:gas) rates by 2025. This will more strongly incentivise reductions in the use of gas, in support of the UK's climate change targets
- **keep existing Climate Change Agreement (CCA) scheme eligibility criteria in place until at least 2023**, ensuring energy intensive industries remain protected. From April 2019, the CCL discount available to CCA participants will increase so that they pay no more than an RPI increase. The government will ensure that these agreements deliver on their energy efficiency goals through a DECC-led target review starting in 2016

1.191 At Budget 2014 the government capped Carbon Price Support (CPS) rates at £18 t/CO_2 from 2016-17 to 2019-20 to limit competitive disadvantage to British businesses. Due to the continued low price of the EU Emissions Trading System (EU ETS), **the government is maintaining the cap on CPS rates at £18 t/CO_2, uprating this with inflation in 2020-21, in order to continue protecting businesses**. The government will set out the long-term direction for CPS rates and the Carbon Price Floor at Autumn Statement, taking into account the full range of factors affecting the energy market.

Motoring taxes

1.192 Transport is a major element in the cost base of many businesses, and the government recognises the link between low fuel prices and economic growth. **Budget 2016 announces a further freeze to fuel duty**, meaning the average small business with a van saves £12 each time they fill their tank compared to the fuel escalator plans in place before 2010.[138] Hauliers have on average saved a total of £14,400 over the last six years.[139] The government has also kept the rates of HGV VED and Road User Levy frozen in 2016-17, benefiting HGV operators.

1.193 This Budget also announces measures to support transition in the UK to cleaner zero and ultra-low emission vehicles, which will help improve air quality in the UK's towns and cities and protect the environment for the next generation. The government will:

- **extend the 100% First Year Allowance (FYA) for businesses purchasing low emission cars for a further 3 years to April 2021**
- **reduce the main rate threshold for capital allowances for business cars to 110 grams/kilometre of CO_2 and the FYA threshold to 50 grams/kilometre of CO_2 from April 2018**, to reflect falling vehicle emissions
- **continue to base Company Car Tax on CO_2 emissions of cars, and consult on reforming the lower CO_2 bands for ultra-low emission vehicles to refocus incentives on the cleanest cars beyond 2020-21**

Support for oil and gas

1.194 The government believes in making the most of the UK's oil and gas resources. The oil and gas industry delivers significant economic benefits, supports hundreds of thousands of jobs and supplies a large portion of the nation's primary energy needs.[140]

[138] HM Treasury/HMRC calculations, based on DfT data on distance travelled per van, DECC data on pump prices, OBR RPI data and manufacturer's specifications for a Ford Transit 2.2 diesel van
[139] HM Treasury/HMRC calculations, based on DfT data on distance travelled per heavy goods vehicle and average fuel economy of heavy goods vehicles, DECC data on pump prices and OBR RPI data
[140] 'Economic Report 2015', Oil and Gas UK, 9 September 2015

1.195 Budget 2016 delivers the next stage of the government's plan to ensure the fiscal regime supports the objective of maximising economic recovery while obtaining a fair return on the nation's resources. The government will:

- **effectively abolish Petroleum Revenue Tax by permanently reducing the rate from 35% to 0%**,[141] to simplify the regime for investors and level the playing field between investment opportunities in older fields and infrastructure and new developments. The change will take effect from 1 January 2016
- **reduce the Supplementary Charge from 20% to 10%**, to send a strong signal that the UK is open for business and in recognition of the exceptionally challenging conditions that are currently facing the sector. The change will take effect from 1 January 2016
- **provide a further £20 million of funding for a second round of seismic surveys in 2016-17**, as announced by the Prime Minister in January, to build on the success of the seismic programme in 2015 and encourage exploration in under-explored areas of the UKCS
- **extend the Investment and Cluster Area Allowances to include tariff income**, in order to encourage investment in key infrastructure maintained for the benefit of third parties
- **provide certainty that companies will be able to access tax relief on their costs when they retain decommissioning liabilities for an asset after a sale**, to encourage new entrants for late-life assets and the development of late-life business models
- build on the new decommissioning powers of the Oil and Gas Authority (OGA) by **undertaking further work with the OGA and industry to reduce overall decommissioning costs**, to deliver significant savings for industry and the Exchequer. If significant progress can be made, **the government will explore whether decommissioning tax relief could better encourage transfers of late-life assets**

1.196 This radical package will ensure the UK has one of the most competitive tax regimes for oil and gas in the world, supporting jobs and investment and safeguarding the future of this vital national asset.

1.197 The government is willing to consider proposals for using the UK Guarantees Scheme for infrastructure where it could help secure new investment in assets of strategic importance to maximising economic recovery of oil and gas. Any proposals would also need to meet the existing criteria of the scheme, including in relation to commerciality and financial credibility.

Better financial services

1.198 Access to fairly priced financial services is vital for both households and firms. At this Budget the government reaffirms its commitment to boost competition in UK retail financial services, including by:

- **pursuing more proportionate capital requirements for small banks and building societies in the EU**
- **working with the New Bank Start-up Unit to promote the authorisation of new banks**, building on the three new banks already authorised in this Parliament
- **ensuring action is taken to improve further the Current Account Switch Service following Bacs'** recent report on making improvements to the service

[141] While no company will ever pay Petroleum Revenue Tax again, the tax will not be abolished in legislation. This is to ensure that companies which decommission fields that have paid Petroleum Revenue Tax will be able to benefit from the decommissioning relief to which they are entitled.

1.199 New ways of providing financial services also expand choice for consumers and businesses. **The government is examining recommendations from the recent Fintech benchmarking exercise[142] and will announce further measures to support the sector in the coming months.** These build on actions the government has already taken, including support for alternative lending, to make the UK the global FinTech Capital.

1.200 The government is supporting SME access to finance, setting **out a £1 billion package to support SMEs through the British Business Bank.** It will support the first loans under its Help to Grow programme from spring 2016, supporting at least £200 million of lending. The Enterprise Finance Guarantee programme, which supports firms that lack a sufficient track record or collateral to access the finance that they need, will be extended until at least 2018.

1.201 This Budget also supports competition in the SME credit market. Small firms that are rejected for finance by high-street banks will be able to access new options as **the Budget announces that Bizfitech, Funding Options and Funding Xchange will be designated as finance platforms to help match borrowers and alternative lenders**. And on 1 April 2016 the government will designate the banks and Credit Reference Agencies (CRAs) that are within scope of the SME credit data regulations. This will ensure CRAs will receive SME credit information from high street banks and provide equal access to this information to all finance providers.

1.202 **The government is doing more to help exporters access trade finance.** Steps that aim to cut UK Export Finance (UKEF) transaction times in half are being trialled. If successful, they will be rolled out across trade finance providers supported by UKEF.

Long term investment

1.203 The government is committed to working in partnership with investors and businesses on the productivity challenge. Short term horizons can undermine the investment the UK needs so the **government welcomes the forthcoming Productivity Action Plan from the Investment Association.** The Investment Association advocates encouraging firms to move away from quarterly reporting, improving the measurement and reporting of firm-level productivity, and ensuring that long term incentives are incorporated into investment mandates.

1.204 In addition, a large group of institutional investors has agreed a 3-year plan to fund the Investor Forum, helping boost long termism by improving dialogue between shareholders and corporates. And the Productivity Leadership Group, led by Sir Charlie Mayfield, continues to make good progress in exploring how businesses can boost productivity and is expected to report in the summer.

Funding further investment in flood defence

1.205 In order to fund increased investment in flood defence and resilience, **the standard rate of Insurance Premium Tax (IPT) will be increased from 9.5% to 10%**. This ensures that the impact of the rate increase is spread broadly across the entire general insurance industry. IPT is a tax on insurers. However, if they do pass the cost of this rate increase on to their business and household customers, the average combined home and contents insurance would only increase by £1, and the average motor insurance premium by £2 per year.[143] All the revenue raised from this increase in IPT will be invested in flood defence and resilience measures.

[142] 'UK FinTech: On the cutting edge', EY for HM Treasury, 24 February 2016
[143] HM Treasury calculations

Claims management companies

1.206 The government is clamping down on the rogue claims management companies (CMCs) that provide bad service and bombard customers with nuisance calls. Alongside action to cap the amount that CMCs charge, **Budget 2016 announces that the government accepts the recommendations of the independent review into the regulation of CMCs.** The new regime will be tougher and will ensure CMC managers can be held personally accountable for the actions of their businesses. In order to ensure that the new regulatory regime is implemented effectively, the government intends to transfer responsibility for regulating CMCs to the Financial Conduct Authority.

Ensuring companies pay their fair share of tax

1.207 The government has taken significant action to tackle tax avoidance by multinational companies, especially through working with G20 and OECD partners on the Base Erosion and Profit Shifting (BEPS) project to modernise the international tax rules. Following the publication of the OECD BEPS outputs in October 2015, and the endorsement by G20 leaders in November 2015, the government is setting out a comprehensive package to take further action, to modernise the tax rules in the UK and to ensure these rules are applied effectively to multinationals.

1.208 The government is committed to low taxes to support business – but these low taxes must be paid. Tax avoidance and aggressive tax planning by multinationals is unacceptable and the business tax road map sets out a package specifically targeting multinational enterprises that are engaged in these activities.

Interest relief

1.209 The government is leading the way in implementing the G20 and OECD recommendations to ensure that profits are taxed in line with activities in the UK. Where large multinationals are over-leveraging in the UK to fund activities elsewhere in their worldwide group or claiming relief more than once, the government will act to prevent aggressive tax planning and level the playing field, so that multinational businesses can no longer arrange their interest expenses to shelter profits.

1.210 **The government will cap the amount of relief for interest to 30% of taxable earnings in the UK or based on the net interest to earnings ratio for the worldwide group.** To ensure the rules are targeted where the greatest risk of base erosion and profit shifting lies, **the rule will include a threshold limit of £2 million net UK interest expense and provisions for public benefit infrastructure**. The government will continue to work with the OECD on the appropriate application of these rules to groups in the banking and insurance sectors.

Royalty payments

1.211 The ease with which capital can be moved in the modern economy enables multinationals to avoid tax by using intragroup royalty payments to shift profits from the UK to low or no-tax jurisdictions, either directly or via a second country. The government will change the rules on withholding tax on royalty payments to counter this type of avoidance. There are a number of aspects to this – the government will extend withholding tax rights to cover all intangible assets such as trademarks and brand names, apply this tax to all payments connected with the activities of a business liable for tax in the UK, and introduce a domestic law to prevent our tax treaties being abused by royalty payments being routed through third countries to gain a tax advantage.

Hybrid mismatch arrangements

1.212 At Autumn Statement 2014, the government announced new rules to address hybrid mismatch arrangements, which are used by some multinational companies to avoid tax by exploiting differences between countries' rules to avoid paying tax in either country, or to get excessive tax relief by deducting the same expense in more than one country. To strengthen these proposals, **Budget 2016 announces that the rules will be extended to cover hybrid mismatches arising from permanent establishments, further restricting the opportunities for tax avoidance by multinationals.** These rules will be introduced in Finance Bill 2016, and come into effect from 1 January 2017.

Offshore property developers

1.213 The government believes it is unfair to allow property developers to use offshore structures to avoid UK tax on their trading profits from developing property in the UK. By enforcing the international rules on the taxation of trading profits derived from property, the government will level the playing field between UK and offshore developers. **The government will introduce legislation in Finance Bill 2016 to ensure offshore structures cannot be used to avoid UK tax on profits that are generated from developing UK property.**

1.214 **HMRC will also create a task force to focus on offshore property developers.** This task force will target offshore structures used to avoid tax on profits and rental income from property development in the UK. The task force aims to achieve a long term improvement in taxpayer compliance.

Tackling tax avoidance and evasion

1.215 Alongside the measures above targeting multinational enterprises, the government is cracking down on all forms of tax evasion and avoidance, and aggressive tax planning and non-compliance. There should be a level playing field for the majority who pay their tax, and everyone should make their contribution. In the last Parliament, HMRC secured £100 billion in additional tax revenue as a result of action take. This Budget goes further, and introduces a comprehensive package of measures – raising £12 billion in total[144] – including those specifically targeting multinational companies.

Disguised remuneration

1.216 At Autumn Statement 2015 the government announced it would ensure that those who have used disguised remuneration tax avoidance schemes pay their fair share of tax and National Insurance contributions. In 2011, the government legislated to clamp down on these schemes. This action successfully protected £3.9 billion, £100 million more than originally estimated.[145] Since then, new schemes have emerged which attempt to sidestep this legislation.

1.217 These schemes often involve individuals being paid in loans through structures such as offshore Employee Benefit Trusts. **The government will raise £2.5 billon[146] by taking action to tackle both the historic and continued use of these schemes, beginning with legislation in Finance Bill 2016 and with further action to follow in future Finance Bills.** This will include a new charge on loans paid through disguised remuneration schemes which have not been taxed and are still outstanding on 5 April 2019.

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[144] HM Treasury calculations
[145] 'Anti-avoidance costings: an evaluation', OBR, January 2016
[146] HM Treasury calculations

Tackling VAT evasion by overseas sellers

1.218 The government is taking firm action to protect the UK market from unfair online competition. Some overseas traders from beyond the EU avoid paying UK VAT, undercutting online and high street retailers and abusing the trust of UK consumers who purchase goods via online marketplaces.

1.219 Budget 2016 announces action that will help to protect consumers and level the playing field for businesses. **HMRC will be able to require non-compliant overseas traders to appoint a tax representative in the UK, and will be able to inform online marketplaces of the traders who have not complied.** If traders continue to evade VAT and no action is taken to prevent the fraud, then online marketplaces can be made liable for the VAT.

1.220 **The government will also introduce a due diligence scheme for the fulfilment houses where overseas traders store their goods in the UK.** This will make it harder for VAT evading firms to trade. While the government continues to take action domestically, the global nature of the fraud means international action is also required. The UK has already raised this issue with EU and international partners and the EU and OECD's current work programmes include further work to help combat this fraud.

Addressing issues in the waste sector

1.221 **The government will increase HMRC compliance activity to tackle tax evasion and non-compliance across the waste supply chain** – waste-related crime is a blight on communities and undermines the environmental objectives of landfill tax. This is why HMRC and the Environment Agency are already working together to tackle fraud and tax evasion in the waste sector. The government will provide additional funding for HMRC to increase its compliance activity in this area.

Crackdown on smuggling

1.222 The government is dedicated to cutting the funding sources of organised crime and catching the individuals responsible. Tobacco smuggling undermines legitimate businesses and is dominated by organised criminal groups often involved in other crimes, such as drug smuggling and people trafficking. At this Budget, **the Home Office will receive £31 million of funding to form a dedicated group of border officers and intelligence officials to tighten the government's grip on the most prolific smuggling routes and intercept smugglers as they try to adapt their tactics**. Coordinated enforcement, alongside the additional intelligence and investigative resources provided at Summer Budget 2015, will work to further increase the seizure of illicit shipments and increase prosecutions for tobacco fraud.

The hidden economy

1.223 Tackling the hidden economy is an important part of the government's stance in supporting compliant business – by levelling the playing field so that those playing by the rules do not face unfair competition from those not paying their fair share. **The government will consult over the summer on a range of measures to address the hidden economy**, including introducing tougher sanctions for traders and evaders who have been penalised for deliberate non-compliance but have failed to change their behaviour.

Addressing imbalances in the tax system

Remote gambling

1.224 Remote gaming operators currently benefit from a more generous tax treatment when they offer discounted or free gambling ('freeplays') to customers in Remote Gaming Duty than would be the case for operators offering free bets on things like football and horseracing. **The government will therefore amend the tax treatment of freeplays in Remote Gaming Duty to bring it into line with the tax treatment of free bets in General Betting Duty.**

Asset managers

1.225 Following the draft legislation issued at Autumn Statement 2015, the government has finalised the rules that determine when asset managers can pay capital gains tax rather than income tax on their performance related returns ('carried interest'). **These new rules ensure that carried interest will be taxed as a capital gain only when the fund undertakes long term investment activity (with investment horizons longer than 3 years).**

Employee Shareholder Status

1.226 The government believes that Employee Shareholder Status (ESS) provides vital flexibility for early stage firms, and that it is right that employee shareholders receive tax benefits on shares awarded in exchange for relinquishing certain employment rights. However, the government wants to ensure that the benefits for individuals are proportionate and fair. **Budget 2016 introduces an individual lifetime limit of £100,000 on gains eligible for Capital Gains Tax (CGT) exemption through ESS.** This limit will apply to arrangements entered into on or after 17 March 2016, and will not apply to arrangements already in place. This change will enable employee shareholders to realise a significant growth in the value of their shares without paying any CGT, whilst helping to ensure that the status is not misused.

Opportunity across the UK

Boosting productivity for the next generation

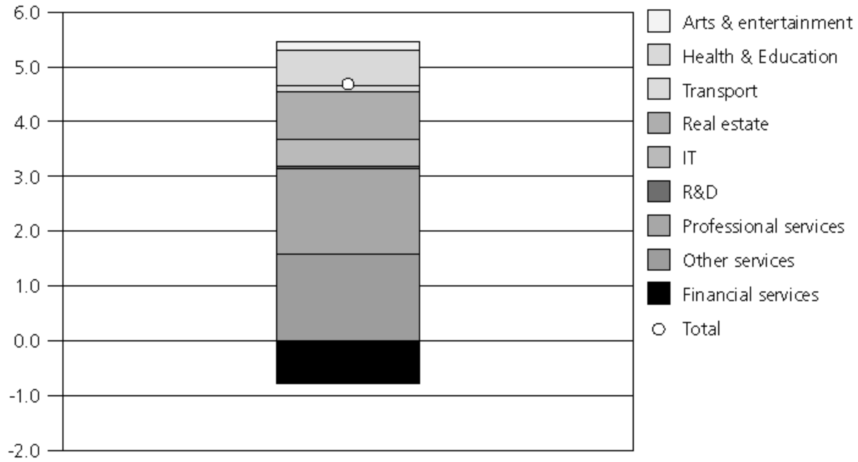
1.227 Productivity growth is the key driver of long-term increases in living standards. This Budget announces further measures to drive productivity across the UK. It continues to deliver on the government's 2015 productivity plan[147], encourages long-term investment, promotes a dynamic and competitive economy, and devolves more power to local leaders.

Encouraging long-term investment

1.228 Investment is an essential part of raising productivity. In today's economy, that applies to increasing the stock of machines, equipment and essential physical infrastructure and also to the development of human and intellectual capital in the next generation. This section sets out further measures to support long-term investment, alongside action to improve education and skills and to back businesses through the tax system set out earlier in the chapter.

1.229 As Chart 1.12 shows, productivity growth varies across the services sector. The financial services sector continues to act as a drag on productivity growth, while other parts of the services sector have grown more strongly since 2010.

Chart 1.12: Contribution to service sector productivity growth (2010-2014)



Source: Office for National Statistics, Low level aggregates, second estimate Q4 2015 GDP and productivity jobs, Labour Productivity Q3 2015.

[147] 'Fixing the foundations: Creating a more prosperous nation', HM Treasury, July 2015

Table 1.7: Action to raise productivity[1]

Policy area and key evidence	Existing policies	Budget 2016 measures
	Encouraging long term investment	
Business investing for the long term • An even more competitive tax system • Rewards for saving and long term investment *OECD research suggests that corporate taxes are the most damaging to growth*	**Cut corporation tax** to 18%, the lowest in the G20 **Annual Investment Allowance** set at £200,000, its highest ever permanent level	A £6.7 billion package of cuts and reforms to **business rates** **Cutting Capital Gains Tax** and expanding **entrepreneur's relief** **Cutting corporation tax to 17%** in 2020
Skills and human capital • A highly skilled workforce • World-leading universities, open to all who can benefit *16-24 year olds in England and NI still ranked in the bottom 4 of 22 countries for literacy and numeracy skills*	An **apprenticeship levy** to fund more high quality apprenticeships Protected the **core schools budget** **Removed HE student numbers cap**	All schools in England **academies** by 2022 Accelerating the **move to fairer funding** for schools **Review of post 16 maths** **Northern Powerhouse Schools Strategy**
Economic infrastructure • A modern transport system • Reliable and low carbon energy • World-class digital infrastructure *UK investment as a share of GDP has been in the lowest 25% of OECD countries for 48 of the last 55 years*	**Over £100bn infrastructure investment** this Parliament **National Infrastructure Commission** to improve long term planning A **Roads Fund** from 2020-21 to provide certain long term investment	Green light to **Crossrail 2, and High Speed 3** between Leeds and Manchester New **National Infrastructure Commission studies** on 5G and the Cambridge-Milton Keynes-Oxford corridor
Ideas and Knowledge • High-quality science and innovation *New ideas are central to long run growth and there is a robust link between R&D spending and productivity*	Protected **science funding** in real terms £6.9bn for **research infrastructure** by 2021	**Funding for doctoral loans** Making the **UK a centre for driverless vehicles**
	Promoting a dynamic economy	
Flexible, fair markets • Planning freedoms, more houses to buy • A higher pay, lower welfare society • More people able to work and progress *A productive economy ensures work always pays and uses land efficiently*	Introduced a new **National Planning Policy Framework** Doubled the **affordable housing** budget at SR2015 A new **National Living Wage**	Launching a £1.2bn **Starter Homes Land Fund** Supporting areas to establish new settlements **Highest ever National Minimum Wage** (for under 25s)
Productive finance • Financial services that lead the world in investing for growth *Financial services generated £58 billion in net exports in 2014 and facilitate investment in the wider economy*	Launched the **British Business Bank** **Boosted competition in the banking market** and encouraged new entrants to ensure a better deal for SMEs	**Over £250m Midlands Engine Investment Fund** **Help to Grow** will support over £200m of finance in the next 2 years, from spring 2016
Openness and competition • Competitive markets with less regulation • A trading nation open to international investment *Improvements in competition in the 80s and 90s accounted for up to 20% of industry productivity growth in the decade to 2005*	Committed to **cut £10 billion of red tape** this Parliament Published **"A Better Deal"** with measures to open up markets Helped make the **UK the number 1 destination in Europe for FDI** projects	Consulting on **improving choice and competition** in legal services and **increasing transparency of local authority procurement** A goal to halve turnaround times for accessing **trade finance**
Resurgent cities • A rebalanced economy and a thriving Northern Powerhouse. *Cities with fragmented governance structures have up to 6% lower levels of productivity than those that do not*	**Signed landmark mayoral devolution deals** with Greater Manchester, Sheffield City Region, the North East, Tees Valley, Liverpool City Region and the West Midlands	**£1.2bn City deal for Cardiff, and deals for East Anglia, West of England and Greater Lincolnshire** **A Thames Estuary 2050 Growth Commission**

[1] All sources can be found in the accompanying sources document

National Infrastructure Commission

1.230 The government has set up the new National Infrastructure Commission, chaired by Lord Adonis, to produce a clear picture of the future infrastructure the country needs and provide expert, independent advice on infrastructure priorities.

1.231 The commission has begun work on a National Infrastructure Assessment, which will establish priorities for the decades to come. It will set out an overarching, long-term vision and the government will be obliged to respond formally.

1.232 In the shorter term, the Chancellor asked the commission to report on three high-priority issues by Budget 2016: Northern connectivity, London transport and energy infrastructure. The commission has now published its first three reports and has made innovative proposals to address some of the country's most pressing infrastructure challenges. **This Budget confirms that the government accepts the commission's recommendations, as set out later in this chapter:**

- **the government is providing £300 million of funding to improve northern transport connectivity and is giving the green light to High Speed 3 between Leeds and Manchester to reduce journey times to around 30 minutes**, in response to the commission's report 'High Speed North'
- **the government is giving the green light to Crossrail 2, supported by £80 million to help fund development**, in response to the commission's report 'Transport for a World City'. The government is asking Transport for London to match that contribution, with the aim of depositing a Hybrid Bill within this Parliament
- **the government will lay the foundations for a smart power revolution**, with support for innovation in storage and other smart technologies, and an increased level of ambition on interconnection, which the NIC estimates could unlock benefits to UK consumers of up to £8 billion per year

1.233 Budget 2016 announces that the commission will carry out two new studies on the following infrastructure challenges:

- **an assessment of how the UK can become a world leader in 5G deployment, and how it can take early advantage of the potential benefits of 5G services**. This review will include a case study of the south-west of England
- **proposals for unlocking growth, housing and jobs in the Cambridge-Milton Keynes-Oxford corridor** – the commission will report on the strategic infrastructure priorities needed to generate further growth and maximise the potential of this corridor, which encompasses some of the UK's fastest-growing and most productive cities

1.234 The government is consulting on the structure, governance and operation of the commission, which is currently in interim form, and proposes to introduce legislation to put it on a statutory footing. The public consultation closes on 17 March.

Transport and infrastructure

Roads

1.235 The government is making the biggest investment in transport infrastructure in generations and is increasing capital investment in the transport network by 50% over this Parliament compared to the last, investing £61 billion.[148]

1.236 The first Roads Investment Strategy is the biggest programme of investment in England's strategic road network since the 1970s.[149] The government continues to take a long-term approach to improving England's motorways and major roads and **this Budget marks the launch of the second Roads Investment Strategy, which will determine the investment plans for the period from 2020-21 to 2024-25.**

1.237 **The government will also establish the UK as a global centre for excellence in connected and autonomous vehicles**. The government will:

- conduct trials of driverless cars on the strategic road network by 2017
- consult this summer on sweeping away regulatory barriers within this Parliament to enable autonomous vehicles on England's major roads
- establish a £15 million 'connected corridor' from London to Dover to enable vehicles to communicate wirelessly with infrastructure and potentially other vehicles
- carry out trials of truck platooning on the strategic road network
- start trials of comparative fuel price signs on the M5 between Bristol and Exeter by spring 2016 to drive fuel price competition and help motorists save money

1.238 **The government is allocating £151 million from the Local Majors Fund in the first round of allocation, and is launching the bidding process for the second tranche of funding**, designed to fund transformative local transport projects.

1.239 **Budget 2016 also announces the allocation of the £50 million Pothole Action Fund for England in 2016-17**, enabling local authorities to fill nearly a million potholes.[150] The government will also provide a further £130 million to repair roads and bridges damaged by Storms Desmond and Eva.

Rail

1.240 Nicola Shaw has today published the Shaw Report[151] on the future structure and financing of Network Rail, including recommendations for greater devolution to the routes and the creation of a new, dedicated northern route. **The government welcomes the recommendations of the Shaw Report**, and will respond in full later this year. To ensure an improved service for passengers through greater accountability and more competition, **the government will also work with the Competition and Markets Authority to explore how their recommendations[152] could potentially be implemented as part of the government's wider reforms**.

1.241 As set out above, the government is investing in rail by giving the green light to Crossrail 2, supported by £80 million to help fund development, and to High Speed 3 between Leeds and Manchester to bring journey times to around 30 minutes.

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[148] 'Spending Review and Autumn Statement 2015' (p50), HM Treasury, November 2015
[149] 'Road Investment Strategy', Department for Transport, December 2014
[150] 'Annual Local Authority Road Maintenance (ALARM) Survey 2014', Asphalt Industry Alliance, April 2014
[151] 'The Shaw Report. The future shape and financing of Network Rail: final report.'
[152] 'Competition in passenger rail services in Great Britain', CMA, 8 March 2016

Flood defences

1.242 Many communities experienced the devastating impacts of flooding this winter, with homes and businesses destroyed. On top of the government's £2.3 billion capital programme, which will invest in over 1,500 flood defence schemes across the country, **Budget 2016 announces an additional boost to spending on flood defence and resilience of over £700 million by 2020-21**. The government will increase maintenance expenditure in England by £40 million per year, and deliver even more flood defence schemes – including investing over £150 million in Leeds, York, Calder Valley, Carlisle and wider Cumbria. This increase in investment will be funded by a rise in the standard rate of Insurance Premium Tax by 0.5 percentage points.

Smart and low carbon energy

1.243 The government welcomes the National Infrastructure Commission's energy study 'Smart Power' as an opportunity to transform the future of the UK's electricity sector, saving consumers up to £8 billion a year.[153] **The government will implement the commission's recommendations**, and will work with Ofgem to remove regulatory and policy barriers, positioning the UK to become a world leader in flexibility and smart technologies, including electricity storage.

1.244 **The government will allocate at least £50 million for innovation in energy storage, demand-side response and other smart technologies over the next five years** to help new technologies and business models access the market. **Ofgem will consult later this year on the future of the £100 million Network Innovation Competition** to maximise the delivery of genuinely innovative projects and technologies.

1.245 The government recognises the important contribution interconnection can make to the future energy mix. There is a strong pipeline of projects in development, and **the government supports the market delivery of at least 9 GW of additional interconnection capacity – an 80% increase on previous estimates.**

1.246 The government is committed to driving down the costs of decarbonisation. **Budget 2016 announces that the government will auction Contracts for Difference of up to £730 million this Parliament for up to 4 GigaWatts of offshore wind and other less established renewables**, with a first auction of £290 million. Support for offshore wind will be capped initially at £105/MWh (in 2011-12 prices), falling to £85/MWh for projects commissioning by 2026. The government will continue to control costs on consumer bills – further details will be announced in the autumn.

1.247 **The government also welcomes the publication of the Competition and Market Authority's (CMA's) provisional decision on their Energy Market Investigation.**[154] The government will act quickly on the CMA's final recommendations and ensure that bill payers get a fair deal from our energy markets.

1.248 At Autumn Statement 2015, the government announced a competition to identify the best value small modular nuclear reactor (SMR) in the UK. This will pave the way to build one of the world's first SMRs. **Budget 2016 announces the launch of the first stage of this competition**, which will generate a list of SMR developers that could deliver on the government's objectives. **The government will also publish an SMR delivery roadmap later this year** and **will allocate at least £30 million for an SMR-enabling advanced manufacturing R&D programme to develop nuclear skills capacity**.

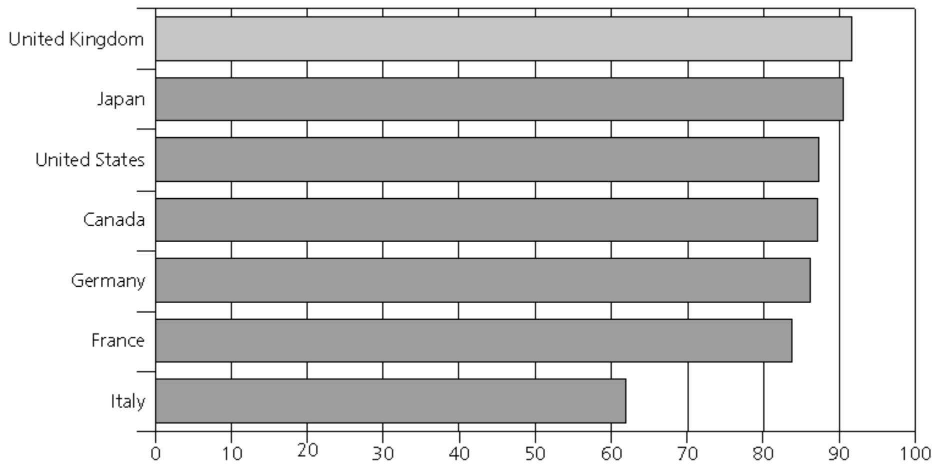
[153] 'Smart power', National Infrastructure Commission, 4 March 2016
[154] 'Energy market investigation: Summary of provisional decision on remedies', CMA, 10 March 2016

1.249 The government will be consulting later this year on the priorities and delivery models for the Shale Wealth Fund, and how it can be deployed in local communities and the North as a whole. The Shale Wealth Fund could be worth up to £1 billion over 25 years[155] and will provide additional funds over and above industry schemes and other sources of government funding.

Supporting the digital economy

1.250 Digital technology is transforming every sector of the UK economy, opening up opportunities for businesses and individuals. The UK has the highest internet usage of any G7 economy, as shown in Chart 1.13 and in 2014, the UK's digital sector contributed around £120 billion to the economy.[156]

Chart 1.13: G7 Percentage of individuals using the internet across the G7



Source: International Telecommunications Union, Percentage of Individuals using the Internet, 2014.

1.251 This Budget sets out steps to ensure the benefits of digital technology are felt by all businesses and individuals. The government will:

- **establish a new Broadband Investment Fund, in partnership with private sector investors**, to support the growth of alternative broadband networks by providing greater access to finance
- **deliver a 5G strategy in 2017, based on an assessment by the National Infrastructure Commission of how the UK can become a world leader in 5G**
- **establish a panel of leading experts, chaired by Kathryn Parsons, to shape the £20 million Institute for Coding competition**
- **provide up to £5 million to develop options for an authoritative address register that is open and freely available** – making wider use of more precise address data and ensuring it is frequently updated will unlock opportunities for innovation

[155] HM Treasury calculations
[156] Digital Sector Economic Estimates Statistical Release, Department for Culture, Media and Sport, January 2016.

1.252 Affordable broadband is essential for a connected household sector but pricing in this market can be opaque. The government expects quick action to ensure the price of broadband provision is as clear as possible. New proposals from the Advertising Standards Authority (ASA) will ensure broadband adverts do not mislead. A new cost comparison measure for telecoms services will be developed by Ofcom this year.

1.253 Electromagnetic spectrum is a valuable and scarce resource. **Budget 2016 announces a new government commitment that 750MHz of valuable public sector spectrum in bands under 10GHz will be made available by 2022, of which 500MHz will be made available by 2020**. This builds on government's previous 2010 commitment, and will deliver wider economic benefits by generating capital receipts and by supporting innovation in digital communications services and the development of new technologies.

Response to the Independent Review of Economic Statistics

In 'Fixing the Foundations: Creating a more prosperous nation', the Chancellor of the Exchequer and the Minister for the Cabinet Office commissioned Professor Sir Charles Bean to conduct a review of economic statistics assessing the UK's future statistics needs, the capability of Office for National Statistics in delivering those statistics and the most appropriate governance framework to support production of those statistics. **The government welcomes the review and accepts all its recommendations**.

To enable the Office for National Statistics to develop world-leading analytical and digital capabilities in economic measurement, **the government will invest over £10m in a new hub for data science and a centre for excellence in economic measurement in line with Professor Sir Charles Bean's recommendations**. The new hub for data science will maximise the public value of existing and new data sets – so called 'big data' from public and private sources – using cutting-edge techniques to allow the Office for National Statistics to produce more innovative, accurate and timely statistics. The centre for excellence will improve the Office for National Statistics' capability to measure the changes in the UK's digital economy and to push the frontiers of economic measurement.

Investing in creative industries

1.254 The government's creative sector tax reliefs have been highly successful at supporting growth, investment and innovation in industries that employ 1.8 million people.[157] **To encourage museums and galleries to develop creative new exhibitions and display their collections across the country, the government will introduce a new tax relief from 1 April 2017.** This will be available for the costs of developing temporary or touring exhibitions and will follow a consultation on its design over summer 2016.

1.255 **The government will also broaden the eligibility criteria for the VAT refund scheme for museums and galleries**, with new guidance to allow a wider range of free museums to access the support.

[157] 'Creative industries: Focus on employment', DCMS, 30 June 2015

Competitive markets

1.256 Competitive and efficient markets lie at the core of a productive economy, promoting innovation and efficiency. At Autumn Statement 2015, the government published a comprehensive plan to boost competition[158]. Since its publication, there has been concrete progress in a number of markets:

- mobile – even when a handset has been paid off, some operators still charge customers to unlock it. At Autumn Statement 2015, the government challenged the industry to do better; since then operators have committed to unlocking many more of their customers' handsets for free. Unlocking handsets currently costs consumers an estimated £48 million a year[159]
- government procurement – the public sector can drive competition via open procurement practices. The government wants to ensure the £60 billion local authorities spend to procure services[160] is done in an efficient and competitive way. **The government will consult on new rules requiring local authorities to be transparent about the cost of the in-house services they provide,** and whether there could be savings from using competitive external providers
- legal services – where competitive pricing can make some of the biggest decisions in life, from buying a house to setting up a business, easier. **The government will launch a consultation shortly on how to reduce regulatory barriers so that new providers can provide legal advice**

Stronger and more focused economic regulators

1.257 The government is committed to robust but focused economic regulation. The UK's system of independent economic regulation is widely regarded as one of the best in the world. Building on this, Budget 2016 announces that the government will:

- streamline regulators. **E-Serve will be split off from Ofgem to ensure Ofgem can focus on its core functions of economic regulation and promoting competition.** DECC are committed to consolidating their delivery providers and will set out the future of consumer-facing functions, including those currently undertaken by E-Serve, at Autumn Statement 2016. The government will continue to consider whether economic regulators' functions can be further streamlined
- strengthen competition and innovation, including by **legislating to give Ofgem more power to make sure the system of industry codes supports competition and by enhancing the role of the Competition and Markets Authority** in the regulated sectors. The government will continue to look at further changes
- drive efficiency, **by working with economic regulators to review the business case for co-locating and sharing back office functions across regulators**, reporting by summer 2016

[158] 'A better deal: Boosting competition to bring down bills for families and firms', HM Treasury and BIS, 30 November 2015
[159] 'Brits spend over £48 million unlocking mobile phones every year', uSwitch Press Release, 10 June 2015
[160] Department for Communities and Local Government analysis based on 'Local Authority Revenue Expenditure and Financing England 2014-15 Final Outturn' (ONS)

A devolution revolution

1.258 This government is fundamentally changing the way the country is run, rebalancing the economy for the next generation through a devolution revolution. Local leaders are taking on radical new powers and responsibility for driving local growth through historic devolution deals, retention of business rates and further targeted investment in response to local priorities.

1.259 Strong progress has been made. **Budget 2016 announces new devolution deals with the West of England, East Anglia, and Greater Lincolnshire. Building on existing devolution deals with Greater Manchester, Liverpool City Region, Sheffield City Region, the North East and Tees Valley, this means that 57% of the population of the North of England will be covered by an elected mayor.**[161] The government also continues to devolve unprecedented powers to Scotland, Wales and Northern Ireland.

Devolution across the UK

1.260 The UK's economic recovery is benefiting families and businesses across Scotland, Wales and Northern Ireland. There are now more people in work in Scotland and Wales than ever before and in Northern Ireland employment grew by 15,000 in 2015.[162] This government is delivering on its commitments to transfer powers to each of the devolved administrations. It also looks to the governments of the devolved administrations to continue to devolve powers within Scotland, Wales and Northern Ireland, so that they empower local areas and ensure that their great cities and regions are not left behind.

1.261 **The government will legislate in order to meet its manifesto commitment to apply 'English Votes for English Laws' to Income Tax.** This will allow MPs representing constituencies in England, Wales and Northern Ireland to have a decisive say on the main rates of income tax, when those rates are devolved to the Scottish Parliament.

Northern Ireland

1.262 In 2015 the government legislated to make a lower Northern Ireland Corporation Tax rate a real possibility. There is now broad support within Northern Ireland for a rate of 12.5%, to be introduced in 2018. The additional financial support and flexibility provided through the Stormont House and Fresh Start Agreements has delivered immediate improvements in the Executive's stability. Now Northern Ireland's own political leaders must press on with the reforms necessary to put the Executive's finances on the sustainable footing required to complete Corporation Tax devolution.

1.263 Where the Northern Ireland Executive intends to top-up UK-wide benefits from within its block grant as it implements welfare reform, **the government will exempt from tax the top-up payments to non-taxable benefits.**

1.264 The Northern Ireland Executive has set the boundaries of a pilot Enterprise Zone near Coleraine. The government will legislate to ensure that Enhanced Capital Allowances can be offered within the Enterprise Zone, with the first investors expected on site later in 2016.

1.265 The Budget **allocates £4.5 million from banking fines to help establish a Helicopter Emergency Medical Service for Northern Ireland.**

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[161] The North of England is defined as the North East, North West, and Yorkshire and Humber regions. 'Annual mid-year population estimates: 2014', ONS June 2015.
[162] 'Regional Labour Market Statistics', ONS, February 2016.

Scotland

1.266 The Scotland Bill delivers the legislative elements of the Smith Commission, while the new Fiscal Framework for the Scottish Government was agreed in February 2016. The powers in the Bill, covering tax, welfare and borrowing, will see the Scottish Parliament become one of the most powerful and accountable devolved Parliaments in the world.

1.267 The government demonstrated its ongoing investment in Scotland through a £125 million commitment to an Aberdeen City Deal earlier this year. Good progress has been made towards an Inverness City Deal. **This Budget announces that the government will also work with local partners and the Scottish Government towards a deal for Edinburgh and South East Scotland.**

1.268 Edinburgh and the Lothians will also benefit from a science and innovation audit, to map the area's research strengths in data-driven innovation and identify areas of potential global competitive advantage.

1.269 Nearly half of UK jobs supported by the oil and gas industry are in Scotland, particularly around Aberdeen.[163] The Budget announces a major package of measures, including **zero rating Petroleum Revenue Tax and cutting the Supplementary Charge from 20% to 10%** to help support the industry through the challenging commercial conditions facing the sector.

1.270 The duty on Scotch whisky will also be frozen this year, continuing the government's support for this great British success story.

1.271 To support Scotland's cultural heritage, creative industries and communities, the government will contribute **£5 million to the V&A Dundee and £150,000 towards local regeneration projects in New Cumnock.**

1.272 The government will also allocate £5 million from banking fines for a new leisure facility in Helensburgh, which will benefit both local residents and Royal Navy personnel and their families stationed nearby at Faslane.

Wales

1.273 The government is taking forward the St David's Day agreement for Wales and is committed to delivering the Welsh Rates of Income Tax, alongside devolution of further powers, including on energy and transport. A funding floor for the Welsh Government was announced at the Spending Review.

1.274 To reduce costs for businesses and families in Wales and the South West of England **the government will halve tolls on the Severn River Crossings,** once the Crossings are in public ownership, subject to public consultation. Alongside this, **the government will review the case for free-flow tolling on the Crossings.**

1.275 The government has agreed a £1.2 billion city deal for the Cardiff Capital Region with the Welsh Government and local partners. The government's £500 million contribution to the deal will provide an investment fund for the region and support electrification of the Valley Lines railways, a central part of the ambitious Metro project. As announced in January, £50m will also be invested up to 2020-21 to create a new Compound Semiconductor Catapult in Wales. **The government will open negotiations with local partners and the Welsh Government towards a deal for the Swansea Bay City Region,** extending from Pembrokeshire to Neath-Port Talbot.

[163] Oil and Gas UK, Economic Report 2014, October 2014.

1.276 This Budget opens the door to a growth deal for North Wales to help strengthen its economy and to make the most of its connection to the Northern Powerhouse. This government will look to the next Welsh Government to devolve powers down and invest into the region as part of any future deal.

1.277 South East Wales and South West England will benefit from a science and innovation audit to map the area's research strengths and identify areas of potential global competitive advantage.

1.278 The government will allocate £500,000 in banking fines to CAIS Wales, Change Step Veteran Services. This will deliver a new referral pathway for peer support and tailored specialist intervention for 800 veterans in Wales.

English Devolution

Devolution deals

1.279 The government is transferring significant budgets and responsibilities to the local level, building upon the historic mayoral devolution agreements with Greater Manchester, Sheffield City Region, the North East, Tees Valley, Liverpool City Region and the West Midlands. **The government has now agreed new mayoral devolution deals with English counties and southern cities too, reaching agreements with the West of England, East Anglia and Greater Lincolnshire. The government has also agreed a further devolution deal with Greater Manchester, including a commitment to work towards the devolution of criminal justice powers, and a second devolution deal with Liverpool City Region.**

1.280 Previously agreed mayoral devolution deals will also each receive un-ringfenced single pots of funding to spend on local priorities, worth £2.86 billion in total. This flexibility will allow areas to take more control over strategic investment. The single pots will initially include a five-year settlement rolling together existing transport funding, gainshare investment funds and Local Growth Fund allocations. This will be supplemented in the future with further flexibility over central government funding. The Bus Service Operators Grant will also be devolved to areas that adopt bus franchising, and the Adult Education Budget will be included in the single pot from 2018-19 for those areas with devolved adult skills arrangements.

1.281 The government will pilot the approach to 100% business rates retention in Greater Manchester and Liverpool City Region and will increase the share of business rates retained in London. This will help to develop the mechanisms that will be needed to manage risk and reward under 100% rates retention and will help authorities to build financial capacity to reform core services and invest in long term economic growth from 2017 – three years ahead of schedule. The offer is open to any area that has ratified its devolution deal.

Local growth

1.282 The government believes local areas must be empowered to reach their potential in order to boost national productivity and growth. The Local Growth Fund gives Local Enterprise Partnerships control over £12 billion of central government funding, ensuring that this money is spent in line with local priorities. The initial two rounds of Growth Deals have given local areas nearly £8 billion to drive growth through investing in the infrastructure their areas need. **The government is now announcing further steps in the allocation of the Local Growth Fund, including:**

- **up to £1.8 billion will be allocated through a further round of Growth Deals with Local Enterprise Partnerships later this year.** The government will announce further detail on the process for the next round of Growth Deals soon
- **a further £2 billion of the Local Growth Fund is being allocated through the Home Building Fund.** This programme provides finance to developers to unlock large housing sites and bring forward the necessary infrastructure that large house building projects require

1.283 To date, Enterprise Zones have supported over 560 businesses and secured over £2.3 billion of private sector investment to build world-class business facilities and transport links, attracting over 20,000 jobs.[164] **The government will create a new MarineHub Enterprise Zone in Cornwall following the transfer of Wave Hub to Cornwall Council.** Subject to the necessary business case approvals and local agreements, **the government will also create new Enterprise Zones in Brierley Hill in Dudley, and Loughborough and Leicester, as well as extending the Sheffield City Region Enterprise Zone.** The government will also ensure that all zones are able to offer Enhanced Capital Allowances for eight years following the establishment of the ECA site.

1.284 The government has received ambitious proposals from Local Government Pension Scheme administering authorities **to establish a small number of British Wealth Funds across the country by combining their assets into much larger investment pools.** These pools will deliver annual savings of at least £200-300 million, and we will work with administering authorities to establish a new Local Government Pension Scheme infrastructure investment platform, in line with their proposals, to boost infrastructure investment.

1.285 The next round of the Coastal Communities Fund, for projects starting in 2017-18, will open for applications this summer. The CCF funds projects across the UK which support sustainable economic growth and jobs in coastal communities.

1.286 Greater Manchester and East Cheshire, Sheffield City Region and Lancashire LEP, and the Midlands will each benefit from a science and innovation audit. These will help each of these regions to map their research and innovation strengths and to identify areas of potential global competitive advantage. Future audits in other areas will be announced later this year.

1.287 The government is working on an ambitious strategy to move civil servants out of expensive Whitehall accommodation and into the suburbs of London, delivering substantial savings for the taxpayer. Over the next few years the numbers working in central London will reduce significantly. In addition, **by the middle of this Parliament the Ministry of Justice will have a major programme to create substantial centres of expertise outside the capital.** This will reduce costs, access highly skilled labour markets in the regions and contribute to the Northern Powerhouse.

[164] DCLG data, based on outputs of the Enterprise Zones programme as self-reported by local areas on a quarterly basis.

Figure 3: New investment across the United Kingdom

NORTHERN IRELAND

- Stormont House Agreement funding now delivering infrastructure investment
- £4.5m for an air ambulance service in Northern Ireland
- Pilot Enterprise Zone near Coleraine offering Enhanced Capital Allowance

SCOTLAND

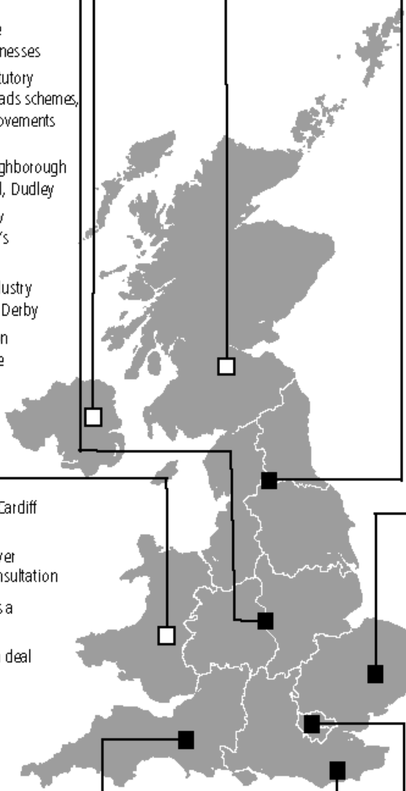
- A £1bn package of measures to support the oil and gas industry in Scotland
- £5m for the City of Dundee's V&A development
- Opening negotiations on a city deal for Edinburgh and South East Scotland
- Freezing duty on Scotch whisky

NORTHERN POWERHOUSE

- £300m further investment in transport including:
- £60m to green light HS3 between Leeds and Manchester and for other major city rail links
- £161m to accelerate transformation of the M62 into a smart motorway, reducing congestion
- £75m to fast-track development of major new road schemes including on the M60, A66 and A69 and Trans-Pennine tunnel
- Over £150m investment in flood defence schemes in Leeds, Cumbria, Calder Valley and York
- £20m per year Northern Powerhouse Schools Strategy to improve schools
- £15m for National Institute for Smart Data Innovation, Newcastle
- Extension of Sheffield City Region Enterprise Zone, subject to agreement
- Working with Greater Manchester to devolve powers over criminal justice services, and a new Life Chances Investment Fund
- Additional £130m to repair roads and bridges in Cumbria, West Yorkshire, Northumberland, Greater Manchester, Durham and North Yorkshire
- £13m for Hull UK City of Culture 2017

MIDLANDS

- Over £250m Midlands Engine Investment Fund for smaller businesses
- Put Midlands Connect on a statutory footing, and develop its priority roads schemes, including M1 upgrades, and improvements on the A45, A46, M42 and M5
- New Enterprise Zones for Loughborough and Leicester, and for Brierley Hill, Dudley
- £14m for STEAMhouse, a new innovation centre in Birmingham's Creative Quarter, Digbeth
- £16m grants to aerospace industry including £7m for Rolls-Royce in Derby
- Greater Lincolnshire Devolution Deal, including £450m gainshare pot, devolved transport budget and more joined-up adult skills and criminal justice



WALES

- £500m over 20 years for the Cardiff Capital Region City Deal
- Halving tolls on the Severn River Crossings in 2018, subject to consultation
- Opening negotiations towards a Swansea Bay City Region deal
- Opening the door to a growth deal for North Wales

EAST

- Devolution deal with East Anglia, including £900m gainshare pot, £175m ring-fenced housing fund and devolved transport and adult skills budgets
- £151m towards building new river crossings at Lowestoft and Ipswich
- £50m for a new world-leading centre for food and health research at Norwich
- £5m to redevelop St Albans City rail station

SOUTH WEST

- West of England Devolution agreement, including £900m gainshare pot, devolved transport budget and powers over adult skills
- £19m from Stamp Duty receipts to community-led housing schemes in areas where the impact of holiday homes is most acute
- £5m additional development funding to improve resilience on the Dawlish rail line
- Increasing grant funding to £14.5m for ultrafast broadband
- New Enterprise Zone for Cornwall
- £3m to improve rail station facilities
- £2m to refurbish the Hall for Cornwall in Truro

SOUTH EAST

- Thames Estuary 2050 Growth Commission, chaired by Lord Heseltine to report in 2017
- National Infrastructure Commission to make proposals on developing the Cambridge-Milton Keynes-Oxford corridor
- Piloting a £15m Connected Corridor on the A2-M2 from London to Dover
- £7m to improve rail station facilities at Redhill, Newbury and High Wycombe

LONDON

- The green light for Crossrail 2 with £80m development funding
- Moving towards 100% business rates retention with the Greater London Authority
- Supporting the expansion of the Royal College of Art's Battersea Campus
- Supporting the British Library to develop its Central London site

Northern Powerhouse

1.288 As set out by the Chancellor in 2014, the Northern Powerhouse is the government's vision for the North of England. It is built on the solid economic theory that while the individual cities and towns of the North are strong, if they are enabled to pool their strengths, they could be stronger than the sum of their parts. It means investing in better transport to connect up the North; backing strengths in science and innovation; investing in culture, housing and the quality of life to make the North a magnet for new businesses and talented people; and devolving powers and budgets and creating powerful new elected mayors who will give people in northern cities and towns a strong voice.

1.289 Strong progress has been made. Since 2010, unemployment in the North of England has fallen by a third and the median earnings of full-time employees grew faster in all regions of the North than they did in London.[165] In 2015, employment grew faster in the North than the South and by the end of the year, the employment rate in the northern regions was at its highest on record, at 72.2%.[166] In 2015, unemployment fell faster in the North West than in any other region.[167]

1.290 Alongside the Budget, the government has agreed a joint statement of intent with the largest cities in the North to drive forward the Northern Powerhouse.

Transport

1.291 The government supports the vision set out by Transport for the North (TfN) in their Northern Transport Strategy[168] and accepts the recommendations from the National Infrastructure Commission on northern connectivity.[169] **The government will take forward these proposals with a total of £300 million of funding, including:**

- **giving the green light to High Speed 3 between Leeds and Manchester, committing to reduce journey times to around 30 minutes,** in line with the recommendation by the National Infrastructure Commission. £60 million will be provided to develop plans for both the Leeds-Manchester route by 2017 and to improve transport connections between cities of the North
- **accelerating the upgrade of the M62 to a four-lane smart motorway.** The government will provide an extra £161 million on top of the existing road programme to bring forward by 2 years the upgrade between junction 10-12 Warrington to Eccles, and to accelerate work on junction 20-25 Rochdale to Brighouse
- **developing the future transformation of east-west road connections,** including a new Trans-Pennine tunnel under the Peak District between Sheffield and Manchester, as well as options to enhance the A66, A69 and the north-west quadrant of the M60. The government will allocate £75 million, including to develop a business case for these schemes by the end of the year
- **accelerating the development of other critical road projects in the North,** including Lofthouse and Simister Island junctions, capacity enhancements to the M1 at junctions 35a-39 Rotherham to Wakefield, and delivering on the commitment to begin upgrades to the M56 at junctions 6-8 south of Manchester in this Parliament

[165] The north is defined as the North East, North West, and Yorkshire and the Humber regions. The south is defined as London, the South East and South West regions.
'Regional Labour Market Statistics', ONS, February 2016. 'Annual Survey of Hours and Earnings: 2015 Provisional Results', ONS, November 2015.
[166] 'Regional Labour Market Statistics', ONS, February 2016.
[167] 'Regional Labour Market Statistics', ONS, February 2016.
[168] 'The Northern Transport Strategy: Spring 2016 Report', Transport for the North, March 2016.
[169] 'High Speed North', National Infrastructure Commission, March 2016.

- **improving the North's major rail stations.** To take forward the commission's recommendations, the government will allocate a further £4 million to support the development of High Speed 2 Growth Strategies for Manchester Piccadilly, Manchester Airport and Leeds stations

1.292 The Budget announces funding to improve local roads in the North. **£15 million will be allocated from the Pothole Action Fund to repair around 277,000 potholes during 2016-17, and the government is giving the go ahead to £24 million from the Local Growth Fund** to improve roads across North Yorkshire.

Devolution

1.293 The first round of mayoral devolution deals with northern cities were not the end of a process but the beginning of one. Since agreeing a mayoral deal in November 2014, Greater Manchester has been a trailblazer for devolution in England. **The government will work with Greater Manchester on the devolution of powers over criminal justice services, as well as supporting the establishment of a Life Chances Investment Fund.** The radical devolution of justice responsibilities will enable Greater Manchester to offer seamless interventions for offenders as they transition between prisons and the community, and to join up public services to tackle the causes of crime and prevent reoffending.

1.294 **The government has agreed another mayoral devolution deal with Liverpool City Region.** This builds upon Liverpool's mayoral deal on 17 November 2015, and gives Liverpool additional new powers over transport, pilots the approach to 100% business rate retention across the city region, and commits the city region and government to work together on children's services, health, housing and justice.

Northern Powerhouse Schools Strategy

1.295 **The government will invest £20 million a year of new funding in a Northern Powerhouse Schools Strategy.** This new funding will ensure that rapid action is taken to tackle the unacceptable divides that have seen educational attainment and progress in some parts of the North lag behind the rest of the country. Ensuring access to an excellent education for all pupils is a critical step in ensuring the long term success and competitiveness of the Northern Powerhouse. The government will:

- **boost investment to turn round performance in the toughest areas:** bringing in support from the best leaders and schools into these areas, empowering the best local heads and schools to become leaders of school improvement and increasing funding available for turnaround activities in coasting and vulnerable schools
- **invest more funding to see the best academy chains expand and to develop new sponsors in the North; the creation of a new Northern centre of the New Schools Network** will encourage more, innovative, free schools in the region
- look at further ways to get and retain the best teachers in these areas
- **ask Sir Nick Weller to lead an in-depth report into transforming education across the Northern Powerhouse**

Business, innovation and science

1.296 **To support local business growth, the government will extend the Sheffield City Region Enterprise Zone,** subject to local agreement. This will support the area to build on its expertise in advanced manufacturing across a range of sectors including automotive industries.

1.297 **The government will invest £15 million in the National Institute for Smart Data Innovation in Newcastle, subject to approved business case.** This new facility will bring together industry, the public sector and universities to create the skills, ideas and resources needed to exploit the opportunities offered by Smart Data.

1.298 Alongside the launch of a **competition to identify the best value small modular reactor for the UK, government will allocate at least £30 million for a 21st century nuclear manufacturing programme.** This will create opportunities for the North's centres of excellence in nuclear research, such as the Nuclear Advanced Manufacturing Research Centre and the Sir Henry Royce Institute.

1.299 The government will **consult on the priorities and delivery models for the Shale Wealth Fund and how it can be deployed in local communities and the North as a whole.** The Shale Wealth Fund could be worth up to £1 billion over 25 years and will provide additional funds over and above industry schemes and other sources of Government funding.[170]

1.300 **Greater Manchester and East Cheshire, and Sheffield City Region will benefit from a science and innovation audit.**

Flooding

1.301 Many communities in the North were badly affected by flooding this winter. As part of the government's £700 million boost to flood defence and resilience spending, **£150 million will be invested in flood defence schemes in Leeds, Cumbria, Calder Valley and York, which will better protect 7,400 properties.**[171] The government will also invest up to £25 million in flood defences in Carlisle once the Environment Agency has concluded a review of its needs, and will provide funding to support delivery of the final phase of the Leeds Flood Alleviation Scheme in later years subject to business case approval.

1.302 On top of the £49 million already committed to repair transport infrastructure damaged by Storms Desmond and Eva, **a further £130 million will be spent repairing roads and bridges in Cumbria, West Yorkshire, Northumberland, Greater Manchester, Durham and North Yorkshire.** This funding will enable repairs to the Ovingham Bridge in Northumberland, the Linton Bridge in Leeds, Scout Road in Calderdale and the A646 near Mytholmroyd.

Arts and culture

1.303 The North West had the fastest growing arts, entertainment and recreation sector in the country in the year to 2014.[172] To support the North's vibrant creative and cultural offering, the Budget:

- **commits a further £13 million to Hull UK City of Culture 2017.** This includes £5 million towards the refurbishment of Hull New Theatre and £8 million to ensure there is a lasting cultural legacy in Hull
- **provides £5 million support to the Shakespeare North project to establish a new theatre in Knowsley,** subject to business case approval and planning permission being granted

[170] HM Treasury calculations.
[171] Based on analysis by the Environment Agency.
[172] 'Regional Gross Value Added (Income Approach)', ONS, December 2015.

- **provides £500,000 to Welcome To Yorkshire for an international marketing campaign for the Tour de Yorkshire 2016. The government also supports plans to bid to host the Rugby League World Cup in the Northern Powerhouse**
- **provides £1 million support to S1 Artspace to create an arts complex** subject to planning permission being granted
- **invites bids from northern cities and towns to host the Great Exhibition of the North in 2018**
- **considers the case to support the creation of 'International Screen School Manchester'**, to increase the skilled workforce for the screen-based media sector in the Northern Powerhouse

LIBOR

1.304 The government will allocate £1.1 million to Central Manchester University Hospitals NHS Foundation Trust and £700,000 to Sheffield Children's Hospital Charity from banking fines. This will contribute to a dedicated helicopter landing pad in central Manchester and a fully digitally intraoperative 3T MRI scanner in Sheffield.

Figure 4: Northern Powerhouse Timeline

2015-16 **Key Project Starts:**

- £220m upgrade to M6 J16-19 between Crewe and Knutsford
- Construction of the £230m A6 to Manchester Airport relief road
- Phase one of the Leeds Flood Alleviation Scheme

Key Project Completions

- Electrification of railway between Manchester and Liverpool
- £120m M1 J39-42 Smart Motorway between Wakefield and Leeds
- Construction of the £300m Liverpool2 deep water terminal at Seaforth

2016-17 **Key Project Starts:**

- Construction of £200m New Polar Research Vessel, Birkenhead
- New rail franchises for TransPennine Express and Northern start 1 April 2016
- £100m improvement to A19/A1058 Coast Road Junction in Newcastle
- £75m development of improvements to M60, Northern TransPennine links (A66 and A69) and TransPennine tunnel between Manchester and Sheffield

Key Project Completions:

- £192m upgrade to A556 Knutsford to Bowdon
- Carrington Power Station enters operation, after a £620m construction

2017-18 **Key Project Starts:**

- ESIOS – Energy Subsurface Test Centre, Chester
- National Centre for Ageing Science and Innovation, Newcastle
- Smart Motorway on the M62 J10-12 (Manchester – Warrington)
- £13m Hull UK City of Culture 2017

Key Project Completions:

- £380m of improvement works on the A1 Leeming to Barton
- £210m Smart Motorway on M60 J8 – M62 J20
- Graphene Engineering and Innovation Centre, Manchester
- Cognitive Computing Research Centre, Cheshire (Hartree Phase III)
- Plans produced for High Speed 3 between Leeds and Manchester to reduce journey times to around 30 minutes
- National College of High Speed Rail, Doncaster

2018-19 **Key Project Starts:**

- Ouse and Foss flood defence schemes in York, and phase two of the Leeds Flood Alleviation Scheme
- Publish 2nd Roads Investment Strategy (2020-25), which could include TransPennine tunnel and upgrades to northern TransPennine roads and M60
- Comprehensive upgrades to the TransPennine rail route, paving the way for High Speed 3

Key Project Completions:

- Tees Renewable Energy Plant and £190-200m Energy Works in Hull
- Great Exhibition of the North 2018

2019-20 **Key Project Starts:**

- Upgrades to the A5036 Princess Way and M56 J6-8 Smart Motorway (Manchester Airport – A556)
- Smart Motorway on the M62 J20-25 (Leeds – Manchester)
- Upgrades to the A1 north of Ellingham
- M62/M606 Chain Bar in Bradford

Key Project Completions:

- M62 J10-12, M60 J24-27 & J1-4 South of Manchester Smart Motorway
- Sir Henry Royce Institute for Advanced Materials, Manchester
- National Institute for Smart Data Innovation, Newcastle

Midlands Engine for Growth

1.305 This Budget pushes forward the government's vision for the Midlands Engine for Growth. There are almost 96,000 more businesses in the Midlands than in 2010 – equal to 52 new business created every day.[173] In 2015, median earnings of full-time employees grew faster in the West Midlands than in any other English region.[174] The East Midlands also had the strongest productivity growth between 2010 and 2014 of any region.[175] This Budget contains measures to support industry and growth in the Midlands, with a focus on supporting the development of Midlands Connect's long-term transport strategy and the region's traditional strengths in manufacturing and engineering.

1.306 The government has agreed with LEPs in the Midlands and the British Business Bank to create a Midlands Engine Investment Fund of over £250 million to invest in smaller businesses in the Midlands, subject to final funding arrangements.

1.307 The government has agreed a new mayoral devolution deal with Greater Lincolnshire. This will give Greater Lincolnshire significant new powers over transport, planning, and skills. Greater Lincolnshire will also receive control of a £450 million investment fund over 30 years to boost economic growth.

1.308 To boost transport and connectivity in the Midlands, the government will:

- **put Midlands Connect on a statutory footing by the end of 2018 to create a sub-national transport body for the Midlands.** This will support Midlands Connect in developing and implementing a long-term Midlands Transport Strategy following the £5 million of funding the government committed at Summer Budget 2015
- develop Midlands Connect's priority strategic roads schemes in this Parliament. The government will carry out development work on four major roads in the Midlands: upgrades to the M1 to provide a continuous smart motorway from London to Yorkshire, improvements to the A46 Newark bypass and its junction with the A1, upgrading the single carriageway link on the A45 Stanwick to Thrapston, and upgrading the M42 and M5 around Birmingham to a four lane smart motorway
- **launch the Local Majors Fund.** This competitive fund will offer the opportunity for local areas to bid for funding for large local transport projects such as the Carrington Bridge
- **allocate £11 million during 2016-2017 to fill around 214,000 potholes**
- **allocate £1 million to expand car parking facilities at Market Harborough rail station**

1.309 To support local businesses and build on the area's strengths in space science and research, a **new Enterprise Zone will be created across Loughborough and Leicester**, subject to business case approval. The government can also announce **the creation of an Enterprise Zone at Brierley Hill in Dudley**, subject to business case approval.

1.310 Budget announces £16 million in R&D funding, matched by industry, to support aerospace firms in the East Midlands. This includes £7 million to help Rolls-Royce develop new high-temperature alloys in Derby. **The Midlands will also receive over £15 million funding to support R&D into lowering vehicle emissions.**

1.311 The Midlands will benefit from a science and innovation audit, to identify the region's strengths in research and innovation.

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[173] 'Business Population Estimate for the UK and Regions', BIS, October 2015.
[174] 'Annual Survey of Hours and Earnings: 2015 Provisional Results', ONS, November 2015.
[175] 'Regional Productivity, Levels (£)', ONS, January 2016.

1.312 This Budget allocates £2 million to develop a regeneration masterplan for Birmingham's Snow Hill district. This will help to maximise the potential of Snow Hill Station and the surrounding business district. **The government will also support Greater Birmingham and Solihull LEP to develop a proposal for a new Knowledge Quarter in the area around the Curzon Street HS2 station.**

1.313 The government will invest £14 million in STEAMhouse, subject to business case. This is a creative innovation centre in Digbeth, Birmingham, bringing together arts and culture with science, technology, engineering and maths to drive innovation.

1.314 This Budget announces the extension of additional work coaches in Birmingham for the next financial year. These additional work coaches work with businesses to match individuals with apprenticeships, training opportunities and skilled jobs.

1.315 The government will allocate £700,000 in banking fines to Birmingham Children's Hospital Charity. This will complete fundraising for the 'Eye Believe' appeal to transform the hospital's Eye Department, and also support the 'Star Appeal', to create the UK's first centre for children with rare diseases and undiagnosed medical conditions.

1.316 The government will also contribute **£1 million towards the transformation of the historic Drapers' Hall in Coventry into a multi-purpose music venue.**

East of England

1.317 The East of England had the highest employment rate of any region at the end of 2015, and was the joint second fastest growing region in the year to 2014.[176] This Budget announces measures to devolve power down, to strengthen the East of England's specialisms in science and research, and to improve transport and connectivity.

1.318 The government has agreed a mayoral devolution deal with East Anglia, covering Norfolk, Suffolk, Cambridgeshire and Peterborough, giving the local area new powers over transport, planning, skills, a £900 million investment fund over 30 years to grow the local economy, and access to £175 million ringfenced funding to deliver new homes.

1.319 The Budget confirms £151 million for the Lowestoft 3rd Crossing and the Ipswich Wet Dock Crossing from the Local Majors Fund. The government will also look at the case for other projects, such as the Canvey Island Third Road, to be taken forward.

1.320 Building upon East Anglia's world-leading status in science and research, the government will contribute £50 million to the Quadram Institute. The Institute will develop solutions to a range of global challenges in human health, food and disease.

1.321 To develop transport facilities and connectivity in the East of England, the government will **allocate £5 million to fund the redevelopment of St Albans City station.**

1.322 This Budget also allocates £7 million during 2016-2017 to fill around 136,000 potholes.

South West

1.323 In 2015, employment grew faster in the South West than in any other region.[177] At the end of 2015 the South West had the lowest unemployment rate of any region, and has seen the

[176] 'Regional Labour Market Statistics', ONS, February 2016. 'Regional Gross Value Added (Income Approach)', ONS, December 2015.
[177] 'Regional Labour Market Statistics', ONS, February 2016.

fastest business growth since 2010 outside London.[178] To drive productivity and support growth, the government is announcing a package of measures to devolve further powers to the West of England, improve transport and connectivity, and support tourism in the region.

1.324 **The government has agreed a new mayoral devolution deal with the West of England.** This will give the West of England significant new powers over improved transport, planning, skills and employment. The West of England will also receive control of a £900 million investment fund over 30 years to boost economic growth.

1.325 Budget announces **£19 million funding for community-led housing schemes in areas most impacted by holiday homes, using Stamp Duty Land Tax revenue raised from the higher rates for purchases of additional properties.**

1.326 **The government will support the interim report of the Peninsula Rail Task Force by investing an additional £5 million in developing options to improve the resilience of the rail line between Newton Abbot and Exeter via Dawlish**. The government will fully consider the recommendations in the Peninsula Rail Task Force's final report when it is published in June.

1.327 To strengthen transport and connectivity in the South West, this Budget also:

- **launches the Local Majors Fund,** so that local areas in the South West can bid for funding for large local transport schemes, including the A391 St Austell to A30 improvements and the North Devon Link Road
- **allocates £3 million to improve rail stations across the South West**
- **allocates £8 million during 2016-17 to fill around 159,000 potholes**
- **provides £500,000 to fund a study into a new junction 18a on the M4 to link with the Avon ring road A4174**

1.328 **The government will create a new MarineHub Enterprise Zone for Cornwall, following the transfer of Wave Hub to Cornwall Council.**

1.329 **The government is providing a grant of up to £16 million to Dyson to support research and development for battery technology at their site in Malmesbury.**

1.330 The government will distribute **£14.5 million in grants to extend ultrafast broadband coverage in the South West – £4.5 million more than the £10 million allocated at the Spending Review. As part of its assessment of how the UK can become a world leader in 5G, the National Infrastructure Commission will use the South West as a case study.**

1.331 To support tourism and cultural activity in the South West, the government will:

- **contribute £2 million towards the refurbishment of the Hall for Cornwall in Truro,** subject to planning permission being granted
- **contribute £620,000 to Being Brunel: the National Brunel Project in Bristol**

[178] 'Regional Labour Market Statistics, ONS, February 2016'. 'Business Population Estimate for the UK and Regions', BIS, October 2015.

London

1.332 London contributes £364 billion to the UK economy.[179] In London since 2010, Gross Value Added per head has grown 17.1%, there are over 250,000 more businesses, and over 560,000 more people in work.[180] The government is committed to building on this success, so that London continues to thrive as a global city for the next generation.

1.333 London's continued growth requires strategic, long-term investment in infrastructure. The National Infrastructure Commission has recommended that Crossrail 2 is the priority transport investment required to meet the needs of the capital over the decades to come and that DfT and TfL should urgently undertake the work necessary to update the business case.[181] This includes identifying options to improve the affordability and value for money of the scheme by reducing costs. It advises the project will simultaneously relieve the worst congestion on the London transport network and unlock the potential for hundreds of thousands of new homes.

1.334 The government accepts the National Infrastructure Commission's recommendations and is giving the green light for Crossrail 2 to proceed to the next stage. The government will therefore provide a contribution of £80 million to fund the development of Crossrail 2, and asks Transport for London to match that contribution to ensure that the project can be fully developed with the aim of depositing a Hybrid Bill within this Parliament. The National Infrastructure Commission has recommended that clear proposals are identified to significantly reduce and phase costs and that a funding package is developed that involves London funding more than half of the cost of the project. The government will work closely with Transport for London to ensure that both of these recommendations are met.

1.335 Old Oak Common has the potential to be one of the most significant regeneration sites in the country over the next decade. **The government has therefore agreed a Memorandum of Understanding with the Old Oak and Park Royal Development Corporation on transferring government and Network Rail land into the Development Corporation's ownership,** on the condition that the Development Corporation develops a plan for funding, financing and delivering the regeneration.

1.336 The government will increase the share of London's business rates retained by the Greater London Authority and transfer responsibility for funding TfL's capital projects. This will give the Mayor of London control over almost £1 billion more of locally raised taxes. The government will also explore with London options for moving to 100% business rates retention ahead of the full roll-out of the business rates reforms.

1.337 The government has approved the full business case for a new Thameslink station at Brent Cross Cricklewood, unlocking 7,500 new homes.[182]

1.338 The government invites TfL to bring forward proposals for financing infrastructure projects from land value increases, which could support schemes like the proposal for 'flyunder' tunnels to replace busy main roads and support redevelopment in Barking, Hammersmith or other town centres. The government is also **supporting TfL to generate revenue from its property assets** including by consulting on reforms to compulsory purchase orders.

1.339 The government will provide £5 million to establish a fund to support smaller local infrastructure projects in outer London boroughs.

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[179] 'Regional Gross Value Added (Income Approach)', ONS, December 2015.
[180] 'Business Population Estimate for the UK and Regions', BIS, October 2015. 'Regional labour market statistics', ONS, February 2016.
[181] 'Transport for a world city', National Infrastructure Commission, March 2016.
[182] Business case from London Borough of Barnet and Greater London Authority.

1.340 To build upon London's world-class cultural and educational offering, the government will:

- **help to fund the expansion of the Royal College of Art's Battersea Campus**
- **support the British Library's ambition to develop land to the north of its St Pancras site, subject to business case approval**

South East

1.341 The South East contributes £240 billion in Gross Value Added to the national economy.[183] This Budget announces measures to promote growth and infrastructure development in areas of the South East, and to improve transport and connectivity.

1.342 The government has asked Lord Heseltine to lead the Thames Estuary 2050 Growth Commission. The Commission will develop an ambitious vision and delivery plan for North Kent, South Essex and East London up to 2050. This will focus on supporting the development of high productivity clusters in specific locations. It will examine how the area can develop, attract and retain skilled workers. It will also look at how to make the most of opportunities from planned infrastructure such as the Lower Thames Crossing. It will report back at Autumn Statement 2017 with a clear and affordable delivery plan for achieving this vision.

1.343 The government has asked the **National Infrastructure Commission to develop proposals for unlocking growth, housing and jobs in the Cambridge – Milton Keynes – Oxford corridor.** Its report will set out opportunities to maximise the potential for future growth in this corridor.

1.344 This Budget launches the Local Majors Fund, so that local areas in the South East can bid for funding for large local transport schemes including the Chickenhall Link Road. **The government will allocate £8 million during 2016-2017 to fill around 157,000 potholes, and £7 million to improve rail stations in the South East.**

1.345 The government will allocate £2 million in banking fines to University Hospital Southampton NHS Foundation Trust. This commitment of matched funding will facilitate the building of a dedicated Paediatric Emergency and Trauma Department, bringing units which treat sick children into one location.

[183] 'Regional Gross Value Added (Income Approach)', ONS, December 2015.

3 Excessive deficit procedure

3.1 The UK entered into the excessive deficit procedure (EDP) under the EU's Stability and Growth Pact (SGP) following a decision by ECOFIN Council in July 2008. In November 2009, the Council made recommendations to the UK, including setting a target to correct its excessive deficit. In June 2015, the Council made new recommendations to the UK, including setting a revised target to correct its excessive deficit.

3.2 Significant progress has been made since 2010 in fixing the public finances. In 2009-10, the government borrowed around £1 in every £4 it spent. The deficit as a share of GDP is forecast to be cut by almost two thirds from its 2009-10 post-war peak and will reach 3.8% (public sector net borrowing) of GDP in 2015-16. The government has addressed the rapid rise in public sector net debt (PSND) which more than doubled as a share of GDP between 2007-08 and 2011-12. Net debt as a share of GDP is forecast to fall over this Parliament, reaching 77.2% of GDP by the end of 2019-20.

3.3 However more work needs to be done – the deficit and debt levels are still too high. The government remains committed to continuing the job of returning the public finances to surplus by 2019-20 and running a surplus thereafter in normal times so Britain bears down on its debt and is better placed to withstand future economic shocks. In a low inflationary environment, with the risk of economic shocks, the only reliable way to bring debt down as a share of GDP is to run a surplus.

3.4 The global economic outlook has deteriorated since the Spending Review and Autumn Statement 2015. The UK is one of the most open trading economies in the world and is not immune to the weaker global outlook. And as in other major advanced economies, the UK's productivity growth has been slower since the financial crisis. Combined, this means that the challenge of delivering a sustained rise in living standards following the financial crisis of 2008 and 2009 is greater here in the UK than the OBR previously forecast.

3.5 Budget 2016 sets out the action the government is taking to meet the fiscal mandate, achieving an overall surplus of £10.4 billion on the headline measure of public sector net borrowing in 2019-20 and a surplus of £11.0 billion in 2020-21. The government is maintaining a balanced pace of deficit reduction, with public sector net borrowing forecast to fall as a share of GDP at the same average annual rate over 2015-16 to 2019-20 as was achieved over 2010-11 to 2014-15.

3.6 The government will build on the measures set out at Spending Review 2015 to deliver a surplus and ensure the sustainability of the public finances. Spending Review 2015 set out savings of £21.5 billion, of which £9.5 billion was reinvested in the government's priorities. Budget 2016 sets out that the government is adjusting those plans and will find a further £3.5 billion of savings from public spending in 2019-20, in line with continuing action to ensure maximum efficiency from every pound of public spending.

3.7 Spending Review 2015 prioritised long-term investment over day-to-day spending. Budget 2016 accelerates its commitment to invest £100 billion in infrastructure by 2020-21. The government is now accelerating its investment plans in priority areas to deliver around £1.5 billion investment in areas such as housing, schools and transport over the next 3 years that would otherwise have taken place at the end of the decade.

3.8 The government remains committed to bringing the UK's Treaty deficit in line with the 3% target set out in the Stability and Growth Pact. As Table 3.A shows, the OBR's forecast indicates that this target will be met in 2016-17, and the deficit is forecast to remain below 3% over the forecast horizon.

Table 3.A: OBR fiscal forecast on a Maastricht basis

	% GDP						
	Outturn	Forecast					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Deficit							
Treaty deficit[a]	5.0	3.9	2.9	2.0	1.1	-0.3	-0.4
Debt							
Treaty debt[b]	87.4	88.9	88.3	87.1	85.6	83.0	80.3

[a] General government net borrowing on a Maastricht basis
[b] General government gross debt on a Maastricht basis

Source: Office for Budget Responsibility

4 Quality of public finances

Public spending

Total managed expenditure

4.1 Table 4.A sets out the path for Total Managed Expenditure (TME), Public Sector Current Expenditure (PSCE), and Public Sector Gross Investment (PSGI) to 2020-21.

4.2 The government has decided to take action in response to global economic uncertainty. Budget 2016 sets out that the government will find a further £3.5 billion of savings from public spending in 2019-20, building on the plans set out at Spending Review 2015. To inform future spending decisions and the delivery of these savings, the government is launching an efficiency review. After the public finances move into surplus in 2019-20, total departmental resource spending will grow in line with inflation from 2019-20 to 2020-21. Specific departmental budgets for 2020-21 will be set out at the next Spending Review.

4.3 The government prioritises capital investment, and has set out plans to surpass its commitment to invest £100 billion in the UK's infrastructure by 2020-21. As part of this, the government is accelerating around £1.5 billion of capital investment in its priorities, where faster delivery is possible. This includes funding for housing, transport and flood defence schemes, and will allow the government to make quicker progress.

Table 4.A: Total Managed Expenditure[1]

	£ billion					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
CURRENT EXPENDITURE						
Resource AME	345.6	356.2	358.9	373.1	382.4	394.3
Resource DEL, excluding depreciation[2]	315.1	316.1	325.2	327.6	327.0	333.6
Ring-fenced depreciation	20.6	21.9	21.9	21.9	21.9	21.9
Public Sector Current Expenditure	**681.2**	**694.2**	**706.0**	**722.6**	**731.4**	**749.8**
CAPITAL EXPENDITURE						
Capital AME	33.3	33.5	32.7	31.9	32.5	35.1
Capital DEL	39.4	44.2	45.9	46.5	46.6	56.2
Public Sector Gross Investment	**72.7**	**77.8**	**78.6**	**78.4**	**79.1**	**91.3**
TOTAL MANAGED EXPENDITURE	**753.9**	**771.9**	**784.6**	**801.0**	**810.4**	**841.1**
Total Managed Expenditure (% GDP)	*40.2%*	*39.7%*	*38.8%*	*38.0%*	*37.0%*	*36.9%*

[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 total 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] *In 2016-17 the Scottish government's block grant has been adjusted by £5.5 billion to reflect the devolution of SDLT and Landfill tax with effect from 1 April 2015 and the creation of the Scottish Rate of Income Tax from 1 April 2016. Adjustments to the block grant from 2017-18 onwards will be reflected once the Fiscal Framework recently agreed with the Scottish government has been implemented.*

Source: Budget 2016

Departmental Expenditure Limits

4.4 Spending Review 2015 announced departmental spending allocations for 2016-17 to 2019-20. Capital budgets were also allocated for 2020-21 but resource budgets were only set for some departments in that year, with the rest to be set at the next Spending Review. Tables 4.B and 4.C show the departmental totals set at Spending Review 2015 with adjustments to reflect policy announcements at Budget 2016.

Devolved administrations

4.5 The devolved administrations' budgets will be adjusted in line with the Barnett formula, as set out in the Statement of Funding Policy. The Northern Ireland Executive, Scottish government and Welsh government will each see increases in their budgets, to be allocated according to their own priorities, as a result of spending decisions taken by the UK government at this Budget.

Other information

4.6 Other information relevant to the quality of public finances is presented in Chapter 2:

- paragraphs 2.45 to 2.71 deal with the government's fiscal plan
- paragraphs 2.82 to 2.88 and 2.154 to 2.195 deal with taxes for individuals and business
- paragraphs 2.207 to 2.223 cover ensuring a fair contribution through the tax system

Table 4.B: Departmental Resource Budgets (Resource DEL excluding depreciation)

	£ billion				
	Estimate	Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20
Resource DEL excluding depreciation[1]					
Defence	27.6	27.7	28.5	29.1	30.0
Single Intelligence Account	1.9	1.8	2.0	2.1	2.2
Home Office	10.6	10.7	10.6	10.6	10.6
Foreign and Commonwealth Office	1.7	1.0	1.0	1.0	1.0
International Development	7.2	9.1	9.3	10.7	10.4
Health (inc. NHS)	113.1	115.6	118.7	121.3	124.1
Work and Pensions	6.2	6.1	6.3	5.9	5.4
Education	53.3	54.6	55.9	57.0	57.7
Business, Innovation and Skills	13.1	13.4	12.3	11.7	11.5
Transport	2.0	2.0	2.1	2.2	1.8
Energy and Climate Change	1.4	0.9	1.0	1.0	0.9
Culture, Media and Sport	1.2	1.2	1.2	1.2	1.1
DCLG Communities	2.5	1.5	1.4	1.3	1.2
DCLG Local Government	10.8	9.6	8.2	6.9	6.2
Scotland[2]	25.7	20.6	26.5	26.6	26.7
Wales	12.8	13.0	13.3	13.3	13.4
Northern Ireland	10.0	9.8	9.9	9.9	10.0
Justice	6.8	6.6	6.3	5.8	5.7
Law Officers Departments	0.6	0.5	0.5	0.5	0.5
Environment, Food and Rural Affairs	1.6	1.7	1.6	1.5	1.4
HM Revenue and Customs	3.3	3.6	3.4	3.2	2.9
HM Treasury	0.1	0.2	0.2	0.1	0.1
Cabinet Office	0.6	0.6	0.6	0.5	0.6
Small and Independent Bodies	1.6	1.5	1.5	1.5	1.5
Reserves	0.0	3.6	3.6	3.7	4.2
Adjustment for Budget Exchange[3]	0.0	-0.1	0.0	0.0	0.0
Adjustment for planned efficiency savings	0.0	0.0	0.0	0.0	-3.5
Total Resource DEL excluding depreciation	**315.8**	**316.6**	**325.7**	**328.6**	**327.5**
OBR allowance for shortfall	-0.7	-0.5	-0.5	-1.0	-0.5
OBR resource DEL excluding depreciation forecast	**315.1**	**316.1**	**325.2**	**327.6**	**327.0**

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 Scottish Government's block grant has been adjusted by £5.5bn to reflect the devolution of SDLT and Landfill tax with effect from 1st April 2015 and the creation of the Scottish Rate of Income Tax from 1st April 2016. Adjustments to the block grant from 2017-18 onwards will be reflected once the Fiscal Framework recently agreed with the Scottish Government has been implemented.

3 Departmental budgets in 2016-17 include amounts carried forward from 2015-16 through Budget Exchange, which will be voted at Main Estimates. It is assumed that these increases will be offset at Supplementary Estimates in future years so are excluded from spending totals.

Source: Budget 2016

Table 4.C: Departmental Capital Budgets (Capital DEL)

	£ billion					
	Estimate	Plans				
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Capital DEL						
Defence	7.6	7.3	7.5	7.8	8.1	8.7
Single Intelligence Account	0.4	0.4	0.4	0.4	0.5	0.5
Home Office	0.4	0.5	0.5	0.4	0.4	0.4
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1	0.1	0.1
International Development	2.2	2.7	3.2	2.8	3.1	3.6
Health (inc. NHS)	3.7	4.8	4.8	4.8	4.8	4.8
Work and Pensions	0.2	0.3	0.4	0.3	0.2	0.2
Education	4.9	5.2	4.7	4.9	3.8	4.6
Business, Innovation and Skills	2.6	3.2	2.3	1.8	1.6	1.6
Transport	6.0	6.3	7.8	9.1	11.3	12.4
Energy and Climate Change	2.3	2.4	2.5	2.4	2.3	2.8
Culture, Media and Sport	0.3	0.4	0.4	0.4	0.3	0.2
DCLG Communities	3.9	4.5	4.4	4.7	3.6	4.8
DCLG Local Government	0.0	0.0	0.0	0.0	0.0	0.0
Scotland	2.9	3.2	3.2	3.2	3.4	3.5
Wales	1.5	1.5	1.5	1.6	1.7	1.7
Northern Ireland	0.8	1.1	1.1	1.2	1.2	1.2
Justice	0.3	0.7	0.7	0.7	0.4	0.1
Law Officers Departments	0.0	0.0	0.0	0.0	0.0	0.0
Environment, Food and Rural Affairs	0.5	0.6	0.7	0.6	0.5	0.5
HM Revenue and Customs	0.2	0.2	0.2	0.2	0.2	0.2
HM Treasury	-0.7	0.1	0.1	0.1	0.1	0.0
Cabinet Office	0.0	0.0	0.0	0.0	0.0	0.0
Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1	0.1
Reserves	0.0	1.0	1.3	1.3	1.2	1.1
Capital spending not in budgets[1]	0.0	0.0	0.0	0.0	0.0	3.0
Adjustment for Budget Exchange[2]	0.0	-0.3	0.0	0.0	0.0	0.0
Total Capital DEL	**40.3**	**46.2**	**48.1**	**49.0**	**48.9**	**56.2**
Remove CDEL not in PSGI[3]	-3.8	-5.0	-4.9	-3.6	-3.6	-3.6
Allowance for shortfall	-0.9	-2.0	-2.2	-2.5	-2.3	-
Public Sector Gross Investment in CDEL	**35.6**	**39.2**	**40.9**	**42.9**	**43.0**	**52.6**

1 The uplift in Capital DEL in 2020-21 represents funding not allocated to departments. It is presented net of the OBR's allowance for shortfall in that year.

2 Departmental budgets in 2016-17 include amounts carried forward from 2015-16 through Budget Exchange, which will be voted at Main Estimates. It is assumed that these increases will be offset at Supplementary Estimates in future years so are excluded from spending totals.

3 Capital DEL that does not form part of public sector gross investment, including financial transactions in Capital DEL

Source: Budget 2016

5 Institutional features of public finances

The fiscal policy framework

5.1 In recent years, many governments internationally have used fiscal targets as a tool to demonstrate political commitment to fiscal policy goals. Increasingly they have established independent fiscal institutions (IFIs) to assess compliance with these targets, and to increase trust in the forecasts and analysis on which such assessments are usually based.

5.2 In the case of the UK, the Office for Budget Responsibility (OBR) was established in 2010 to "ensure that policy is made on an unbiased view of future prospects, improving confidence in the fiscal forecasts".[1] The government also announced a set of clear fiscal targets to deliver the government's fiscal and debt management objectives, and guide fiscal policy decisions over the medium term.

Office for Budget Responsibility

5.3 The government established the OBR on an interim basis on 17 May 2010. Since then the OBR has been placed on a permanent, statutory footing through the Budget Responsibility and National Audit Act 2011 (the Act), which received Royal Assent on 22 March 2011.

5.4 The OBR is comprised of the Chair of the OBR and 2 other members of the Budget Responsibility Committee (BRC), and two non-executive members. It is supported by a civil service staff.

5.5 The three BRC members: Robert Chote (Chair of the OBR), Steve Nickell and Graham Parker were appointed by the Chancellor in October 2010, with the approval of the Treasury Select Committee. The Chancellor re-appointed for a second term of office Steve Nickell in October 2013, Graham Parker in October 2014 and Robert Chote, Chair of the OBR in September 2015.

5.6 The non-executive members – Lord Burns and Kate Barker – were appointed by the Chancellor in June 2011. In June 2014, Kate Barker was re-appointed to serve a second term of office and in June 2015, Lord Burns was also re-appointed to serve his second term.

Remit of the OBR

5.7 The government's fiscal policy decisions are based on the independent forecasts of the economy and public finances, prepared by the OBR. Since the general election in May 2010, the OBR has produced all the official forecasts of the economy and public finances, independently of ministers.

5.8 The Act sets out the main duty of the OBR; to examine and report on the sustainability of the public finances. This duty feeds directly into the Treasury's fiscal objective to deliver sound and sustainable public finances.

5.9 As set out in the Act, the OBR's responsibilities include:

- the production of at least 2 fiscal and economic forecasts each financial year, including independent scrutiny of the impact of policy measures and any resultant impact on the forecasts and the main risks and assumptions

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210667/press_01_10.pdf

- an assessment of the extent to which the fiscal and debt management objectives have been, and are likely to be, achieved alongside these forecasts
- an assessment on the accuracy of the previous fiscal and economic forecasts
- an analysis of the sustainability of the public finances

Operating framework

5.10 The Charter for Budget Responsibility provides guidance to the OBR in line with, and in support of, the provisions in the Act. This guidance helps to explain the role of the OBR within the fiscal framework and provide greater clarity as to the OBR's duty to independently examine and report on the sustainability of the public finances.

5.11 This guidance provides for the OBR to investigate the impact of trends and policies on the public finances from a multitude of angles including through forecasting, long-term projections and balance sheet analysis. The OBR must perform its duty objectively, transparently and impartially and on the basis of government policy. This protects the independence of the OBR and ensures a clear separation between analysis (which is the role of the OBR) and policy making (which is the responsibility of ministers). The OBR has complete discretion in the performance of its duty subject to its statutory obligations.

5.12 To ensure credibility of the fiscal framework and protect the independence of the OBR it is vital for there to be transparency in the responsibilities of the OBR. A Memorandum of Understanding established a transparent framework for cooperation between the OBR and the Treasury, as well as other parts of government that the OBR needs to work closely with to perform its forecasting and analytical duties.

5.13 The OBR is accountable to Parliament and the Chancellor for the analysis it produces and the way it uses public funds. A framework document sets out the broad governance and management framework within which the OBR operates.

5.14 The Charter requires the government to set out before Parliament its fiscal policy objectives, and the means by which these objectives will be attained ("the fiscal mandate").

5.15 The government's fiscal policy objectives, presented in the Charter, are to:

- ensure sustainable public finances that support confidence in the economy, promote inter-generational fairness, and ensure the effectiveness of wider government policy
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations

The fiscal mandate and supplementary target for debt

5.16 In the June 2010 Budget, the government set out a forward-looking fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, 5-year forecast period.

5.17 Complementing the fiscal framework, in Spending Review 2013, the government announced that a cap on welfare spending would be announced to improve spending control (the welfare cap). The Charter was modified in March 2014 to include the OBR's responsibilities to assess the government's performance against the welfare cap, which it does once a year alongside the Autumn Statement. To support transparency and public scrutiny, the OBR also reports annually on trends in and drivers of welfare expenditure in the scope of the cap.

5.18 On 13 January 2015, the fiscal mandate was revised, shortening the period to achieve cyclically-adjusted current balance to the third year of the 5-year forecast period.

5.19 In autumn 2015, a further update to the Charter was made to reflect the fiscal rules of the new government. The fiscal rules approved by Parliament on 14 October 2015 are:

- In normal times, once a headline surplus has been achieved, the Treasury's mandate for fiscal policy is: **a target for a surplus on public sector net borrowing in each subsequent year**
- For the period outside normal times from 2015-16, the Treasury's mandate for fiscal policy is: **a target for a surplus on public sector net borrowing by the end of 2019-20**
- For the period until 2019-20, the Treasury's mandate for fiscal policy is supplemented by: **a target for public sector net debt as a percentage of GDP to be falling in each year**
- If the OBR assess/forecast that a significant negative shock to the UK economy has occurred is occurring or will occur:
  - the normal times surplus target will be suspended, providing greater freedom for the automatic stabilisers to operate. If the shock occurs when we are already outside normal times, the government will revisit its targets to return to surplus
  - the government will be required to set out a plan, with targets, to return to surplus and have those targets approved by Parliament
  - a significant negative shock is defined as real GDP growth of less than 1% on a rolling 4 quarter-on-4 quarter basis

5.20 The updated Charter also sets out that the OBR will produce a fiscal risks statement setting out the main risks to the public finances, including macroeconomic risks and specific fiscal risks. This will be produced at least once every 2 years.

Accounting and statistics

5.21 The independent Office for National Statistics and HM Treasury compile monthly statistics for the public sector and sub-sectors, on both a cash and accrued basis. Reconciliation tables between these are produced. The production is guided by the UK's code of practice which is consistent with the United Nations Fundamental Principles of Official Statistics and the European Statistics Code of Practice.

5.22 Information on the UK's contingent liabilities is published for all central government departments. The publication of the first audited 'Whole of Government Accounts' (WGA), based on International Financial Reporting Standards, extends the coverage across government for the year ending 31 March 2010. A summary of publicly available information on contingent liabilities is also published in the OBR's annual 'Fiscal sustainability report'.

5.23 WGA is a full accruals based set of accounts covering the whole public sector and audited by the National Audit Office. WGA is a consolidation of the accounts of around 1,500 organisation across the public sector, including central government departments, local authorities, devolved administrations, the health service, and public corporations.