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AUTUMN STATEMENT 2013

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Executive Summary

The UK has been hit by the most damaging financial crisis in generations. As a result of that crisis and unsustainable levels of public spending, the government inherited the largest deficit since the Second World War. The government's long-term economic plan has rebuilt the UK's financial credibility, ensured economic stability, and helped provide the foundations for the recovery that is now gaining momentum. All sectors of the economy are growing, the deficit is forecast to have halved by 2014-15, and employment is at record levels.

This Autumn Statement sets out further action to deliver a responsible recovery. The government is taking further difficult decisions on the public finances to equip the UK's young people with the skills they need to succeed, help businesses to grow and create jobs, and help families with their costs. The only way to achieve a sustained rise in living standards is by growing the economy.

Despite the improvement in the public finances, the government has decided to set out a fiscally-neutral Autumn Statement. This is the key judgement of the statement. As a result, the improvement in the fiscal forecast contributes to returning the public finances to a sustainable position. This reinforces the government's commitment to the long-term economic plan it set out in 2010. With the deficit and debt still at unsustainable levels, deviating from that plan now would be the biggest risk to recovery.

Autumn Statement 2013 sets out the next steps in the government's long-term economic plan:

- delivering sound public finances by setting out a fiscally-neutral Autumn Statement and further detail on how the government will ensure continued progress on reducing the deficit and debt beyond this Parliament
- supporting businesses to grow and create jobs through a major package of support with the cost of business rates and an updated *National Infrastructure Plan*
- equipping all young people to compete in the global economy by abolishing employer National Insurance contributions for most under-21 year olds, removing the cap on university places, reforming apprenticeships, and improving basic skills training
- helping hard-working people to keep more of the money they earn by reducing the impact of government policies on energy bills and freezing fuel duty for the rest of the Parliament
- increasing the incentives to work and providing a benefit system that is fair to those who need it and those who pay for it
- clamping down further on tax evasion, avoidance and aggressive tax planning, ensuring that those with the most in society make a fair contribution to reducing the deficit
- taking action to reduce levels of tax debt and to reduce fraud, error and debt in the benefit and tax credit systems

The UK economy and public finances

The government's long-term economic plan is providing a foundation for the current recovery. The UK economy has gained momentum through 2013, GDP growth has exceeded forecasts, and there are early signs that growth is balanced across the main sectors of the economy. The factors which weighed on UK growth between 2010 and 2012 – the euro crisis, commodity price inflation and the impact of the financial crisis – are abating, but external risks remain. The euro area sovereign debt crisis has stabilised, though activity remains subdued. Growth in emerging markets has disappointed in 2013, and in some cases their financial and currency markets have proved sensitive to the effects of US monetary policy.

The UK labour market has continued to perform better than forecast, with a net increase of over 1.4 million jobs in the private sector since the first quarter of 2010. Employment in the 3 months to September 2013 was at its highest ever level, and unemployment has continued to fall. Business investment has been weak, but there are signs of a return of the confidence needed to support investment decisions and improve productivity.

Looking forward, a responsible economic recovery is the only way to raise living standards. The Office for Budget Responsibility (OBR) forecasts real earnings and real household disposable income to increase in 2014 and thereafter.

Economic forecast

Reflecting this momentum in the economy, the OBR has revised its forecast for GDP growth up from 0.6% to 1.4% in 2013 and from 1.8% to 2.4% in 2014. The OBR has forecast GDP growth of 2.2% in 2015, 2.6% in 2016 and 2.7% in 2017 and 2018. From 2012 to 2018, the OBR has revised up cumulative real GDP growth by 1.4 percentage points.

The OBR has revised up its forecast for employment across the forecast period and expects employment to reach 31.2 million by 2018.

The OBR expects the rate of inflation to slow between 2013 and 2016, returning to the 2.0% target in the second half of 2016.

Fiscal forecast

The government remains on course to meet the fiscal mandate 1 year early, with the cyclically-adjusted current balance reaching a surplus of 1.6% of GDP in 2018-19.

Public sector net borrowing as a percentage of GDP is forecast to have halved by 2014-15. Excluding the effects of the transfers to and from the Asset Purchase Facility, public sector net borrowing is forecast to be in surplus by 0.1% of GDP in 2018-19.

Public sector net debt as a share of GDP is forecast to peak at 80.0% of GDP in 2015-16 – a year earlier than forecast at Budget 2013, but a year later than the supplementary target for debt – before falling each year and reaching 75.9% of GDP in 2018-19.

The government's response

The structural deficit continues to fall year on year, but its level has not been reduced by the upturn in the economy. This confirms that economic growth alone cannot be relied upon to eliminate the deficit, and difficult decisions still need to be made. Autumn Statement 2013 therefore sets out a fiscally-neutral response to the improved economic and fiscal outlook. This reinforces the government's commitment to its deficit reduction plan and to returning the public finances to a sustainable position.

Continued high levels of public debt create risks for the government's economic and fiscal objectives, crowd out spending on public services, and limit the ability to absorb the impact of future economic shocks. In recognition of the need to continue bearing down on the deficit and debt, this Autumn Statement:

- is fiscally neutral, ensuring that the improvement in the fiscal forecast contributes to returning the public finances to a sustainable position
- locks in lower spending by reducing Whitehall departmental budgets for 2014-15 and 2015-16 by 1.1%; existing protections will continue to apply, and local government, the Security and Intelligence Agencies and HMRC will be excluded
- sets out how the welfare cap announced at Budget 2013 will operate to control welfare spending, including the requirement for a vote in the House of Commons if the cap is breached or if the government wants to change the level of the cap
- outlines steps to control longer-term public spending, including more detail on how future reviews of the State Pension age will work in practice, which – combined with action already taken by this government – could save around £500 billion over the next 50 years
- announces a review of the current fiscal policy framework to ensure that debt continues to fall as a percentage of GDP, including using surpluses in good years for this purpose, and to enforce the commitment to consolidation in 2016-17 and 2017-18; this review will inform an updated *Charter for Budget Responsibility* that will be presented to Parliament alongside Autumn Statement 2014

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

Growth

The government's programme of supply-side reform will equip the UK economy for the future by supporting businesses to grow and create jobs, helping young people to gain the skills and employment they need to succeed in the global race, investing in infrastructure, increasing the construction of new homes, and helping more people to buy their own home.

Autumn Statement 2013 announces that the government will:

- support businesses to expand and create jobs by capping the Retail Prices Index increase in business rates to 2% in 2014-15 and extending the doubling of Small Business Rate Relief to April 2015
- provide additional support to the retail sector through a business rates discount of up to £1,000 in 2014-15 and 2015-16 for retail properties (including pubs, cafes, restaurants and charity shops) with a rateable value of up to £50,000, and a 50% discount from business rates for new occupants of previously empty retail premises for 18 months
- make it cheaper for businesses to employ young people by abolishing employer National Insurance contributions for under-21 year olds on earnings up to £813 per week, equivalent to the point at which higher rate tax is charged
- remove the cap on higher education student numbers to ensure that an estimated 60,000 more young people can go to university every year
- announce further reforms to make the most of the UK's science base, including an Emerging Powers Research Fund to promote scientific progress through collaborative research, and a new network of Quantum Technology Centres

- introduce a new tax relief for shale gas, and increase support for employee ownership and the creative industries
- improve the UK's infrastructure – *National Infrastructure Plan 2013* sets out progress on delivery since 2010, a refreshed list of priority investments, a pipeline of public and private infrastructure projects to enable developers and supply chains to plan effectively, and progress on the UK Guarantees Scheme – including towards a Guarantee for a new nuclear power plant at Wylfa; in addition, *The UK insurance growth action plan* includes a commitment by UK insurers to work with partners to deliver at least £25 billion of investment in UK infrastructure over the next 5 years
- take further action to increase housing supply and support home ownership by funding infrastructure to unlock large housing sites; and by increasing the funding available for new affordable homes by raising local authority Housing Revenue Account borrowing limits, allocated on a competitive basis, and from the sale of vacant high-value social housing

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

Fairness

The government's plan to build a stronger economy is underpinned by its commitment to delivering a fairer society. From April 2014, the income tax personal allowance will be increased to £10,000, and a typical basic rate taxpayer will pay £705 less income tax per year in cash terms than they would have in 2010-11. Income inequality is at its lowest level since 1986 and the proportion of workless households is at its lowest since 1996.

Autumn Statement 2013 sets out further action to support household incomes, help people into work, and ensure that businesses and individuals contribute their fair share to the consolidation.

Autumn Statement 2013 announces that the government will:

- freeze fuel duty for the remainder of this Parliament, saving the average motorist £11 every time they fill their tank by 2015-16; by the end of the Parliament, average pump prices will be 20 pence per litre lower than under pre-2010 plans
- deliver an average saving of £50 in household bills by reducing the impact of government policies on energy bills, while maintaining support for the poorest families and providing new home owners with incentives worth up to £1,000 to undertake energy efficiency measures
- cap the average increase in regulated rail fares for 2014 in line with the Retail Prices Index, complementing the decision by the Mayor of London to cap average fare increases in London for 2014
- allow married couples and civil partners to transfer £1,000 of their income tax personal allowance to their spouse where neither is a higher rate taxpayer – worth up to £200 in 2015-16 to benefiting eligible couples
- provide free school meals for all infant school pupils in reception, year 1 and year 2
- provide more support to the young unemployed and implement a new Help to Work scheme for the long-term unemployed – to encourage work and ensure that the welfare system is fair to those who need it and to those who pay for it

Since 2010, the government has been relentless in its crackdown on tax avoidance and aggressive tax planning, and there are strong signs that its approach is working. But a minority of taxpayers continue to seek out unacceptable ways to reduce the amount of tax that they pay. This increases the tax burden on the rest of society, and creates an unfair playing field for businesses and employers. The government will therefore continue to take further steps to close down avenues for both tax avoidance and evasion, bringing in more than £6.8 billion of new revenue over the forecast period – more than any other fiscal event this Parliament.

Autumn Statement 2013 announces that the government will:

- ensure that those with the most in society make a fair contribution, including by introducing capital gains tax on gains made by non-residents disposing of UK residential property
- clamp down further on tax avoidance and aggressive tax planning, including by preventing employment intermediaries from disguising employment as self-employment to avoid tax, and by introducing a new power requiring taxpayers using avoidance schemes that have already been defeated in the courts to pay the tax they are trying to avoid upfront
- build on the unprecedented progress it has made in tackling offshore tax evasion and take further steps to tackle criminal gangs and fraudsters, including measures to tackle alcohol fraud and tobacco smuggling
- increase HMRC's target for securing additional compliance revenues by a further £3.7 billion by the end of 2015-16, on top of the £120 billion already forecast

Autumn Statement 2013 also announces further action to reduce levels of tax debt and to reduce fraud, error and debt in the benefit and tax credit systems. This will deliver savings and additional tax revenues of over £2.3 billion over the forecast period.

The third section of Chapter 1 sets out further information on these and other announcements. Further information on the distributional impact of this Autumn Statement is available in *Impact on households: distributional analysis to accompany Autumn Statement 2013.*

Chapter 2 sets out all measures announced in this Autumn Statement.

Annex A presents financing information.

Annex B presents selected tables from the OBR's December 2013 *Economic and fiscal outlook*.

Autumn Statement decisions

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

Table 1: Summary of Autumn Statement policy decisions[1]

	£ million					
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Total spending policy decisions	+2,000	-45	-565	0	0	0
Total tax policy decisions	+20	-90	+490	-410	-570	-855
TOTAL POLICY DECISIONS	**+2,020**	**-135**	**-75**	**-410**	**-570**	**-855**

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

1 Autumn Statement

The UK economy and public finances

1.1 The UK has been hit by the most damaging financial crisis in generations and the government inherited the largest deficit since the Second World War. Through this period of uncertainty, the government's long-term economic plan has ensured economic stability and provided the foundations for the current recovery which is now gaining further momentum as the factors weighing on UK growth between 2010 and 2012 continue to ease.

1.2 The improved economic outlook supports the public finances, with the 'underlying deficit' now expected to be £73 billion lower over the forecast period than projected at Budget 2013. However, although the structural deficit continues to fall year on year, the OBR judges that it has not been improved by stronger economic growth. Reflecting the government's commitment to deficit reduction, Autumn Statement 2013 sets out a fiscally neutral judgement. This is the key judgement of Autumn Statement 2013. As a result, the improvement in the fiscal forecast contributes to returning the public finances to a sustainable position, with public sector net debt now forecast to fall in 2016-17 – a year earlier than predicted at Budget 2013.

1.3 The government's long-term economic plan is restoring the public finances to a sustainable path and the deficit as a percentage of GDP is forecast to have halved by 2014-15. This plan has also helped maintain historically low interest rates and is building a stronger economy which is the only way to achieve a sustained rise in living standards. To help equip the UK to succeed in the global race the government is implementing the most radical programme of economic reform in a generation:

- making the tax system more competitive – delivering corporation tax cuts that will be worth around £7.8 billion a year to business by 2016. The government has published economic modelling of the dynamic impacts of its corporation tax cuts, showing that they are expected to increase long-run GDP by between 0.6% and 0.8%, which in turn will lead to higher tax revenue, reducing the cost of the policy by between 45% and 60%[1]
- equipping the UK's young people for the future – with investment in early education, radical reform of the schools system to raise standards and action to ensure that young people have the skills they need to succeed
- reforming the welfare system – by introducing controls on the overall amount that this and future governments spend on welfare; limiting the total benefits that any one household can receive to the average income of a working family; and introducing Universal Credit to ensure that it always pays to be in work
- making the largest ever increases in the level of the income tax personal allowance – from April 2014 the personal allowance will be £3,525 higher than in 2010, saving a typical basic rate taxpayer over £700 per year

[1] 'Analysis of the dynamic effects of Corporation Tax reductions', HM Treasury, December 2013.

- delivering improvements in the UK's infrastructure – investing more in infrastructure as a share of GDP over this decade than under the whole period of the last government, and setting out a clear vision for the future by publishing the first ever National Infrastructure Plan and identifying the UK's top 40 priority investments

UK economy since 2010

1.4 The government's plan has protected the economy at a time of global uncertainty and fiscal vulnerability, and has helped drive the current economic recovery. Fiscal credibility has helped keep UK market interest rates low by historical standards and facilitated an activist monetary policy. The Funding for Lending Scheme (FLS) has had a significant impact since its introduction in July 2012 improving credit conditions for households and businesses, and in November the Treasury and the Bank of England refocused the incentives of the scheme to further support business lending. The Bank of England's Monetary Policy Committee (MPC) has issued forward guidance to enhance the effectiveness of their policy instruments in response to the government's update to their remit. The government's Help to Buy scheme has increased access to higher loan to value mortgages, allowing credit worthy borrowers who can afford the monthly repayments but are not able to build up large deposits to buy their own home.

1.5 The UK economy has gained momentum through 2013 and GDP growth has exceeded forecasts. UK GDP grew by 0.4% in the first quarter, 0.7% in the second quarter and 0.8% in the third quarter.[2] There are also early signs that GDP growth is balanced across the main sectors of the economy. In the third quarter of 2013, the services sector grew by 0.7%, the construction sector by 1.7% and the manufacturing sector by 0.9%. Reflecting this increased momentum, the Office for Budget Responsibility's (OBR) Autumn Statement 2013 forecast revises up UK GDP growth in 2013 and 2014.

1.6 UK GDP growth has been strong compared to similar advanced economies, and the UK experienced the fastest growth in the G7 during the third quarter of 2013.[3] In the International Monetary Fund's (IMF) latest *World Economic Outlook*, GDP growth forecasts for the UK were revised up by more than any other G7 economy and the UK is now predicted to grow faster than France, Germany and the euro area as a whole in both 2013 and 2014.[4]

1.7 The OBR's October 2013 *Forecast evaluation report* (FER) showed that business investment has been the largest driver of the shortfall in real GDP compared to the June Budget 2010 forecast.[5] Table 1.1 shows net trade as the second largest driver of the shortfall and private consumption as the third largest. The OBR suggest a number of possible explanations for the shortfall of private investment compared to forecast including that uncertainty may have made firms more wary of engaging in larger investment projects.

1.8 When looking to explain the shortfall between forecast real GDP growth and outturn data, the OBR repeats its previous conclusion that "*while it is clearly possible that fiscal policy has slowed the growth of the economy by more than was assumed in the June 2010 forecast, this does not look the most obvious explanation for the bulk of the shortfall*". In the 2012 FER the OBR saw unexpectedly high inflation, weak demand for exports and the impact of tight credit conditions on investment as the main drags on growth compared to the June Budget 2010 forecast. This remains broadly the case, though the OBR now sees weak profitability in the corporate sector as having been an added drag on investment.

[2] All UK economy data from the Office for National Statistics (ONS) unless otherwise stated.
[3] 'Quarterly National Accounts', Organisation for Economic Co-operation and Development (OECD), December 2013.
[4] 'World Economic Outlook', International Monetary Fund (IMF), October 2013.
[5] 'Forecast evaluation report', OBR, October 2013.

Table 1.1: Contributions to real GDP growth from 2010Q1 to 2013Q3[1]

	Percentage points						
	Private consumption	Business investment	Residential investment	Total government	Net trade	Stocks	GDP
June Budget 2010 forecast	3.7	3.4	1.2	-2.3	2.8	0.8	9.6
Latest data	2.7	-0.8	0.7	0.3	-0.2	1.4	4.0
Difference[2]	-1.0	-4.2	-0.5	2.6	-3.0	0.6	-5.6

[1] *Components may not sum to total due to rounding and the statistical discrepancy.*

[2] *Difference in unrounded numbers, rounded to one decimal place.*

Source: Office for Budget Responsibility and HM Treasury.

1.9 The factors which weighed on UK growth between 2010 and 2012 are abating. The effect of the financial crisis is easing and credit conditions have improved. The euro area sovereign debt crisis has stabilised, and the euro area grew in the second and third quarters of 2013, though activity remains subdued.[6] Pressure from commodity price rises has eased, with prices generally stabilising through 2013, though they remain high. However, external risks remain, reinforcing the case for stability in the government's long-term economic plan.

1.10 The Chancellor of the Exchequer said in June that "*a steady rise in bond yields across the largest developed countries will be a sign of confidence returning*".[7] UK gilt yields have risen in recent months reflecting the improved UK economic outlook and the Governor of the Bank of England has stated "*these movements have been reinforced by growing expectations of recovery … a rise in the yields on long term bonds is consistent with our commitment to price stability and supporting the recovery*."[8]

UK rebalancing

Business investment, trade and sectoral growth

1.11 Businesses have rebuilt their balance sheets following the financial crisis. The cash and currency deposits held by private non-financial UK companies have risen by over 25% between the pre-crisis GDP peak in the first quarter of 2008 and the second quarter of 2013. In November the Chief Secretary to the Treasury said "*if businesses start to invest that money, it would make a huge difference to our economy*".[9] The OBR expects the improved economic outlook to support business investment and states that *"as productivity growth picks up and uncertainty about demand recedes, we expect business investment to gather pace*".[10]

1.12 The most recent data point shows business investment starting to expand after a period of weakness, consistent with the falling levels of uncertainty and rising investment intentions indicated in business surveys. The OBR forecast shows business investment growth strengthening further and business investment increases as a share of GDP over the forecast period, contributing to a rebalancing of the economy away from the government sector. UK exporters have continued to rebalance through 2013 and goods exports to non-EU countries have risen by around 30% since 2010.

1.13 The services sector accounts for 78% of the UK economy and following growth of 0.7% in the third quarter of 2013, output is now above its pre-crisis peak. Until 2013 the recovery in the manufacturing and construction sectors had been more subdued. However, activity in these

[6] 'Quarterly National Accounts', OECD.

[7] Speech to Lord Mayor's dinner for bankers and merchants of the City of London, Mansion House, RT Hon George Osborne MP, Chancellor of the Exchequer, June 2013.

[8] Speech, 'Crossing the threshold to recovery', Mark Carney, Governor of the Bank of England, delivered to the CBI East Midlands, Derbyshire and Nottinghamshire Chamber of Commerce and Institute of Directors at the East Midlands Conference Centre, August 2013.

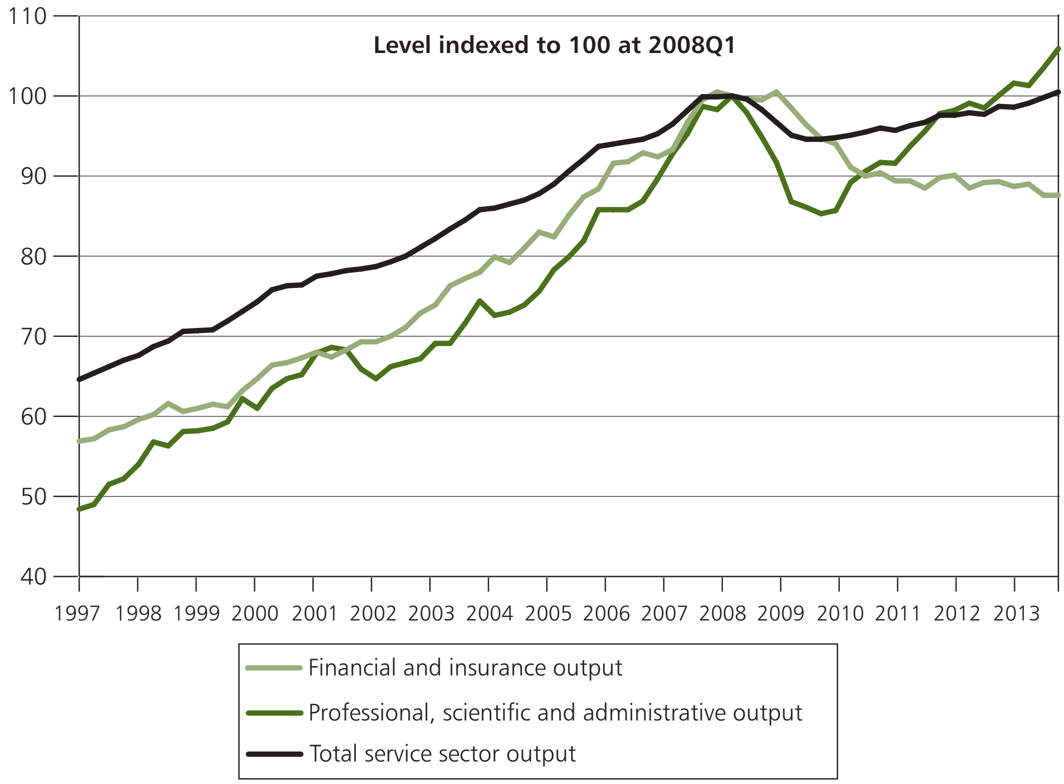
[9] Speech, 'Recovery', RT Hon Danny Alexander MP, Chief Secretary to the Treasury delivered at the Lloyds Business Summit on Investment. 11 November 2013.

[10] 'Economic and fiscal outlook', OBR, December 2013.

sectors has also picked up recently, and since the start of the year manufacturing has grown 1.7% and construction has grown 3.6%.

1.14 Rebalancing is also evident within sectors. The services sector is very diverse, consisting of many activities, and there has been a rebalancing across these activities since the financial crisis. For example, since the trough in UK GDP in the third quarter of 2009, financial and insurance services output has fallen 8%. By contrast, over the same period output in professional, scientific and administrative activities has grown 24%. This pattern is mirrored in the export of services excluding finance and insurance, where the trade surplus has doubled as a share of GDP over the last 4 years. This contributes to a total current UK services trade surplus of 5% of GDP.

Chart 1.1: Rebalancing within the services sector



Source: Office for National Statistics and HM Treasury.

Labour market

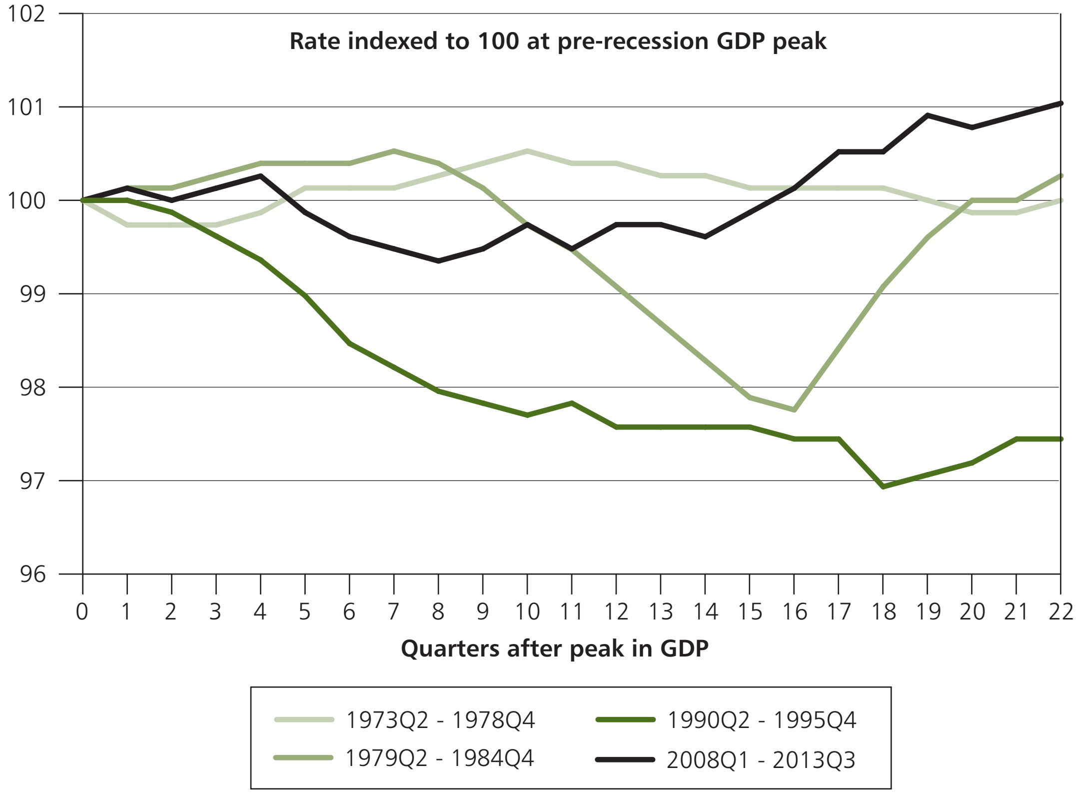
1.15 The UK has seen a net increase of over 1.4 million jobs in the private sector since the first quarter of 2010 and over 3 jobs have been created in the private sector for every public sector job lost.[11] All regions of the UK have seen an increase in employment since the 3 months to April 2010. Employment in the 3 months to September 2013 is 381,000 above the pre-crisis peak and at its highest ever level. The employment rate in the UK is higher than in the US, France and Italy. In the last year, employment in the UK has grown faster than in France, Italy, Japan and the averages for the EU and G7 countries. The UK unemployment rate is now at its lowest point for over 4 years, at 7.6% in the 3 months to September.

1.16 Over the same period, the number of people inactive in the labour market fell to its lowest share of the working-age population since 1991. This is in contrast to previous UK recessions and also the current experience of the US where the labour market activity rate has fallen markedly. For example, if there were fewer people actively seeking work, so that the labour force

[11] 'Labour Market Statistics', ONS, November 2013. The net increase in private sector jobs since the first quarter of 2010 excludes the impact of the reclassification from June 2012 of 196,000 employees in some educational bodies from the public to the private sector.

in the UK had grown at the same rate as in the US since the start of 2010, then, given current employment, the unemployment rate in the UK would instead be just 5.5%.

Chart 1.2: Proportion of the working-age population who are economically active (aged 16 to 64)

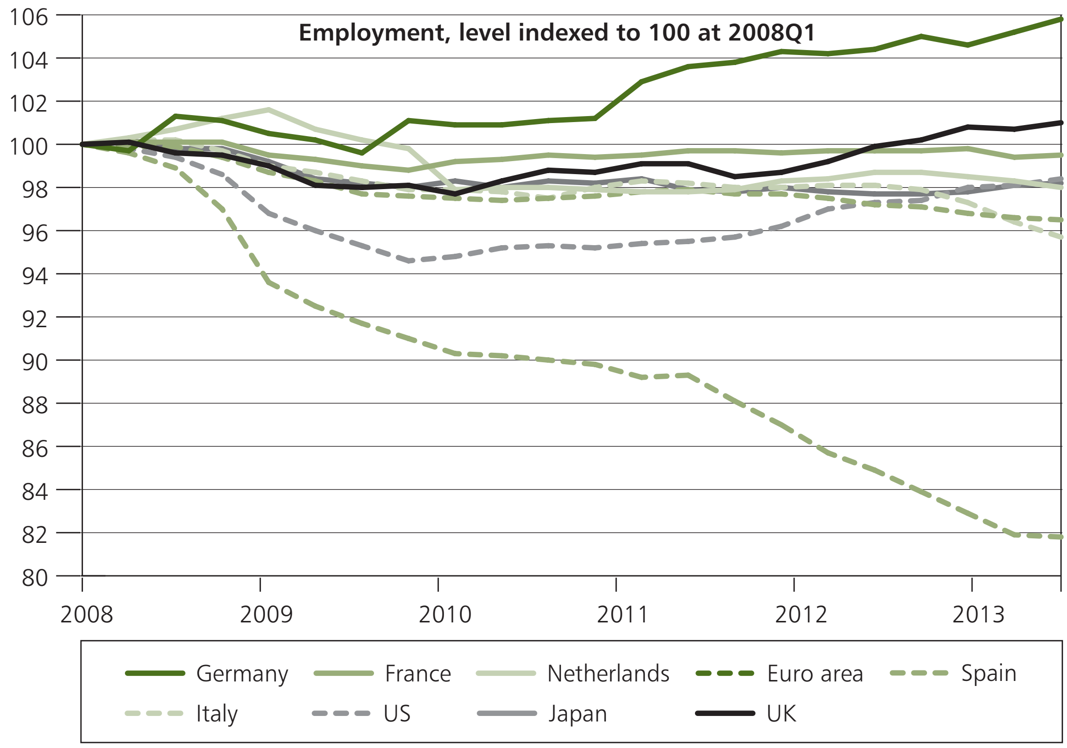


Source: Office for National Statistics and HM Treasury.

1.17 The performance of the UK labour market compares favourably internationally. In August 2013 the unemployment rate in the UK was 3.4 percentage points lower than the average for EU countries and more than 4.6 percentage points lower than the average for euro area countries.[12]

[12] 'Short-Term Labour Market Statistics', OECD.

Chart 1.3: International comparison of employment since the financial crisis



Source: OECD and HM Treasury.

Earnings and incomes

Earnings

1.18 The OBR forecast growth in productivity to pick up to 2.0% in 2015 from 1.6% in 2014. In order to understand the significance of this, it is important to examine the longer-term relationship between productivity and living standards.

1.19 It has recently been suggested that the UK has seen wage growth fall behind productivity growth. Some analysts have pointed to the much faster growth of output per worker than real earnings, starting in the early 2000s.

1.20 However, the most complete cost of staff to employers is total compensation, and it is this measure which should follow movements in productivity. In addition to real earnings, total compensation includes employer social contributions such as pensions, which employers pay on behalf of employees.

1.21 Chart 1.4 shows that earnings did indeed start to fall behind in the early 2000s, but there has not been a break in the long run relationship between productivity and compensation.[13] This view is supported by external research. Analysis by João Paulo Pessoa and John Van Reenen concludes that they "*find no evidence of net decoupling in the UK over the 1972-2010 period as a whole*."[14]

[13] Both real compensation and real wages and salaries are calculated using the GVA deflator, since this is the best measure of the costs faced by employers. Real earnings are calculated using CPI. The difference between real wages and salaries here and 'real earnings' above is therefore a result of both social contributions and the difference between CPI and the GVA deflator.
[14] 'Decoupling of Wage Growth and Productivity Growth? Myth and Reality', João Paulo Pessoa and John Van Reenen, Centre for Economic Performance London School of Economics, January 2012.

1.22 Since the early 2000s, employer social contributions have increased, reducing the share of total employee compensation accounted for by earnings alone and driving a bigger wedge between the growth in compensation and the growth in earnings. The proportion of compensation that went to these non-wage benefits increased from 13.0% in 2000 to 17.3% in 2010. Chart 1.5 shows this has been primarily driven by increasing pension contributions and employer National Insurance Contributions (NICs). Between 2000 and 2010 these costs increased by over 50% in real terms.

1.23 Increased pension contributions were driven partly by policy and regulatory changes to ensure that occupational pension schemes are adequately funded, thereby increasing contributions.

1.24 Other factors have also driven up pension contributions. These include increases in longevity for both current and future pensioners, which were particularly significant throughout the 1990s and 2000s, the abolition of the dividend tax credit for pension funds and the closure of some private sector defined benefit schemes to new members. The last of these factors caused immediate costs to employers to increase because new employees no longer contributed to these schemes. In parallel, the steady fall in global bond yields drove down the return on pension assets, which forced employers to increase their contributions.

1.25 The increase in employer NICs since 2000 has been driven by a range of factors. Increases to the employer NICs threshold did not keep pace with average wage growth, adding to employers' NICs bills. And the rate increased from 11.8% to 12.8% in 2003-04. As announced in Pre-Budget Report 2008 and Pre-Budget Report 2009, the rate increased to 13.8% in 2011-12. This government is taking significant steps to reduce the burden of employer NICs. The employer NICs threshold was increased by nearly £1,100 above inflation in 2011-12, a £2,000 Employment Allowance will be introduced from April 2014, and employer NICs will be abolished for under-21s earning under £813 per week from April 2015.

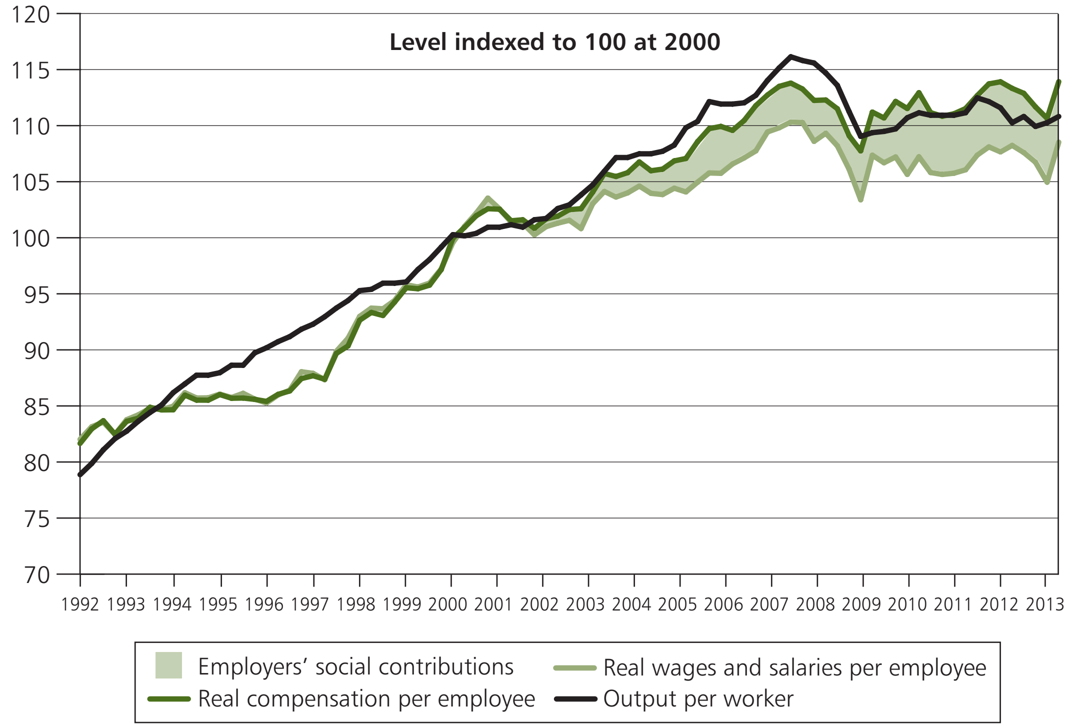
1.26 Compensation fell sharply in the recession. Furthermore, a succession of temporary price-level shocks drove up consumer prices index (CPI) inflation from 2008 and exerted additional pressure on real earnings. As explained in open letters from the Governor of the Bank of England to the Chancellor of the Exchequer, those shocks included supply-side shocks to the prices of oil and other commodities and the impact of sterling depreciation on import prices.[15] As the impact of those shocks has waned, CPI inflation has fallen back. In October, CPI inflation slowed to 2.2%, less than half its peak of 5.2% in September 2011. The MPC judged in the November 2013 *Inflation Report* that it is set to remain around the 2% target over the next year or so.

1.27 Looking forward, the only way to achieve a sustained rise in living standards is by growing the economy. The MPC's November Inflation Report reiterates the link between wages and productivity, and the Governor of the Bank of England has stated that "*ultimately the growth in real wages is going to be determined by recovery in productivity in this economy*."[16] As the OBR's *Economic and fiscal outlook* sets out, *"productivity growth is the only sustainable source of real income growth in the long term*".[17]

1.28 The OBR's forecast suggests that the share of total employee compensation accounted for by wages will stay approximately flat over the forecast period. This suggests that increases in productivity will feed through to higher earnings, though there may be some increase to pension contributions from auto-enrolment. The OBR forecast that productivity will rise, and that real earnings growth will follow.

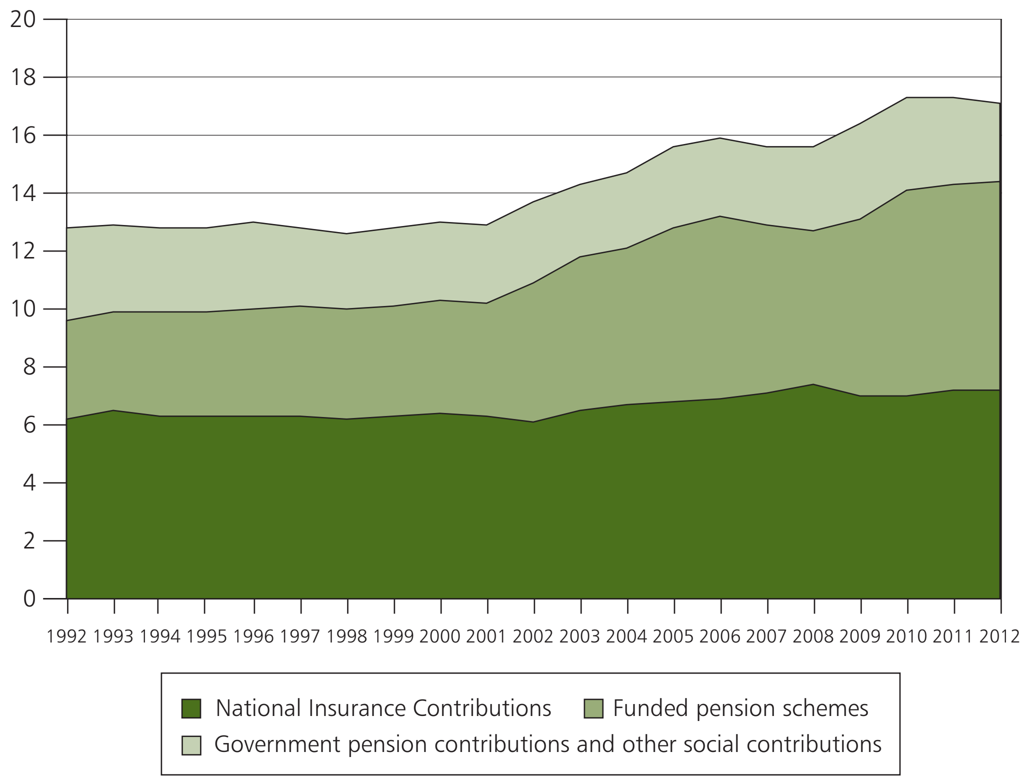
[15] Open letter to the Chancellor from the Governor of the Bank of England, Mervyn King, February 2011.
[16] 'November Inflation Report 2013' press conference, Mark Carney, Governor of the Bank of England, November 2013.
[17] 'Economic and fiscal outlook', OBR, December 2013.

Chart 1.4: Productivity and real employee compensation



Source: Office for National Statistics and HM Treasury.

Chart 1.5: Employers' social contributions as a share of total compensation of employees (%)



Source: Office for National Statistics and HM Treasury.

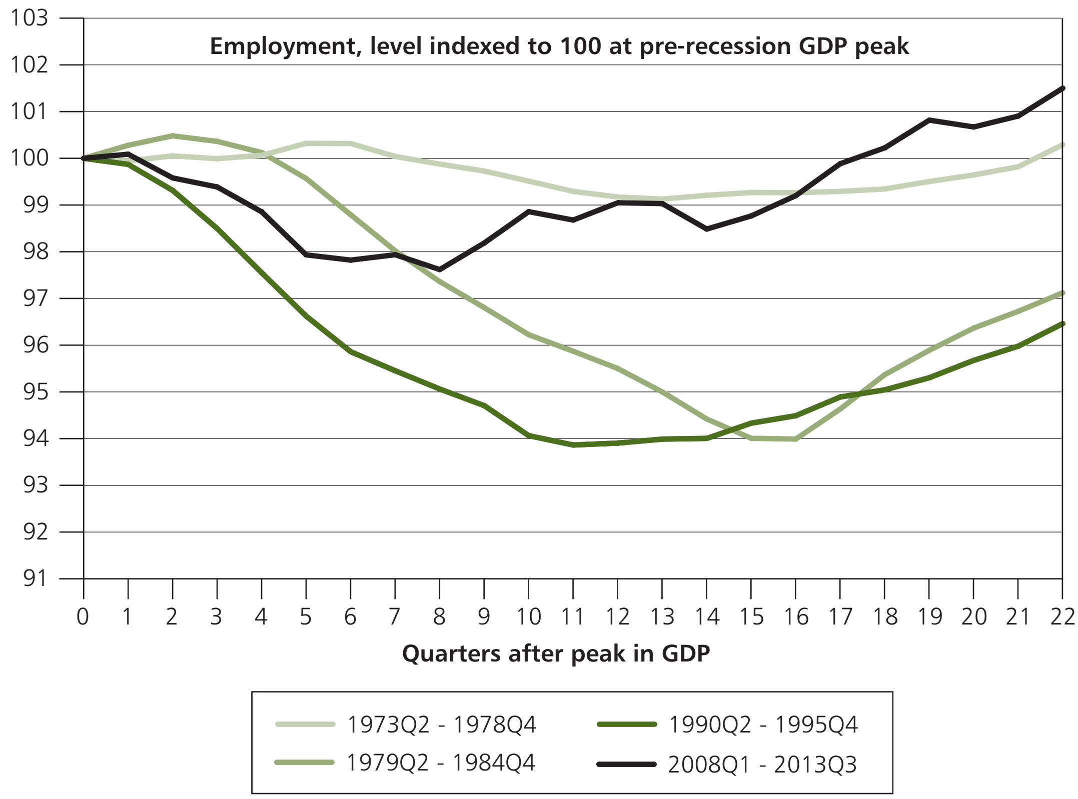
Incomes

1.29 However, real earnings alone do not provide a complete picture of the effect of the financial crisis on living standards, since they do not take into account other sources of income or the effect of tax and benefits. Real household disposable incomes take these into account, as well as changes in employment levels.

1.30 Total household incomes rose by 3.9% between the pre-crisis peak in the first quarter of 2008 and the second quarter of 2013, despite real GDP falling 3.3%.

1.31 Strength in real household disposable income has been the result of 2 key factors. First, the resilience of the UK labour market, which, as set out above, has continued to perform better than forecast. Chart 1.6 shows that employment has also performed more strongly than through previous recessions and recoveries.

Chart 1.6: Employment levels through recessions and recoveries



Source: Office for National Statistics and HM Treasury.

1.32 The second factor which has supported real household disposable income is government policy. The income tax personal allowance will reach £10,000 in April 2014. By then, successive above-inflation increases since 2010 will have benefitted over 25 million individuals and will have saved the typical basic rate taxpayer over £700 per year. Government action on fuel duty since 2011 has already kept petrol prices 13 pence per litre (ppl) lower than they would have been otherwise, saving a typical motorist £7 each time they fill their tank. In 2014-15, the combination of these policies on fuel duty and the personal allowance will deliver a total of over £13 billion of support to households' incomes. The government's economic strategy has helped keep interest rates low, reducing mortgage costs for home owners; if mortgage interest rates rose by 1%, this would increase average mortgage bills by around £1,000 a year.[18]

1.33 The OBR forecasts real household disposable income to grow by 1.1% in 2014 and accelerate thereafter, reaching annual growth of 2.6% by 2018.

[18] HM Treasury calculation based on Council of Mortgage Lenders and ONS data.

1.34 The government has introduced an ambitious programme of supply-side reform and tax measures to support rebalancing, help businesses to invest, grow and create jobs. This is the only way to achieve a sustained rise in living standards. The following sections of the document set out further policies to support economic growth and living standards.

Housing

1.35 Activity in the housing market has picked up in recent months. To a large extent, the recent increase in national house price indices is driven by movements in London, where prices grew 9.4% in the year to September. But the market nationwide remains more subdued, and outside London and the South East, prices grew by an average of 1.4% over the same period. Real house prices are 16.7% below their pre-crisis peak, and by 2018-19 the OBR forecast house prices will still be around 3.5% below their pre-crisis peak in real terms.

1.36 Following the financial crisis, the government has taken steps to ensure that there is a responsible recovery in the housing market. The government has addressed a key shortcoming in the previous system of financial regulation by creating an independent Financial Policy Committee (FPC) within the Bank of England. The FPC is tasked with monitoring the financial system as a whole and taking action to address emerging risks and vulnerabilities. The government has provided the FPC with the mandate and the tools to ensure that the mistakes of the past are not repeated.

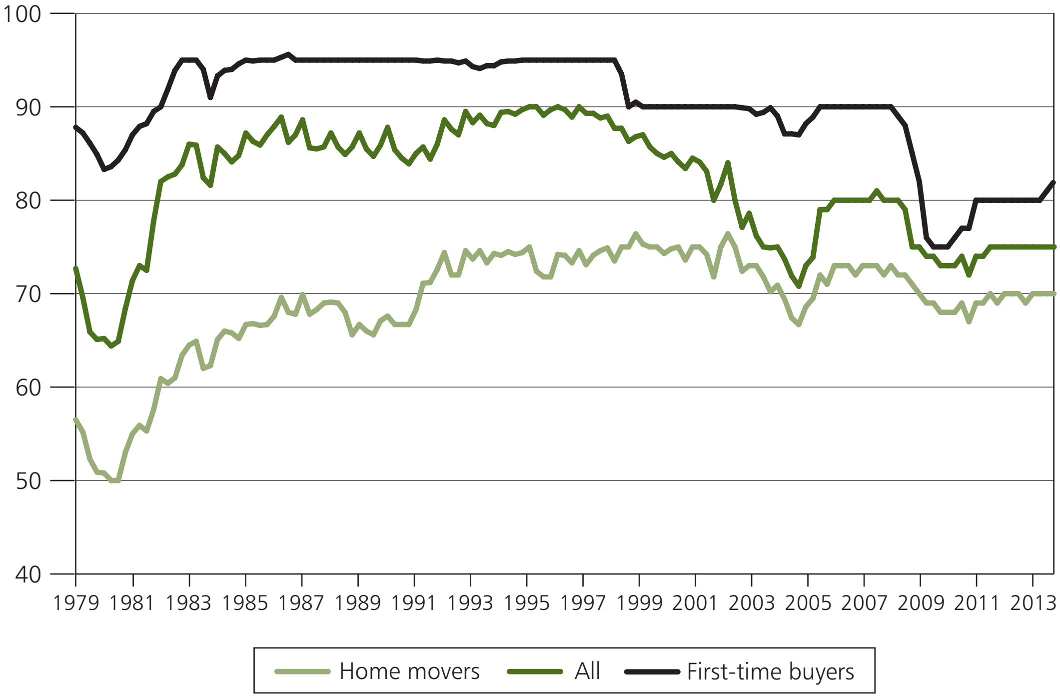
1.37 The number of mortgage approvals remains low by historic standards. The third quarter of 2013 saw 192,000 mortgage approvals, three quarters of the long-run average.[19] However, there are signs that the UK housing market has started to normalise. Mortgage rates are at their lowest in 5 years, and mortgage products for lower loan-to-value (LTV) mortgages are widely available.[20] This reflects, in part, the success that the FLS has had on household credit conditions. In light of these developments, the Bank of England and HM Treasury have announced changes to the terms of the FLS to provide continued substantial support for lending to businesses in 2014, with incentives in the scheme skewed heavily towards lending to small and medium-sized enterprises (SMEs), without adding further broad support to household lending at a time when that is no longer necessary.

1.38 A combination of low interest rates and some improvement in house price affordability means that mortgage costs are close to historic lows. Mortgage repayments average 27% of household disposable income, compared with almost 50% in 2007 and a long-term average of 36%.[21] Mortgage interest rates would need to rise by almost 4 percentage points for interest payments to reach the same proportion of income as in 2007.[22]

1.39 However, although household lending and the housing market are recovering, the lack of availability of higher LTV mortgages remains a significant barrier to first time buyers and those without a large deposit. The Help to Buy scheme, announced at Budget 2013, is a targeted, temporary measure designed to address the shortage of higher LTV mortgages and will continue to perform this vital function until the scheme ends in 3 years' time. The median first time buyer LTV ratio was around 95% for most of the 1980s and 1990s, and only dropped below 90% during 2 of the years over the quarter of a century before 2007.[23] Currently, the median first time buyer LTV is around 80%.

[19] Based on the number of loan approvals for house purchase. 'Money and Credit', Bank of England, 31 October 2013. Long run average is the quarterly average from 1988 Q1 to 2013 Q3.
[20] 'Quoted Rates – October 2013', Bank of England, November 2013.
[21] 'Halifax Mortgage Affordability', Lloyds Banking Group plc., November 2013.
[22] HM Treasury calculations based on Bank of England and ONS data.
[23] Council of Mortgage Lenders, www.cml.org.uk.

Chart 1.7: Median loan-to-value ratio (%)



Source: Council of Mortgage Lenders.

1.40 Borrowers are already benefiting from the Help to Buy: mortgage guarantee scheme and are applying for loans that will be supported by the guarantee. In the month since the scheme rules were published, banks have received applications from across the country, with more than three quarters coming from outside London and the South East. On average, households have asked to borrow around £155,000 for houses worth about £163,000, which is below the UK average price of £245,000.[24]

1.41 Strong safeguards have been built into the scheme to ensure responsible lending, and a robust monitoring framework will be in place to enforce this. The Chancellor has asked the Bank of England's FPC to assess the ongoing impact of the Help to Buy: mortgage guarantee scheme. In particular, the Chancellor has proposed that the FPC advise him on whether key parameters of the Help to Buy: mortgage guarantee scheme (the price cap and the fees charged to lenders) remain appropriate.

1.42 There are signs that the housing market recovery is prompting a supply response. Output in the construction sector grew by 1.7% in the third quarter of 2013, driven by public and private housing. Total housing starts increased 16% year on year in the third quarter of 2013.[25] In the second quarter of 2013, more than 8 out of 10 of all major residential planning applications were approved.[26] The number of residential units approved in England was 35% higher in the year to September 2013 compared with the previous year.[27] The government's Help to Buy package will help generate new supply, with over 18,000 reservations for new homes since the launch of the Help to Buy: equity loan in April 2013. Barratt Homes, one of the UK's largest house builders, has said *"it's likely that our completions this year will be up 20%*

[24] 'Help to Buy puts new generation of home owners on housing ladder' (press release), HM Treasury, November 2013.
[25] 'House Building: September Quarter 2013, England', DCLG, November 2013.
[26] 'Planning Applications: April to June 2013 England', DCLG, September 2013.
[27] 'Housing Pipeline Report' Home Builders Federation, December 2013.

on 2 years ago".[28] The OBR's *Economic and fiscal outlook* states that "*The equity loan element of Help to Buy – worth up to 20 per cent of the value of a new build property – will encourage building, as will more transactions and rising house prices*."[29]

1.43 It is clear that continued strong growth in house building will be needed in the years to come to meet housing needs and ensure market stability. The OBR EFO notes "*the weakness of housing supply*" and the "*slow response of supply to price signals – which many researchers argue is related to rigidities in the planning system*".[30] The government is taking action to address these supply side constraints, addressing delays at every stage of the planning process, incentivising improved performance and reducing costs for developers. Autumn Statement 2013 announces that the government will also issue £1 billion in loans to unblock large housing developments and give local authorities additional flexibility through the Housing Revenue Account (HRA) to support new affordable housing.

Global developments and risks

1.44 Budget 2013 highlighted 3 key global risks: the euro area sovereign debt crisis, the US 'fiscal cliff', and slowing growth in emerging markets. A more complex global picture has emerged over 2013, with an easing of some tail risks, particularly in the euro area. But political and economic risks remain, for example US fiscal risks and further slowdowns in several major emerging markets. In addition, the possibility that the US Federal Reserve will slow the rate of monetary policy asset purchases has triggered significant movements in global capital flows.

1.45 The euro area is a key market for UK exporters, accounting for 39% of UK exports in 2012. The euro area economy grew in the second and third quarters of 2013. This followed an improvement in financial market conditions throughout 2013, as policy decisions such as the ongoing effect of the European Central Bank's announcement of Outright Monetary Transactions, alongside a gradual process of macroeconomic rebalancing in the key vulnerable countries, have lessened risks. Despite this improving economic outlook, activity across the euro area remains subdued.

1.46 The US, which accounted for 17% of UK exports in 2012, is forecast by the IMF to have growth strengthening in 2014, despite the impact of the March 2013 sequester (automatic spending cuts). The US fiscal and economic outlook in 2014 is dependent on the progress of further budget and fiscal negotiations scheduled for the first half of the year. The US Federal Reserve may also begin to slow the pace of asset purchases in the coming months, but the exact timing is dependent on the underlying US economic outlook and fiscal negotiations.

1.47 The major emerging markets (China, India, Russia and Brazil) taken together accounted for 7% of UK exports in 2012. Growth in emerging markets has disappointed during 2013. In addition, many emerging markets experienced significant capital outflows and currency depreciations in mid 2013, following expectations for the US Federal Reserve to begin slowing the pace of asset purchases. This particularly affected emerging market countries with marked current account deficits. Nonetheless, the IMF forecast that growth in emerging market and developing economies will rise from 4.5% in 2013 to 5.1% in 2014.[31] This is helped by growth in China which has stabilised, below 8% but above the government's target of 7.5%, after a slowdown in the first half of 2013.[32]

1.48 Further to these international risks, oil prices this year peaked in August at $117 per barrel in response to instability in the Middle East. However, prices have since fallen back, and at

[28] Mark Clare, Chief Executive, Barratt Developments in 'Help to Buy Equity Loan Scheme Gets Off to 'Flying' Start', Home Builders Federation, June 2013.
[29] 'Economic and fiscal outlook', OBR, December 2013.
[30] 'Economic and fiscal outlook', OBR, December 2013.
[31] 'World Economic Outlook', IMF, October 2013.
[32] 'OECD key tables, No. 14', OECD.

around $108 per barrel, the 2013 average has been slightly down compared with recent years.[33] The pressures created by rising prices between 2009 and 2011 have largely worked through the system. Nevertheless, risks remain, and a significant commodity price shock has the potential to destabilise the UK recovery.

Summary of economic forecast

Table 1.2: Summary of the OBR's central economic forecast[1]

	Percentage change on a year earlier, unless otherwise stated						
		Forecast					
	2012	2013	2014	2015	2016	2017	2018
GDP growth	**0.1**	**1.4**	**2.4**	**2.2**	**2.6**	**2.7**	**2.7**
Main components of GDP							
Household consumption[2]	1.2	1.9	1.9	1.7	2.4	2.8	2.8
General government consumption	1.7	0.7	0.4	-0.5	-1.0	-1.8	-1.1
Fixed investment	0.9	-2.5	6.7	7.9	8.2	8.0	7.0
Business	2.6	-5.5	5.1	8.6	8.7	8.9	7.9
General government[3]	4.6	-6.9	7.3	1.2	2.1	0.5	-1.1
Private dwellings[3]	-2.5	6.1	9.7	10.0	10.0	9.7	8.4
Change in inventories[4]	-0.3	0.4	0.2	0.0	0.0	0.0	0.0
Net trade[4]	-0.7	-0.2	0.0	0.1	0.0	0.0	-0.1
CPI inflation	**2.8**	**2.6**	**2.3**	**2.1**	**2.0**	**2.0**	**2.0**
Employment (millions)	**29.5**	**29.9**	**30.2**	**30.4**	**30.7**	**30.9**	**31.2**

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

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

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

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

Source: Office for Budget Responsibility.

1.49 Reflecting increasing momentum through 2013 the OBR has revised up its forecast for GDP growth in 2013 from 0.6% to 1.4%, the largest in-year upward revision since 1999. Its forecast for GDP growth in 2014 has been revised up from 1.8% to 2.4%. The OBR has forecast GDP growth of 2.2% in 2015, 2.6% in 2016, 2.7% in 2017 and 2.7% in 2018. Relative to the March forecast the OBR has revised cumulative real GDP growth from the end of 2012 to the start of 2018 up by 1.4 percentage points.[34]

1.50 The OBR predict business investment to fall by 5.5% in 2013 reflecting lower than expected data since the Budget forecast, but then expect "*strong growth in business and residential investment for a sustained period*", with business investment growth of 7.9% in 2018.[35]

1.51 The OBR predicts a smaller output gap across the forecast period compared to its Budget 2013 forecast. The estimated output gap is almost closed by 2018 at -0.2% of potential output. This suggests that the OBR expect the UK economy to be operating at almost full capacity by this point. This narrowing of the output gap means the upward revision in real GDP growth is cyclical rather than structural, reducing the amount of spare capacity in the economy.

1.52 The OBR has revised up its forecast for employment across the forecast period and expects employment to reach 31.2 million by 2018. It has revised down its unemployment rate forecast by 0.3 percentage points to 7.6% in 2013 and by 0.8 percentage points by the end of the

[33] Thomson Reuters. Brent front month future closing price 28 August 2013 and 1 January 2013 to December 2013 mean closing price.
[34] 'Economic and fiscal outlook', OBR, December 2013.
[35] 'Economic and fiscal outlook', OBR, December 2013.

forecast period to 5.6% in 2018. The OBR expects total market sector employment to rise by 3.1 million between the start of 2011 and the start of 2019, more than offsetting the fall in general government employment of 1.1 million.

1.53 The OBR expects growth in average earnings to pick up through the forecast period rising from 1.5% in 2013 to 3.8% in 2018. It expects average earnings to grow faster than inflation from 2014. The OBR has revised up its forecast for growth in real household disposable income in all years of the forecast period, except for a small downward revision in 2015. It expects growth in real household disposable income to rise through the forecast period from 0.5% in 2013 to 2.6% in 2018.

1.54 The OBR expects the rate of inflation to slow between 2013 and 2016, returning to the 2.0% target in the second half of 2016. This does not include the possible impact of reforms announced in Autumn Statement 2013 that will result in an average saving of £50 in household bills by reducing the impact of government policies on energy bills. The OBR state in its *Economic and fiscal outlook* that "*inflation expectations are assumed to remain anchored to the target*."[36]

The government's plan

1.55 The government's plan has ensured economic stability and provided the foundations for the recovery which is now gaining further momentum. The government continues to take decisive action through:

- monetary activism and credit easing, stimulating demand, maintaining price stability and supporting the flow of credit in the economy
- deficit reduction, returning the public finances to a sustainable position and ensuring that sound public finances and fiscal credibility underpin low long-term interest rates
- reform of the financial system, improving the regulatory framework to reduce risks to the taxpayer and build the resilience of the system
- a comprehensive package of structural reforms, rebalancing and strengthening the economy for the future, including an ambitious housing package and programme of infrastructure investment

1.56 Autumn Statement 2013 sets out a fiscally neutral response to the improved economic and fiscal outlook. This reinforces the government's commitment to its deficit reduction plan and to returning the public finances to a sustainable position.

Monetary activism

Monetary policy

1.57 Monetary policy has a critical role to play in supporting the economy as the government delivers on its commitment for necessary fiscal consolidation. The government has ensured that monetary policy can continue to play that role fully by updating the UK's monetary policy framework and remit for the MPC at Budget 2013.

1.58 As part of the remit update, the government clarified that the MPC may judge it appropriate to deploy explicit forward guidance, including intermediate thresholds, in order to influence expectations and thereby meet its objectives more effectively. The government highlighted that this would likely be most pertinent should the MPC judge spare capacity is likely to persist for a considerable period.

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[36] 'Economic and fiscal outlook', OBR, December 2013.

1.59 The MPC responded with a detailed assessment, *Monetary policy trade-offs and forward guidance*, on 7 August 2013.[37] Based on this assessment, the Committee announced its intention to maintain its policy stance of Bank Rate at a record low of 0.5% and not to reduce the stock of asset purchases financed by the issuance of central bank reserves from £375 billion at least until the Labour Force Survey (LFS) headline measure of the unemployment rate had fallen to a 'threshold' of 7%, subject to there being no risks to price or financial stability.

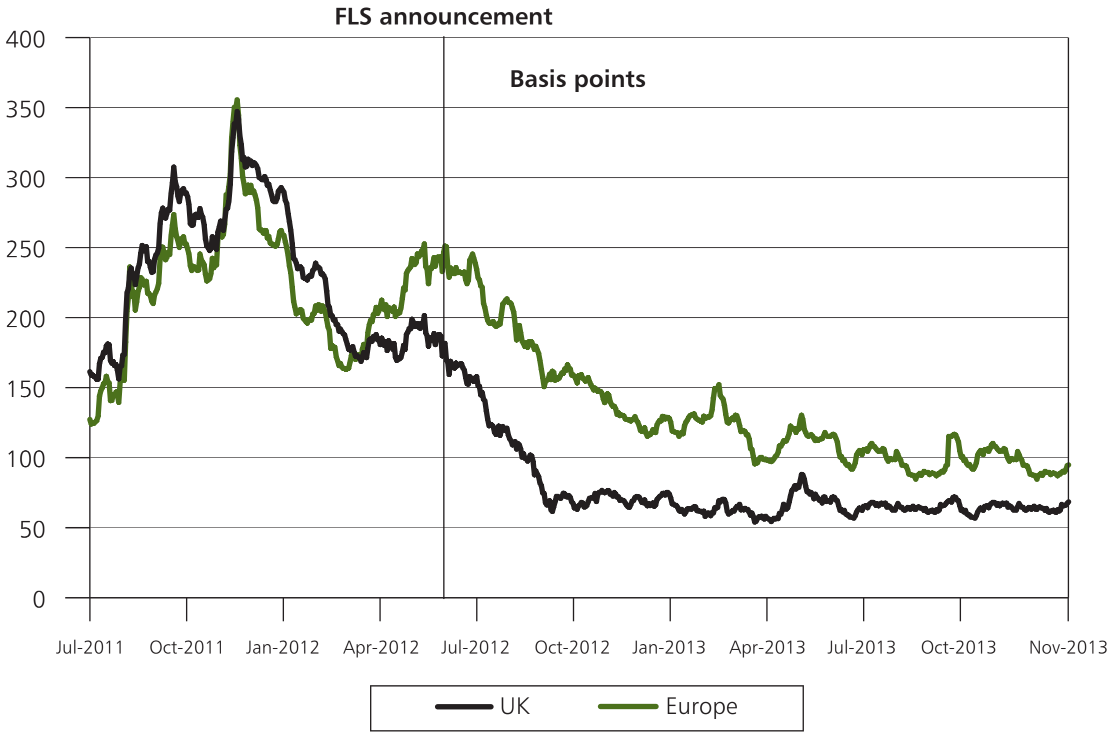
1.60 Monetary policy therefore remains supportive of the recovery and forward guidance has enhanced the effectiveness of the MPC's instruments.

1.61 As the minutes of the MPC's October 2013 meeting stated, "*The news on the month had continued to suggest a robust recovery in activity in the United Kingdom. Monetary stimulus remained considerable and confidence appeared to be rising*".

Credit easing

1.62 The FLS has had a significant impact since its introduction in July 2012. Since its launch, the FLS has contributed to a substantial fall in bank funding costs. Chart 1.8 shows wholesale funding costs have declined significantly as a result of the FLS and wider international developments and remain at post-crisis lows. This is feeding through to the wider economy. Overall lending by FLS participants has now started to increase, over the last 2 quarters net lending increased by £1.6 billion and £5.8 billion respectively.[38]

Chart 1.8: Indicative senior unsecured bond spreads[1]



[1] The data shows an unweighted average of the spread between euro-denominated senior unsecured bonds and equivalent-maturity swap rates for a selected bond issued by each of a selection of large banks in the region. The selected bonds have residual maturities of between 2 and 6 years.
Source: Bank of England.

1.63 There are signs that the UK housing market has started to normalise. This reflects, in part, the success that the FLS has had in improving household credit conditions. The Federation of Small Businesses reports that more smaller businesses are being offered cheaper loan rates and

[37] 'Monetary policy trade-offs and forward guidance', Bank of England, August 2013.
[38] Bank of England quarterly usage and lending data release.

lenders report an increase in availability and demand for credit from businesses across all firm sizes.[39] While credit conditions for smaller businesses have improved, they have improved to a lesser extent than household credit conditions, and lending to businesses overall remains muted. The Bank of England and HM Treasury therefore announced on 28 November 2013 changes to the terms of the FLS extension to refocus the incentives in the scheme to provide continued substantial support for lending to businesses in 2014, with incentives in the scheme skewed heavily towards lending to SMEs.

1.64 Lending to smaller businesses in 2014 will continue to be encouraged by allowing banks to draw £5 in the scheme for every £1 of net lending to SMEs. The fee for all drawings from the FLS extension will be set at 25 basis points, which is the lowest point of the previous fee scale. Taken together, these features provide certainty over the availability of cheap funding to support smaller business lending in 2014.

Deficit reduction

Fiscal strategy

1.65 The government inherited the largest deficit in post-war history due to the financial crisis of 2008 and 2009 and unsustainable pre-crisis increases in public spending. The historically high level of borrowing risked undermining fairness, growth and economic stability in the UK. In 2010 the government set out clear, credible and specific medium-term fiscal consolidation plans to return the public finances to a sustainable path.

1.66 The government's fiscal strategy has been effective in supporting the economy, with stability in the government's consolidation plans providing protection against a challenging backdrop of global uncertainty and fiscal vulnerabilities. This has restored fiscal credibility, allowing activist monetary policy and the automatic stabilisers to support the economy.

1.67 The OBR now expects the 'underlying deficit' to be £73 billion lower over the forecast period than predicted at Budget 2013. In the OBR's view, this reflects the improvement in the economic outlook since Budget 2013 rather than an improvement in growth potential. As a result, they believe that there has been no improvement relative to the Budget 2013 forecast in the structural deficit, which excludes the effects of the cycle and so better reflects the fiscal position. This supports the government's argument that economic growth alone cannot be relied upon to eliminate the deficit. Reflecting the government's commitment to deficit reduction, Autumn Statement 2013 sets out a fiscally neutral response with the improvement in the fiscal forecast helping to return the public finances to a sustainable position and reduce debt.

1.68 This neutral fiscal judgement reinforces the credibility of the government's consolidation plans and is supported by:

- reducing Whitehall departmental budgets for 2014-15 and 2015-16 by 1.1%, to lock in lower spending
- reforms to strengthen control over spending in the longer term, including the introduction of a new welfare spending cap and the requirement for a vote in the House of Commons if the cap is breached, and more detail on how future reviews of the State Pension age will work in practice
- a review of the current fiscal policy framework to ensure that debt continues to fall as a percentage of GDP, including using surpluses in good years for this purpose, and to enforce the commitment to consolidation in 2016-17 and 2017-8; this review will inform an

[39] 'FSB Voice of Small Business Index', Federation of Small Businesses, September 2013 and 'Credit Conditions Survey', Bank of England, October 2013.

updated *Charter for Budget Responsibility* that will be presented to Parliament alongside Autumn Statement 2014

Implementing fiscal consolidation

1.69 The government remains committed to addressing the permanent structural deterioration in the public finances. The government's consolidation plan has ensured:

- as set out in Table 1.3, around 60% of the planned fiscal consolidation for this Parliament has been achieved, with around 55% of the spending and around 79% of the tax consolidation in place
- by the end of April 2013, the government had implemented measures to deliver over 90% of the total savings expected from reforms to the welfare system and the majority of tax consolidation measures will have been legislated by 6 April 2014[40]
- 80% of the total consolidation in 2015-16 will be delivered by lower spending, in line with the government's commitment at the June Budget 2010, and consolidated remains evenly paced, as set out in Table 1.3.

Table 1.3: Total consolidation plans over this Parliament

	£ billion			
	2012-13	**2013-14**	**2014-15**	**2015-16**
Policy inherited by the government	**40**	**54**	**68**	
Spending[1,2]	25	37	49	
Tax[2]	15	17	20	
Spending share of consolidation (%)	*62*	*69*	*71*	
Total discretionary consolidation	**76**	**90**	**105**	**128**
Spending[1,2,3]	56	65	82	102
Tax[2,3]	21	25	23	26
Spending share of consolidation (%)	*73*	*72*	*78*	*80*

[1] Spending consolidation is attributable to 3 factors: (a) reductions in DEL are calculated by assessing nominal DEL totals against a counterfactual of growing DEL from 2010–11 in line with general inflation in the economy, as set out in Table 4.8 of the OBR's pre-Budget forecast (June 2010); (b) reductions in AME due to the net effect of policy changes announced since the June Budget 2010; and (c) estimated debt interest savings, updated for market interest rates consistent with the OBR's December 2013 Economic and fiscal outlook. This calculation excludes the one-off impact of the 4G spectrum asset sale and financial transactions in CDEL.

[2] This takes account of the latest costings.

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

Source: Office for Budget Responsibility and HM Treasury.

1.70 As a result, the government is making significant progress in reversing the unprecedented rise in borrowing between 2007-08 and 2009-10:

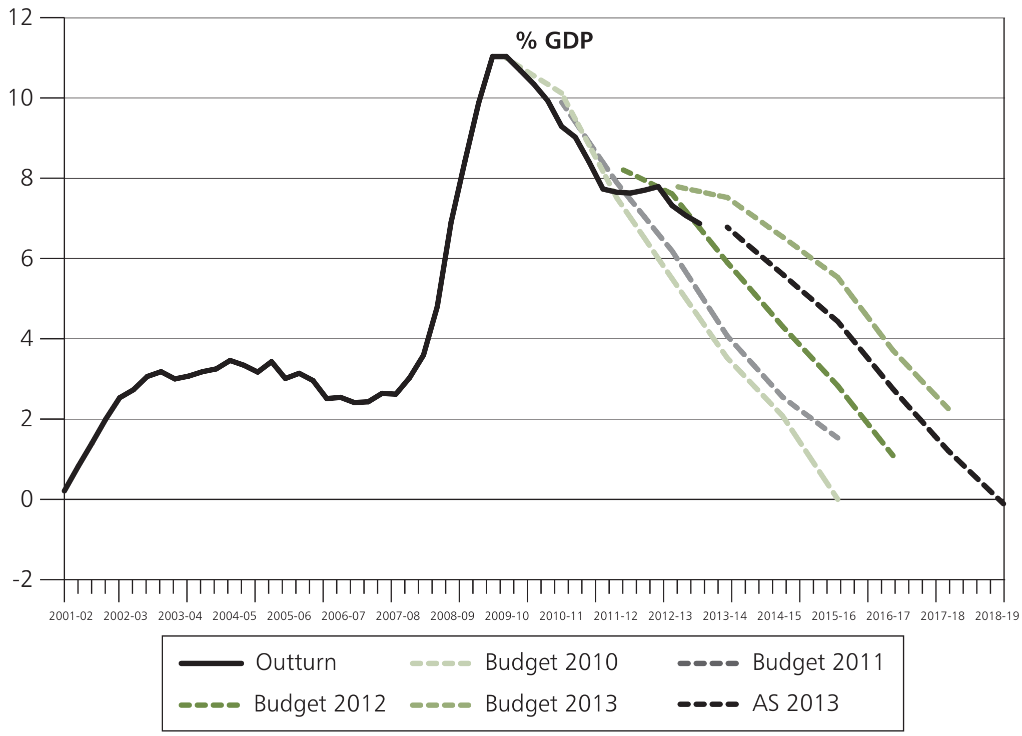
- as set out in Table 1.4, public sector net borrowing as a percentage of GDP had fallen by a third over the 3 years from 2009-10
- public sector net borrowing is forecast to have halved by 2014-15, from 11.0% of GDP in 2009-10 to 4.9% of GDP in 2014-15
- cyclically-adjusted general government net borrowing – an international measure of the deficit that excludes the effects of the cycle – is forecast by the IMF to fall by 4.4% of GDP between 2010 and 2013, which is a larger reduction than any other country in the G7[41]

1.71 As shown in Chart 1.9, public sector net borrowing fell in line with the June Budget 2010 forecast until late 2011. After then progress was delayed by 3 factors weighing on UK growth: unexpectedly high inflation driven by commodity price rises, the impact of the euro

[40] Based on HM Treasury's published costings for welfare policies since 2010.
[41] 'Fiscal Monitor', IMF, October 2013.

area sovereign debt crisis and the ongoing impact of the financial crisis on credit conditions. The government's response was to allow the automatic stabilisers to operate whilst sticking to announced plans and this was reflected in successive OBR forecasts up until Budget 2013. Recent improvement in outturns and the improvement in the Autumn Statement forecast means that public sector net borrowing now falls earlier.

Chart 1.9: Rolling four-quarterly outturn and forecasts of the 'underlying deficit'[1]



[1] Consistent with OBR's underlying public sector net borrowing which excludes the transfers associated with the Royal Mail Pension Plan in 2012-13 and ongoing between the Exchequer and the Bank of England's Asset Purchase Facility.
Source: Office for National Statistics, Office for Budget Responsibilty and HM Treasury.

Spending consolidation in this Parliament

1.72 Public spending control is central to the government's commitment to reduce the deficit. In 2013 the government has:

- delivered a Spending Round which will reduce departmental spending by a further £11.5 billion in 2015-16
- begun departmental efficiency reviews to ensure a continued focus on removing waste and inefficiencies
- commissioned the Financial Management Review, which will report by the end of the year on options for strengthening financial management within government

1.73 The OBR forecasts underspends of £7 billion in 2013-14, reflecting a continued focus on improved spending control and good financial management across departments. **As a downpayment on expected reductions to departmental budgets, Autumn Statement announces the government is reducing the Reserve by £1.1 billion in 2013-14.**

1.74 To lock in lower levels of spending, Autumn Statement 2013 announces a reduction in unprotected Resource Departmental Expenditure Limit (RDEL) budgets of £1.1 billion in 2014-15 and £1 billion in 2015-16. This represents a reduction of 1.1%. Health, schools and Official Development Assistance (ODA) budgets will continue to be protected in line with the policy set out at Spending Round 2013. Local government is excluded from this reduction, to help local authorities to freeze council tax in 2014-15 and 2015-16. HM Revenue and Customs (HMRC) will also be exempt from the reduction to enable HMRC to continue to focus on tackling tax avoidance and evasion.

Fiscal forecast

1.75 As set out in the April 2011 *Charter for Budget Responsibility*, the OBR publishes forecasts of the economy and public finances for a period of at least 5 financial years following the date of publication.[42] In line with this approach, the forecast period for Autumn Statement 2012 and Budget 2013 extended 5 financial years to 2017-18. At this Autumn Statement, which takes place in a new financial year, the forecast horizon extends to 2018-19.

1.76 In line with Budget 2013, the deficit forecasts in this Autumn Statement are presented excluding the effect of the transfer of assets from the Royal Mail Pension plan to the public sector, except where otherwise indicated.[43] On this basis, public sector net borrowing is forecast to continue to fall in every year of the forecast period, both as a percentage of GDP and in cash terms.

1.77 From its post-war peak of 11.0% of GDP in 2009-10, public sector net borrowing is forecast to fall to:[44]

- 4.0% of GDP in 2015-16, the end of this Parliament
- 0.1% of GDP in 2018-19
- the OBR's estimate of the 'underlying deficit', which excludes the cash transfers associated with the Royal Mail Pension Plan in 2012-13 and the effects of the cash transfers to and from the Asset Purchase Facility (APF), is forecast to be in surplus by 0.1% of GDP in 2018-19

1.78 Public sector net borrowing is predicted to be up to 1% of GDP lower each year over the forecast period, compared with Budget 2013. However, the forecast for cyclically-adjusted net borrowing has not improved. This reflects the OBR's judgment that the level of trend output is unchanged. The improvement in public sector net borrowing is therefore judged to be cyclical rather than permanent. This demonstrates that economic growth alone cannot be relied upon to eliminate the deficit.

1.79 Public sector net debt is forecast to:

- be 5.1 percentage points lower in 2015-16 than forecast at Budget 2013
- peak at 80.0% of GDP in 2015-16, a year earlier than forecast at Budget 2013, before falling each year and reaching 75.9% of GDP in 2018-19

[42] 'Charter for Budget Responsibility', HM Treasury, April 2011.
[43] Excluding the impact of the transfer of assets from the Royal Mail Pension Plan in 2012-13. As set out in the ONS's October 2013 Public Sector Finances, the transfer of assets from the Royal Mail Pension Plan to the public sector reduced public sector net borrowing by £28 billion in 2012-13, a one off impact that distorts the flow measures of the fiscal position.
[44] 'Public Sector Finances', ONS, October 2013.

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

	% GDP, unless otherwise stated							
	Outturn		Forecast					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Fiscal mandate								
Cyclically-adjusted current budget	-3.9	-3.6	-2.9	-2.0	-1.4	-0.2	0.7	1.6
Deficit								
Public sector net borrowing	7.7	6.9	6.0	4.9	4.0	2.6	1.3	0.1
Surplus on current budget	-5.8	-5.5	-4.5	-3.3	-2.5	-1.1	0.2	1.4
Primary balance	-4.8	-4.7	-4.2	-2.9	-1.6	0.1	1.7	2.9
Cyclically-adjusted net borrowing	5.8	5.1	4.4	3.6	2.9	1.7	0.8	-0.1
Cyclically-adjusted primary balance	-3.0	-2.9	-2.6	-1.6	-0.5	1.0	2.2	3.1
Treaty deficit[1]	7.6	7.0	6.2	5.0	4.2	2.7	1.4	0.2
Cyclically-adjusted Treaty deficit	5.8	5.1	4.6	3.7	3.0	1.9	0.9	0.1
Debt								
Public sector net debt[2]	71.0	73.9	75.5	78.3	80.0	79.9	78.4	75.9
Treaty debt ratio[3]	85.0	88.3	90.8	93.1	94.7	93.9	91.7	88.7
Deficit excluding Royal Mail Pension Plan transfer and APF cash transfers (OBR's 'underlying deficit')[4]								
Public sector net borrowing	7.7	7.3	6.8	5.6	4.4	2.7	1.2	-0.1
Public sector net borrowing (£bn)	118.5	115.0	111.2	96.0	78.7	51.1	23.4	-2.2
Deficit including Royal Mail Pension Plan transfer								
Public sector net borrowing	7.7	5.1	6.0	4.9	4.0	2.6	1.3	0.1
Public sector net borrowing (£bn)	118.5	80.6	99.0	83.9	71.5	47.8	24.8	1.9
Treaty deficit[1]	7.6	5.2	6.2	5.0	4.2	2.7	1.4	0.2
Output gap	-2.6	-2.7	-2.1	-1.8	-1.5	-1.1	-0.6	-0.1
Memo: total policy decisions[5]			*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*

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

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

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

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

1.80 The Office for National Statistics (ONS) is reviewing the classification of Network Rail in light of new European statistical guidance, and will publish their final decision in December 2013.[45] The OBR has highlighted the potential impact of a public sector reclassification in Box 4.2 of its December 2013 *Economic and fiscal outlook* suggesting it would increase PSND and PSNB by about 2% and 0.2% of GDP respectively.[46] The government welcomes this review by the ONS and has always been committed to a transparent reporting of public liabilities. The classification of Network Rail is a statistical decision by the ONS (which could be applied retrospectively back to 2002), and the government will implement any decision by the ONS promptly in its reporting arrangements in line with its commitment to transparency. A decision on the classification of Network Rail would not change the industry structure or affect the day-to-day operations of the rail network. The government remains committed to the planned improvement and investment in the railways, including over £38 billion for the rail network between 2014-15 and 2018-19, High Speed 2 and the franchising programme announced in March 2013.

[45] 'National Accounts Classifications, Forward Workplan', ONS, September 2013. The European System of Accounts 2010 (ESA10) will be applied across EU member states from September 2014.
[46] 'Economic and Fiscal Outlook', OBR, December 2013.

The fiscal mandate

1.81 As announced at June Budget 2010, the government's fiscal strategy is underpinned by a forward-looking fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, 5-year forecast period. The fiscal mandate guides fiscal policy decisions over the medium term, ensuring that the government sets plans consistent with a reduction in the structural deficit. The fiscal mandate is based on:

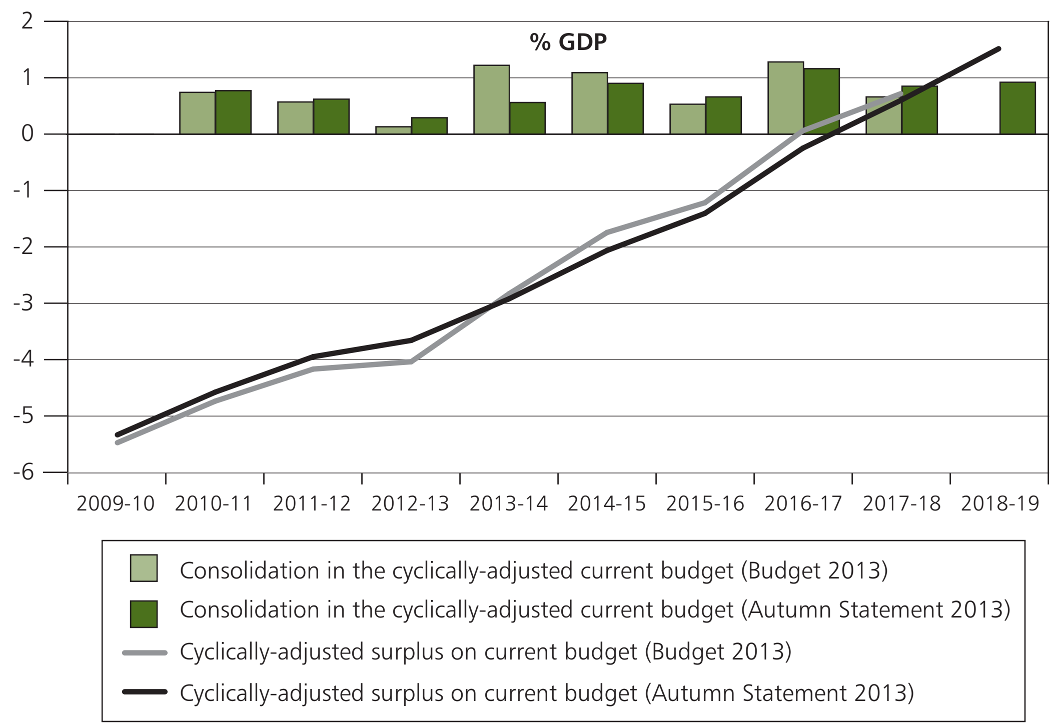
- a cyclically-adjusted aggregate, to allow some fiscal flexibility at times of economic uncertainty and to allow the automatic stabilisers to operate
- a rolling 5-year forecast period, to ensure that fiscal consolidation is delivered over a realistic and credible timeframe
- the current balance, to protect the most productive public investment expenditure

1.82 The government's fiscal mandate is supplemented by a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16.

Performance against the mandate

1.83 Including all measures set out in this Autumn Statement, the OBR's December 2013 *Economic and fiscal outlook* concludes that the government remains on course to meet the fiscal mandate. The OBR's judgement is that the government's policies are consistent with a roughly [80]% chance of achieving the fiscal mandate in 2018-19. The OBR's forecast is for the fiscal mandate to be achieved a year early, in 2017-18. Chart 1.10 shows performance against the government's fiscal mandate.

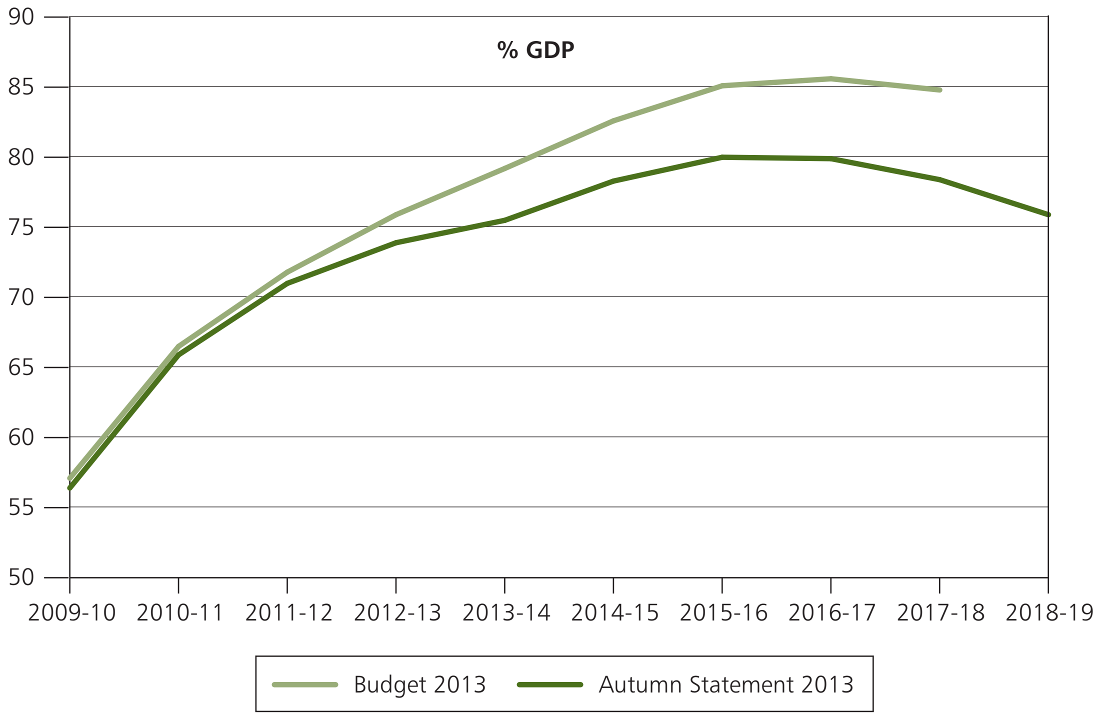
Chart 1.10: Consolidation in the cyclically-adjusted current budget



Source: Office for Budget Responsibility and HM Treasury.

1.84 The OBR has also forecast that public sector net debt as a percentage of GDP, the measure for the supplementary target for debt, will be falling in 2016-17. This is a year earlier than forecast at Budget 2013, but a year later than the supplementary target for debt. Public sector net debt as a percentage of GDP will be 6.4% lower in 2017-18 than forecast at Budget 2013. Chart 1.11 shows the forecast for public sector net debt as a percentage of GDP.

Chart 1.11: Public sector net debt



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

Performance against EU targets

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

Fiscal strategy in the next Parliament

Spending consolidation over the longer term

1.86 Autumn Statement 2013 sets out the fiscal assumption for 2018-19. The government has set a fiscal assumption that Total Managed Expenditure (TME) in 2018-19 will be flat in real terms. This represents a balanced response to forecast economic growth alongside the continued need for spending control to ensure TME remains at sustainable levels. However, **the government will continue to prioritise capital investment over the medium to longer term so Public Sector Gross Investment (PSGI) will increase in line with GDP from 2018-19.**

1.87 Achieving the government's fiscal aims will mean further consolidation over the course of the next Parliament. There are choices to be taken about the composition of further savings and these should be driven by achieving the right balance between the individual and the state. At the next Spending Review, the government will need to look again at the trade-offs between departmental budgets (DELs), elements of annually managed expenditure (AME) and tax.

1.88 The government is taking action at Autumn Statement 2013 to increase control over AME expenditure. This Autumn Statement sets out how the welfare cap will operate, including the requirement for a vote in the House of Commons if the cap is breached or if the government wants to change the level of the cap, and more detail on how the regular review of the State Pension age will work in practice.

1.89 Over the course of this Parliament, the government has taken significant action to both slim down government and make it more efficient. By 2014-15 government departments, supported by HM Treasury and the Efficiency and Reform Group, will make efficiency savings of £20 billion compared to 2010. The government is already undertaking efficiency reviews to generate additional savings in areas of ICT spend, contracts, property and further moves to digital by default. It is estimated that the steps already taken will reduce the size of Whitehall by 23% by 2015, but there is more to do.[47]

1.90 The public sector pay bill accounts for around half of departmental resource budgets.[48] This government has introduced public sector pay restraint up until 2015-16, which has played an important role in consolidation. However, the next government will need to continue to reform and take tough decisions on public sector pay and workforce beyond 2015-16. Therefore, **HM Treasury will consider how continuing reform of public sector pay policy can best contribute to consolidation beyond 2015-16, including how to get the best value for money from the pay bill.**

1.91 Moving public assets to the private sector where they will be better managed also drives efficiencies and growth. With the privatisation of Royal Mail and sale of shares in Lloyds Banking Group, central government has delivered sales of over £11 billion since May 2010.[49] At local level, the government is inviting ambitious proposals for sales and better use of local authority assets as part of growth deals, for example, to reduce running costs, increase transparency and raise money for investment. **To further incentivise local authorities to sell assets, the government will allow them the flexibility to spend £200 million of receipts from new asset sales on the one-off costs of reforming services.**

1.92 In *Investing in Britain's Future*, the government set out its initial plans to build on this progress from 2015 to 2020.[50] **As set out in the *National Infrastructure Plan 2013*, the government has now identified further assets with the potential for sale and the target for the sale of corporate and financial assets will be increased from £10 billion to £20 billion between 2014 and 2020.** This includes (subject to value for money assessments and key policy objectives):

- a central estimate of approximately £12 billion expected from the sale of the income contingent repayment student loan book over the target period
- additional assets identified for sale, which potentially could include London and Continental Railways (LCR) property assets and the government's shareholding in Eurostar
- considering options to bring private capital into the Green Investment Bank to enable it to operate more freely in delivering its objectives

Welfare cap

1.93 Delivering these fiscal plans will require greater control of welfare spending. The government has previously announced that it will, for the first time, introduce a cap on welfare spending. **Autumn Statement 2013 announces how this new cap will operate in detail.**

1.94 Total welfare spending accounts for 29% of TME in 2013-14.[51] Despite this, it has not been subject to firm controls and has been allowed to increase for over 2 decades.

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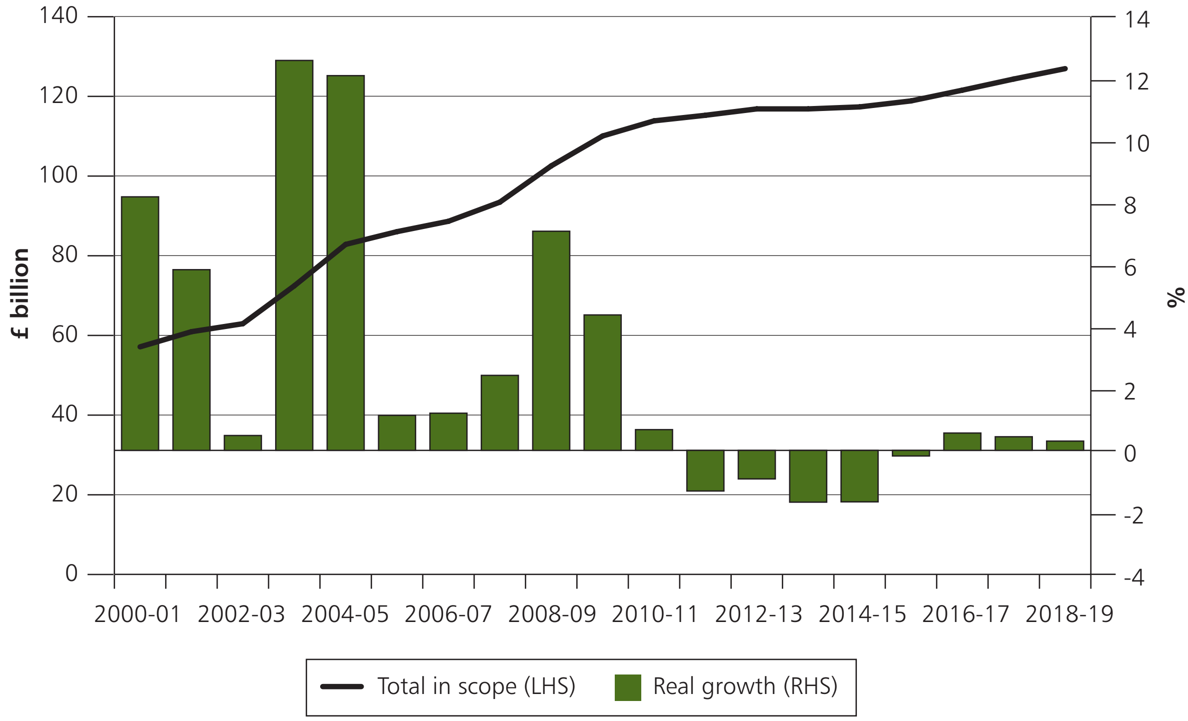
[47] 'Civil Service Reform Plan', HM Government, June 2012.
[48] 'United Kingdom National Accounts, The Blue Book, 2013 Edition', ONS, July 2013.
[49] Published sales of corporate and financial assets (2.6 GHz spectrum, the Tote, Northern Rock, High Speed 1 (30 year concession), Lloyds Banking Group, Royal Mail, mortgage style student loan book) total over £10.5 billion. Property and land sales have exceeded £1 billion (Cabinet Office press release, March 2013).
[50] 'Investing in Britain's Future', HM Treasury, June 2013.
[51] Office for Budget Responsibility.

1.95 Excluding the State Pension and Jobseekers' Allowance (JSA) and its passported benefits, consistent with the scope of the cap, welfare spending increased by 58%, or £45 billion in real terms, between 2000-01 and 2010-11, as shown in Chart 1.12. Spending on Housing Benefit increased by £7.7 billion and Disability Living Allowance spending increased by £4.5 billion in real terms over that period.

Chart 1.12: Welfare spending excluding the State Pension and Jobseeker's Allowance[1]



[1] This data has been adjusted to remove the impact of Council Tax Benefit and Discretionary Housing Payments being transferred out of AME.
Source: Department for Work and Pensions, Office for Budget Responsibility, Northern Ireland Social Security Agency and HM Treasury.

1.96 The government has taken significant action to bring welfare costs under control since 2010. In 2010 the government announced welfare savings measures worth £18 billion per annum by 2014-15. Autumn Statement 2012 set out a package to deliver further savings worth another £3.6 billion per year by 2015-16.

1.97 The government has also improved transparency and scrutiny of the welfare forecast by establishing the independent OBR. The OBR's forecasts show that in some areas, especially Employment and Support Allowance and Housing Benefit, the projected cost of social security continues to increase. The welfare cap will ensure that any significant deterioration in the forecast will not go uncorrected in future, so that welfare spending remains on a sustainable footing.

1.98 The welfare cap brings the UK in line with international best practice. At present only half of public spending in the UK is subject to firm ceilings (Departmental Expenditure Limits). This is low by international standards. In Sweden, Finland and the Netherlands, for example, expenditure ceilings cover over three quarters of central government spending.[52]

1.99 IMF studies found that these ceilings have been effective in controlling rising welfare costs, promoting fiscal discipline and sustainability, and maintaining stability following periods

[52] Expenditure Ceilings – A Survey', IMF, December 2008.

of fiscal consolidation.[53] For example, the IMF found that introducing a cap resulted in regaining control of welfare expenditure in the Netherlands, where "*a steady upward trend of [social security] beneficiaries has strained public finances ... As gross expenditure of all [social security] is included under the expenditure ceiling, the government has been forced to intervene ... and managed to reduce expenditure on social security.*"[54]

Scope of the cap

1.100 Autumn Statement 2013 confirms that the cap will apply to all social security and personal tax credits expenditure for the UK, with specific exceptions for the basic and additional State Pension and the most cyclical elements of welfare.

1.101 The basic and additional State Pension will be excluded as pension spending is better planned and controlled over a longer time period, for example by using the State Pension age to account for rising longevity. The White Paper, *The single-tier pension: a simple foundation for saving*, published in January 2013, set out a new State Pension age framework and Autumn Statement 2013 provides further detail on how this will work in practice, as described later in this section.[55]

1.102 To allow the automatic stabilisers to operate, the cap will not apply to the most cyclical elements of welfare: JSA and JSA-passported Housing Benefit expenditure and, following the introduction of Universal Credit, to jobseekers within the Full Conditionality group of Universal Credit with no net earnings.

1.103 Over £100 billion of welfare expenditure will be within the scope of the cap and therefore subject to new controls.

Setting the level of the cap

1.104 The precise level of the welfare cap will initially be set at Budget 2014, but will be reviewed at the beginning of each Parliament. The scope and level of the cap will be set out in Budget documents.

1.105 The welfare cap will be set in nominal terms for each year over the 5-year forecast horizon. It will not apply for the first year of the forecast, in order to allow the government time to implement policy changes to bring down spending if necessary. Each year the cap will be rolled forward by 1 year.

1.106 The purpose of the cap is to protect against medium-term, structural deteriorations in welfare spending. A forecast margin will be set above the cap in order that the government does not have to cut spending due to a forecasting change only.

1.107 The level of the cap will be automatically adjusted to reflect any classification changes, which will be independently certified by the OBR.

Assessing performance

1.108 The independent OBR will assess the government's performance against the cap once a year alongside the Autumn Statement.

1.109 The government will be deemed to have breached the cap if:

- spending is forecast to increase above the cap in any year as a result of discretionary policy action
- or spending is forecast to increase above the forecast margin in any year for any reason

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[53] Expenditure Ceilings – A Survey', IMF, December 2008 and 'Fiscal Consolidation in G20 Countries: The Role of Budget Institutions', IMF, April 2010.
[54] Expenditure Ceilings – A Survey', IMF, December 2008.
[55] 'The single-tier pension: a simple foundation for saving', DWP, January 2013.

1.110 The Chancellor will report on performance against the cap, including any policy action that the government has taken to avoid breaching the cap, as part of each Autumn Statement.

1.111 To support transparency and public scrutiny, the OBR will also publish a forecast for welfare in scope of the cap as part of its *Economic and fiscal outlook* at every fiscal event and will report annually on trends in and drivers of welfare expenditure in the scope of the cap. DWP and HMRC will continue to publish data on welfare spending in order to allow close scrutiny of welfare spending forecasts.

Parliamentary accountability

1.112 If the government wants to change the level of the cap during the Parliament this will trigger a debate and a vote in the House of Commons.[56] There may be circumstances where the government judges it appropriate to change the level of the cap, for example if there is a significant economic shock. In order to do so:

- the Chancellor would be expected to announce the change to the level of the cap and the reasons for the change
- the Secretary of State for Work and Pensions would table a motion for approval before the House of Commons and lead a debate and vote on the new level of the cap

1.113 If the government breaches the cap this will also trigger a debate and vote in the House of Commons. The government is expected to take action to avoid a breach of the cap. If it does not then:

- the Chancellor would set out in the Autumn Statement the reasons for the breach
- the Secretary of State for Work and Pensions would table a motion in the House of Commons and lead a debate and a vote on the government's decision not to act

1.114 If spending is forecast to be above the cap but within the forecast margin, and this is due to forecast changes rather than discretionary policy action, then the cap is not breached. The Chancellor will set out the reasons for the increase as part of the Autumn Statement and the Secretary of State for Work and Pensions will make a statement before the House of Commons on the causes of the increase in spending.

1.115 The government will also consider strengthening the official Accounting Officer role to enhance accountability for performance against the cap.

Framework

1.116 The government will establish this framework for the welfare cap as part of the *Charter for Budget Responsibility,* which sets out the government's fiscal mandate. The Charter will be updated in 2014.

1.117 The Charter will specify:

- the requirement for a cap
- the expectation on the government to bring forward a vote in the House of Commons when setting the level of the cap, if it wants to change the level of the cap, and if it breaches the cap
- the role of the OBR in assessing the government's performance against the cap

1.118 Any revision to the Charter is subject to a debate and vote in the House of Commons.

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[56] For a reason other than a classification change, as certified by the OBR.

State Pension age

1.119 The government is committed to providing a generous State Pension. The triple lock uprating policy means that the basic State Pension will be around £8.50 a week higher from April 2014 than if it had been uprated in line with average earnings since 2011-12. In order to be able to afford a generous State Pension system it is important that the State Pension age rises in line with increases in life expectancy.

1.120 The government has already taken action to control pension expenditure over the medium term by bringing forward the rise in the State Pension age to 66 from 2026 to 2020, and introducing legislation to bring forward the rise to 67 from 2036 to 2028. Together these changes will save around £100 billion between 2016 and 2036.[57]

1.121 However, life expectancy is always changing and the State Pension age needs to keep pace. That is why the government is currently legislating for a new State Pension age framework. This framework will mean that the State Pension age will be reviewed every Parliament, with the first review occurring early in the next Parliament.

1.122 Autumn Statement 2013 announces more detail on how this review will work in practice, setting out the guiding principle that the government believes should underpin future reviews of the State Pension age. This principle is that people should expect to spend, on average, up to one third of their adult life in receipt of the State Pension.

1.123 This principle implies that the increase in the State Pension age to 68 is likely to come forward from the current date of 2046 to the mid 2030s, and that the State Pension age is likely to increase further to 69 by the late 2040s. This, along with action this government has already taken on the State Pension age, could save around £500 billion from pension expenditure over the next 50 years.

1.124 Changes to the State Pension age will be considered as part of future reviews, which will take account of the latest demographic data available at the time and be informed by an independently led report on wider factors.

1.125 DWP will publish more detail about how this principle will work in practice alongside Autumn Statement 2013.

Longer term debt challenge

1.126 While the OBR forecasts that the 'underlying deficit' will be in surplus by 2018-19, the record deficit inherited by the government means that public sector net debt is forecast to peak at 80.0% of GDP, an increase of over 40 percentage points since 2007-08. This equates to over £50,000 per household.[58] The IMF forecast that UK net debt will peak later than the G7, G20 advanced, and euro area averages.[59]

1.127 The government inherited the largest deficit in post-war history due to the financial crisis of 2008 and 2009 and unsustainable pre-crisis increases in public spending. High levels of public debt risk undermining growth and economic stability in the UK, because:

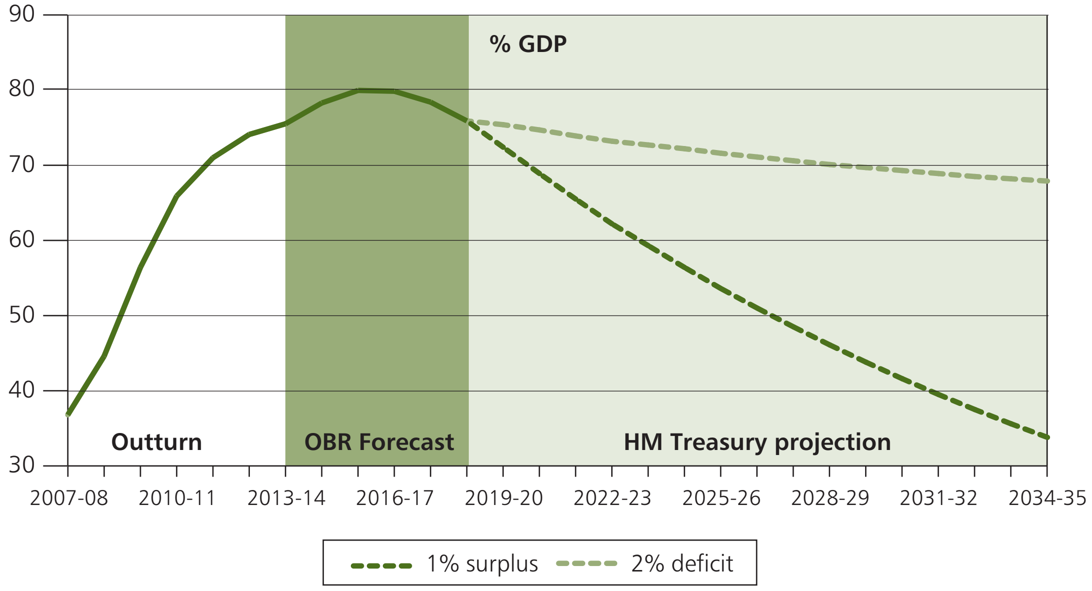
- high levels of debt damage growth through a number of channels, including by increasing levels of taxation, by crowding-out private investment and by increasing uncertainty[60]

[57] 'Pensions Act 2011: summary of impacts' , DWP, November 2011 and 'Long term State Pension sustainability: increasing the State Pension age to 67', DWP, October 2013.
[58] Based on DCLG projections for the number of households in the UK in 2015.
[59] Fiscal Monitor', IMF, October 2013.
[60] 'Fiscal sustainability: where do we stand?' in the Annual Report 2013, Bank for International Settlements, June 2013.

- high levels of public debt limit the scope to absorb the impact of future economic shocks
- high debt interest payments crowd out spending on public services

1.128 The UK therefore faces a long-term challenge in reducing debt to sustainable levels. Chart 1.13 shows an illustrative scenario for debt reduction from 2019-20 onwards. A 2% deficit is broadly in line with the average deficit over the 20 years before the financial crisis and would be would be consistent with meeting the fiscal mandate in 2016-17 and 2017-18. It would leave debt at an elevated level through to 2035 and beyond creating significant economic vulnerabilities. If sustained, running a small surplus would lead to a significant improvement in the path of debt over the longer term.

Chart 1.13: Public sector net debt under illustrative debt reduction scenarios



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

1.129 International experience illustrates how, in the face of severe economic shocks, commitment to fiscal consolidation can support sustained debt reduction over the medium term. After a severe financial crisis in the early 1990s, Sweden faced large-scale bank failures and currency depreciation as well as a sharp interest rate shock. With a budget deficit peaking at 11.4% of GDP in 1993 and general government gross debt peaking at 73% of GDP 3 years later, the Swedish government committed to restoring the public finances to a long-term sustainable position.[61] A key element of this strategy was the reform of the fiscal framework, including the incremental introduction of a surplus target and rolling expenditure ceilings. These reforms supported a reduction of over a third in the Swedish debt-to-GDP ratio in the following decade. By 2018 Swedish public sector gross debt is forecast to have been reduced by over half as a percentage of GDP from its peak level.

1.130 Similarly in New Zealand, with debt levels spiralling and projections of unsustainable increases over the next decade, the government passed the Fiscal Responsibility Act into legislation in 1994. In broad terms the Act defined principles of responsible and prudent fiscal management underpinned by specific fiscal targets. The framework formed the basis of New Zealand's fiscal policy for almost 2 decades. According to the IMF gross debt levels were reduced by a half as a percentage of GDP over the decade following their peak of 61.5% in 1992.[62]

[61] World Economic Outlook' database, IMF, October 2013. Examples based on a general government gross debt basis.
[62] World Economic Outlook' database , IMF, October 2013. Examples based on a general government gross debt basis.

1.131 Canada also faced rising debt levels in the early 1990s, with increased risk premiums on Canadian bonds fuelling rises in interest rates. This experience established a public consensus on the importance of restoring the debt levels to a sustainable position in the long term. The government introduced a policy of running a balanced budget or better which, assisted by the improved macroeconomic outlook, contributed to a reduction in Canadian debt levels by around a third from their peak of 102% by the end of the subsequent decade.[63]

Reviewing the UK's fiscal policy framework

1.132 The UK's fiscal policy framework requires the government to set out its fiscal policy objectives and fiscal mandate before Parliament in the *Charter for Budget Responsibility.* As set out in the Charter, the fiscal mandate will lapse at the end of this Parliament.

1.133 The government has made significant progress in dealing with the deficit, which is forecast to have halved, as a percentage of GDP, by 2014-15. In Budget 2010 the government said it would revisit the future of the fiscal framework once the public finances were closer to balance.

1.134 Both parties within the coalition agree that once the supplementary debt target has been met any future government will need to ensure that debt continues to fall as a percentage of GDP, including using surpluses in good years for this purpose. Both parties will set out their own longer term economic plans in the run up to the general election.

1.135 In the meantime, **the government will now begin a review of the current framework, reporting next year.**

1.136 The review will consider several questions, including:

- What is the appropriate time horizon for the fiscal mandate once the structural current deficit is closer to balance?
- How could fiscal credibility be further enhanced by a stronger Parliamentary commitment to the path of consolidation in 2016-17 and 2017-18?

1.137 The outcome of the review will inform an updated *Charter for Budget Responsibility* which will be presented to Parliament alongside Autumn Statement 2014.

Institutional reform

1.138 The establishment of the OBR has placed the UK at the forefront of institutional reform internationally. It has significantly enhanced the credibility of the UK's fiscal framework by ensuring that the government's fiscal policy decisions are based on independent forecasts for the economy and public finances.

1.139 As required by legislation, the OBR will be initiating an external review of their publications over the course of 2014. Following the outcome of this review, the government will hold its own review of the OBR at the start of the next Parliament.

Debt Management

1.140 The Debt Management Office's (DMO) financing remit for 2013-14 has been revised to incorporate the changes to the OBR's forecast for the central government net cash requirement (CGNCR) in 2013-14 and the anticipated contribution from National Savings and Investments. Details of the revisions are set out in Annex A.

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[63] 'World Economic Outlook' database, IMF, October 2013. Examples based on a general government gross debt basis.

Reform of the financial system

1.141 The government has overhauled the previous tripartite system of financial regulation through the Financial Services Act, which gained Royal Assent in December 2012. This legislation gives the Bank of England responsibility for macro-prudential regulation, through a new Financial Policy Committee (FPC), and oversight of micro-prudential regulation of deposit takers, insurers and the large investment firms, with the establishment of the Prudential Regulation Authority (PRA). The new Financial Conduct Authority is responsible for ensuring that the markets it regulates function well and in a way that supports its strong consumer protection, market integrity and competition statutory objectives. These reforms are designed to improve the regulatory framework in order to reduce risks to the taxpayer and build the resilience of the financial system.

1.142 The government continues its ambitious reforms to create a more resilient, stable and competitive banking sector. The Financial Services (Banking Reform) Bill which implements the recommendations of the Independent Commission on Banking (ICB), chaired by Sir John Vickers, will receive Royal Assent in the coming months. The Bill will establish in law proposals to ring-fence banking services for households and small businesses from investment banking activities, and make banks more capable of absorbing losses, addressing the perceived implicit government guarantee to banks deemed 'too big to fail'. During the Bill's passage through Parliament, the government has strengthened the ring-fence by legislating for the regulators to have the power to separate completely a banking group that fails to uphold the ring-fence. To ensure the ring fence remains fit for purpose, the government has also legislated for an independent review of the operation of the ring-fence, once it is in force. The government remains on track to have all legislation implementing the ICB's recommendations enacted by the end of this Parliament and for all reforms to be in place by 2019.

1.143 Alongside structural reform of the banking sector, the government believes that a binding minimum leverage ratio, implemented internationally, is an essential tool to ensure banks are adequately capitalised and able to absorb losses. The government has asked the Bank of England that the FPC will carry out a review of the role of the leverage ratio in its macroprudential toolkit and will make recommendations to the Treasury regarding any additional powers of direction it needs over the leverage ratio and how the FPC should use those powers. The Governor expects the FPC to complete the review within 12 months.

1.144 The government is also implementing the main recommendations of the Parliamentary Commission on Banking Standards. The Commission published its final report *Changing Banking for Good* in June 2013.[64] This included over 100 recommendations, including many aimed at strengthening individual accountability, reforming corporate governance, securing better outcomes for consumers through enhanced competition and enhancing financial stability. The government strongly endorses the principal findings of the report. Through the Banking Reform Bill, the government is introducing a new criminal offence of reckless misconduct by senior bankers, including those working at systemic investment firms. The Bill also creates a tough new Senior Managers Regime governing the behaviour of senior bank staff, provisions for new banking standards rules to promote higher standards for all bank staff through the implementation of the Commission's licensing regime. During its remaining passage through Parliament, the government will further enhance the regime by taking steps to clarify on the face of the Bill how the new regime will support improvements in standards. The Bill also provides the Prudential Regulation Authority with a secondary competition objective.

1.145 The Royal Bank of Scotland (RBS) has committed to a new direction. Alongside the government's plan this will help sustain the economic recovery and create a banking system that works for Britain. The government's objectives for RBS are to support the British economy,

[64] 'Changing banking for good', Parliamentary Commission on Banking Standards, June 2013.

to get the best value for money for the taxpayer, and to set RBS on a path towards return to private ownership. These were the reasons for conducting the bad bank review, which was commissioned in June 2013. RBS's announcement of a new direction and the creation of an internal bad bank follow the conclusion of that review.[65] The new direction will enable RBS to focus on its core British business, supporting British families and companies. This brings RBS a step closer to returning to the private sector. As a result of the measures that have been announced, the Bank of England has confirmed that taxpayers' exposure to the banking system can be further reduced by removing the £8 billion Contingent Capital Facility for RBS 1 year early.

1.146 In September 2013 the government began the process of returning Lloyds Banking Group to full private ownership by selling 15.5% of its shares in the bank. While the first sale was aimed at institutional investors, the government would like to give the British public the opportunity to participate directly in future sales when the time is right. UK Financial Investments (UKFI) is conducting research to assess potential demand and developing the best mechanism for retail investors to participate. These preparations will allow those who rescued the bank to participate in its exit from government ownership. The government will consider the appropriate timing and format for their participation in light of its overriding concern to ensure the taxpayer gets value for money for the sale of the shares.

1.147 On 29 November 2013, the Co-operative Group announced that they had received backing from retail bondholders for plans to recapitalise the Co-operative Bank. In the past, governments have intervened to 'bail-out' banks experiencing severe financial difficulties. In the case of the Co-operative, this agreement is an important first step in which shareholders and bondholders are set to step forward to restore the bank's capital position, safeguarding the Co-operative Bank, without using public funds.

Sovereign Sukuk

1.148 The government announced earlier this year that it was working on the practicalities of issuing approximately £200 million of sovereign Sukuk, the Islamic law compliant equivalent of government bonds. The government believes that sovereign Sukuk issuance will bring a number of benefits, including reinforcing London's status as the leading centre for Islamic finance outside of the Muslim world and promoting greater trade and investment into the UK.

[65] 'RBS and the case for a bad bank: the government's review', HM Treasury, November 2013.

Growth

1.149 The government's long-term economic plan is providing a foundation for the current recovery, but many risks remain and there is more work to do to ensure a responsible recovery and to equip the economy for the future. The government is committed to continued supply-side reform to enable the UK to compete in the global race, help businesses and individuals to realise their aspirations, and to underpin the productivity growth that is the only route to lasting improvements in living standards.

1.150 Autumn Statement 2013 sets out the next steps in the government's plan, with reforms to:

- support business investment and employment through a major package of support with the cost of business rates; this builds on action the government is taking to support businesses through the tax system, including reducing the main rate of corporation tax to 20% in 2015, the joint lowest in the G20
- equip the UK's young people for the future, abolishing employer NICs for under-21 year olds earning less than £813 a week (equivalent to the point at which higher rate tax is charged) to make it cheaper for businesses to employ young people; removing the cap on higher education student numbers; putting employers at the heart of the apprenticeships system; and improving basic skills training
- promote innovation to make the most of the UK's science base and take the lead in cutting-edge technologies, including a network of Quantum Technology Centres and measures to encourage the development of driverless cars in the UK
- improve the UK's infrastructure. NIP 2013 sets out progress on delivery since 2010 and a refreshed list of priority investments. It is published alongside the most robust, forward-looking pipeline of public and private infrastructure projects to date, to enable developers and supply chains to plan effectively
- NIP 2013 also sets out progress on the UK Guarantees Scheme – including progress toward a Guarantee for a new nuclear power plant at Wylfa. And *The UK insurance growth action plan* includes a commitment by UK insurers to work alongside partners with the aim of delivering at least £25 billion of investment in UK infrastructure, including but not restricted to projects in the published infrastructure pipeline, over the next 5 years[66]
- take further action to increase housing supply and support home ownership by funding infrastructure to unlock large housing sites; and by increasing the funding available for new affordable homes by increasing local authority HRA borrowing limits, allocated on a competitive basis, and from the sale of vacant high-value social housing

1.151 Since 2010, this government has worked systematically to address barriers to growth, boost business investment and support the UK's competitiveness. These reforms are achieving results. Table 1.5 sets out key supply-side reforms and the impact they are having.

[66] 'National Infrastructure Plan 2013', Infrastructure UK and HM Treasury, 2013; and 'The UK insurance growth action plan', HM Treasury, 2013; both available at www.gov.uk.

Table 1.5: Implementation of the government's growth commitments

Education and skills	Investment
• **Schools reform** – 176 new free schools and 3,400 academies across England since 2010, supporting more than 2m pupils • **Pupil premium** – £2.5bn by 2014-15 for schools to help disadvantaged pupils • **Extending early years education** – free early education extended to the 20% most disadvantaged 2 year olds • **Skills funding** – £340m of skills funding going direct to employers through the Employer Ownership Pilot • **University Technology Colleges** – 17 new UTCs for 14 to 19 year olds, and a further 27 approved, which will support 25,000 students • **Apprenticeships** – 1.5m starts this Parliament, with advanced level apprenticeships up 135% between 2009-10 and 2012-13	• **Road investment** – since 2010 delivered 36 major roads projects worth over £1.7bn, and a £1.9bn pipeline of projects to be implemented in 2014 • **UK Guarantees** – £75m guarantee for Drax power station in place and 40 projects pre-qualified • **Enterprise Zones** – 24 zones established, with over 4,600 new jobs created and almost £455m private sector investment secured so far • **Regional Growth Fund** – £2.6bn conditionally allocated to 400 schemes, which have pledged to deliver 550,000 jobs and £14.7bn of private investment • **Help to Buy: equity loan** has supported over 18,000 reservations for new build homes and over 2,000 people applied to lenders for mortgages in the first month of the **Help to Buy: mortgage guarantee** scheme • **Planning reforms** – approvals at a 13 year high for residential projects
Science and innovation	**Exports**
• **Catapult centres** – 7 established to support strategically important sectors such as high value manufacturing and cell therapy • **Research Partnership Investment Fund** – over £1bn of public and private investment in 20 joint university-business science and technology research projects • **Science capital funding** to increase by £500m in 2015-16 to £1.1bn	• UK Trade and Investment support for 32,000 **businesses to export** in 2012-13, and on track to support at least 40,000 in 2013-14 • Support through UKTI's High Value Opportunities Programme for companies to sign **£4.2bn of trade contracts** since April 2013 • £4.3bn worth of **financial support for British exports** in 2012-13 through UK Export Finance, the highest in 12 years
Tax	**Access to finance and deregulation**
• **Corporation tax** – cut from 28% to 23%, with further cuts to 20% to come, saving businesses around £7.8bn a year by 2016-17 • **Small Business Rate Relief** – doubled since 2010 with around 540,000 small businesses receiving Small Business Rate Relief • **Patent Box** – 10% rate on profits from patents • **R&D tax credit** – 10% 'above the line' credit, and a 225% rate for SMEs • **Annual Investment Allowance** – tenfold increase for 2 years from January 2013 to £250,000, to incentivise businesses to invest • **Fuel duty** – as a direct result of government action since 2011, a small business with a van will save £1,300, and a haulier £21,000 by 2015-16 (compared to pre-2010 plans for a fuel duty escalator) • **Oil and gas allowances** – supported £6bn of investment in North Sea fields over the last two years *Source: HMT, DfE, BIS, DCLG, UKTI, UKEF, OGUK*	• **Business Bank** – now deploying its £1bn of additional capital to improve access to finance • **Business Finance Partnership** – £863m allocated to funds with £225m already invested alongside private money, generating over £1bn of lending to businesses • **Funding for Lending** has reduced funding costs for 41 banks and building societies who have drawn down £17.6bn under the scheme • **Start Up Loans** – more than 10,000 aspiring entrepreneurs supported since April 2012 • Substantial expansion of **Enterprise Investment Scheme** and **Venture Capital Trusts**; and over 1,250 companies have benefited from the **Seed Enterprise Investment Scheme** since 2012 • **Growth Accelerator** – 4,000 SMEs signed up by March 2013 for this £200m business coaching programme • **Net burden of regulation** on business has fallen by £931m a year during this Parliament • **Red Tape Challenge** – as of end April 2013, reforms are saving businesses over £212m a year

Supporting investment and employment

1.152 Businesses' ability to grow and create jobs drives prosperity, and this government is committed to supporting the aspirations of all UK businesses. The government has taken action to create the right conditions for higher private sector investment as global uncertainty eases and the economy recovers: reforming the tax system; helping businesses to access finance; and streamlining the planning system to make it easier for business to invest and expand.

1.153 The government's *Corporate Tax Roadmap*, published in 2010, set out major reforms to make the tax system more competitive and give UK businesses the confidence to invest and expand.[67] To support investment both now and in the longer term, the government has:

- set in train a programme of corporation tax cuts. The main rate has fallen from 28% to 23%, and will be cut to 21% from April 2014. It will reach 20% – the joint lowest rate in the G20 – in 2015. The small profits rate has also been cut to 20%
- introduced a 10% 'above the line' R&D tax credit
- created a Patent Box, giving a reduced 10% rate of corporation tax on profits from patents
- increased the Annual Investment Allowance tenfold, from £25,000 to £250,000, for 2 years from January 2013
- announced a £2,000 Employment Allowance to help businesses, especially small businesses, to expand by reducing the cost of employment from April 2014

1.154 Small business growth is critical to economic growth in the UK, with small businesses (those with 50 employees or fewer) contributing almost half of UK employment and approximately a third of private sector turnover.[68] **The government will publish *Small Business: GREAT Ambition* in December 2013 to provide a clear statement of its offer to small businesses**, bringing together a range of new activities across government that reflect its ongoing commitment to small businesses.

1.155 The government will increase the rate of the bank levy to 0.156% from 1 January 2014 and make changes to the bank levy's detailed design that have the effect of widening the tax base – this will help to restore forecasts for future years' receipts to target, and ensure that banks make a fair contribution that reflects their risks to the financial system and the wider UK economy.

Longer-term impacts of corporation tax cuts

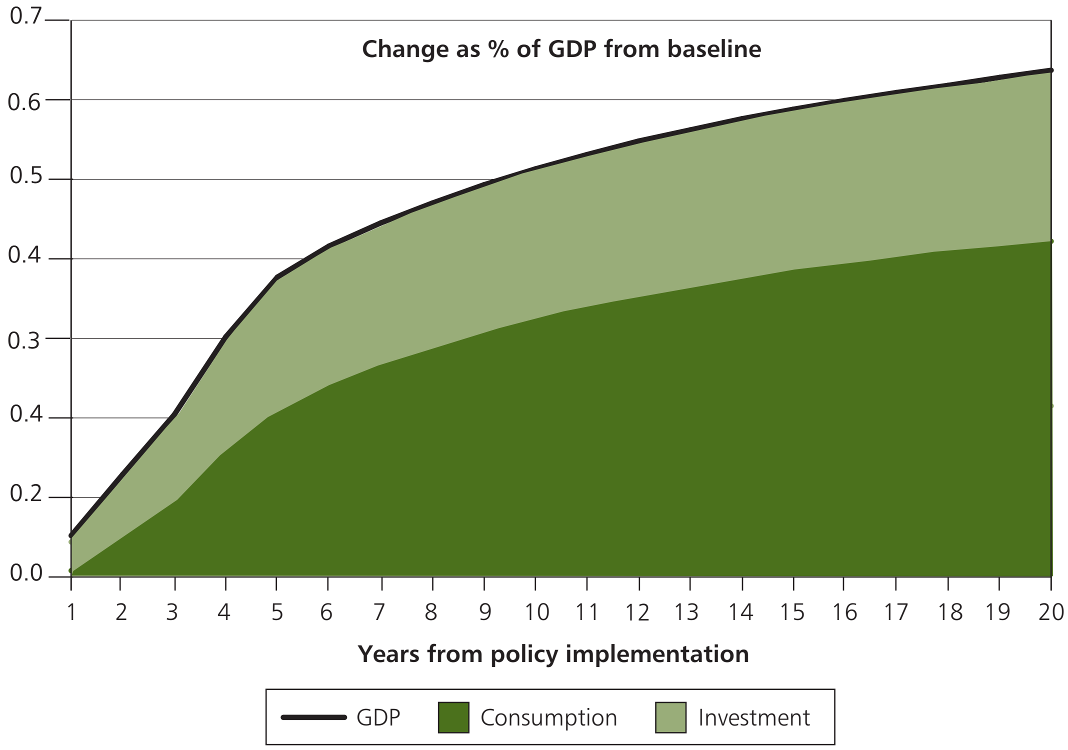
1.156 Reductions in corporation tax increase incentives for businesses to invest, improving labour productivity and helping living standards. Building on the Chancellor's commitment to develop more dynamic modelling of tax changes, the government has published economic modelling of the dynamic impacts of its corporation tax cuts.[69] This analysis looks beyond the normal forecast horizon and short-term shocks to model longer-term effects on the economy.

1.157 The government's cuts to the main rate and small profits rate of corporation tax are predicted to increase business investment by between 2.5% and 4.5% in the long term (equivalent to between £3.6 billion and £6.2 billion in today's prices).

1.158 Over the long term, higher capital investment will raise labour productivity, which in turn will increase household earnings. The combined effect of higher investment and household spending is to increase long-run GDP by between 0.6% and 0.8%, as shown in Chart 1.14. This growth will lead to higher tax revenue, reducing the cost of the policy by between 45% and 60%.

[67] 'Corporate Tax Reform: delivering a more competitive system', HM Treasury, 2010 available at www.gov.uk.
[68] 'Business Population Estimates for the UK and Regions 2013', BIS, 2013 available at www.gov.uk.
[69] 'Analysis of the dynamic effects of corporation tax reductions', HM Treasury and HMRC, 2013, available at www.gov.uk.

Chart 1.14: Modelled change in GDP and components from baseline as a result of corporation tax cuts



Source: Analysis of the dynamic effects of corporation tax reductions, HMRC and HMT, 2013

Support for businesses in the tax system

1.159 Business rates represent a fixed cost for businesses which can be more burdensome during times of economic difficulties. Autumn Statement 2013 announces a major package to help all businesses in England with the cost of business rates, with particular support for the smallest businesses – for whom business rates represent a higher proportion of overheads – and the retail sector. With no policy change, business rates for 2014-15 would have risen by 3.2%, in line with September 2013 RPI. Autumn Statement 2013 announces that **the government will support all businesses by capping the RPI increase in business rates to 2% in 2014-15**.

1.160 At Autumn Statement 2012, the government extended the doubling of the Small Business Rate Relief (SBRR) for a further 12 months to April 2014. **Autumn Statement 2013 announces a further extension of the doubling of the SBRR to April 2015**. This means that around 360,000 of the smallest business will continue to receive 100% relief from business rates until April 2015, with around a further 180,000 benefiting from tapering relief.[70]

1.161 The government recognises that the current design of the SBRR can act as a disincentive for the smallest businesses to grow. **Autumn Statement 2013 announces that the government will amend the SBRR criteria to allow businesses in receipt of SBRR to keep it for 1 year when they take on an additional property that would currently cause them to lose SBRR**. This will help the smallest growing businesses with expansion costs.

1.162 The retail sector is changing and high streets are experiencing challenges as they adapt to changing customer preferences. To support the retail sector, the government will:

- **introduce a discount of up to £1,000 against business rates bills for retail premises (including pubs, cafes, restaurants and charity shops) with a rateable**

[70] DCLG data.

value of up to £50,000 in 2014-15 and 2015-16, and will bring forward guidance on how the discount will be applied

- **introduce a temporary reoccupation relief, granting a 50% discount from business rates for new occupants of previously empty retail premises for 18 months**, to help reduce the number of boarded up shops on English high streets. The relief will be granted to businesses moving into long-term empty retail properties on or after 1 April 2014 and on or before 31 March 2016

1.163 Table 1.6 illustrates how these measures will benefit a selection of businesses of different sizes in 2014-15.

Table 1.6: Impact of Autumn Statement 2013 Business Rates measures

Property rateable value	Type of premises	Support in 2014-15	% change in 2014-15 bill compared to 2013-14	Total value of Autumn Statement 2013 support in 2014-15
£5,000	Guest house	100% SBRR	0%	£1,190
£10,000	Small café	SBRR tapering 2% cap £1,000 discount	-30.5%	£1,827
£15,000	Small shop	2% cap £1,000 discount	-12.5%	£1,075
£30,000	Pub	2% cap £1,000 discount	-4.7%*	£1,150
£45,000	High Street clothes shop	2% cap £1,000 discount	-2.4%*	£1,225
£100,000	Large shop	2% cap	2.3%*	£500

Source: HMT and DCLG calculations.
**This takes account of the 2% cap to the RPI increase plus the small business supplement.*

1.164 The rating system should provide an easy to use and prompt opportunity for ratepayers to understand their rateable value and challenge it if necessary. However, the current system lacks transparency, and large volumes of unsuccessful, sometimes speculative, appeals create delays for other businesses. Progress has been made on reducing the backlog in appeals, but it is still too high with over 168,000 cases outstanding as at September 2013.[71] The government:

- **announces a commitment to resolve 95% of outstanding cases by July 2015**
- **will consult in 2014 on changes to provide greater transparency over how rateable values are assessed, improve confidence in the system and allow well-founded challenges to be resolved faster, preventing backlogs building up in future**

1.165 The government has heard businesses' concerns about the operation of the business rates system more broadly, its transparency, complexity and responsiveness to economic circumstances. The government will **legislate to allow business rates bills to be spread over 12 months rather than 10 months as currently, with effect from 1 April 2014**, to help with cash flow and affordability. **The government will also discuss with business options for longer-term administrative reform of business rates post-2017.**

Tax simplification

1.166 The government's aim is for a tax system that is simple to understand and easy to comply with. The government has created the Office of Tax Simplification (OTS) in 2010, set

[71] 'Non domestic Rates (Business Rates): Local Rating Lists, Experimental Statistical Release', Valuation Office Agency, 2013, available at www.voa.gov.uk.

a target to reduce the annual cost to business of tax administration by £250 million by 2015, and introduced a new optional cash basis for calculating tax for the smallest self-employed businesses.

1.167 To reduce the burdens on businesses and individuals and make the tax system simpler, clearer and more efficient, the government:

- **has asked the OTS to carry out a review of what the government can do to improve the competitiveness of UK tax administration further**, with particular regard to the World Bank's *Doing Business* reports[72]
- **will implement 9 'Quick Wins' identified by the OTS's interim report on employee benefits and expenses by the end of January 2014**[73]
- **has published *Supporting Small Business (Making Tax Easier, Quicker and Simpler)*, a guide to the services and support offered by HMRC and will work with industry to ensure that start-up businesses know how to benefit from R&D tax relief**[74]
- **will replace complex corporation tax rules on associated companies with a new, simpler test**, completing the merger of the main and small profits rate of corporation tax recommended by the OTS

Access to finance

1.168 Access to finance for SMEs is vital for investment and growth. Credit conditions are improving, but longer-term challenges for SMEs remain.

1.169 To provide further support for business investment, the government has launched the British Business Bank, which is drawing together existing government initiatives under one roof and has begun to deploy £1 billion of additional capital to address gaps in the supply of finance to SMEs. **The government will use unspent funding from the Business Finance Partnership to provide a further £250 million for the British Business Bank's new schemes**. Together with its existing budget, this will enable the British Business Bank to:

- **invest in late stage venture capital funds which in turn invest in high growth potential SMEs**
- **launch an innovative new scheme to support the provision of lease and asset finance**
- **launch a programme of wholesale guarantees for SME loans**. These guarantees will incentivise lending to SMEs by reducing the capital lenders must hold, and will enable the Business Bank to achieve significant leverage

1.170 SMEs that wish to borrow should have confidence that they will be treated fairly by their bank. In April 2011 the 5 major UK banks launched an Independent Appeals Process for SMEs declined finance. It has already delivered an additional £30 million of funding with 40% of all declined decisions overturned on appeal.[75] The government believes that awareness of the Appeals Process amongst SMEs, particularly those actively seeking finance, is currently far too low. The banks have put forward proposals to address this which include the appointment of a senior champion within each major bank, steps to ensure that every SME that applies for finance or has an application turned down will be made aware of their right to appeal a decline

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[72] 'Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises', World Bank, 2013, available at www.doingbusiness.org.
[73] 'Review of employee benefits and expenses: interim report', Office of Tax Simplification, 2013, available at www.gov.uk.
[74] 'Supporting Small Business (Making Tax Easier, Quicker and Simpler)', HMRC, 2013, available at www.gov.uk.
[75] 'Banking Taskforce Appeals Process Independent External Reviewer Annual Report 2012/2013', available at www.betterbusinessfinance.co.uk.

decision, together with a campaign to raise awareness of the Appeals Process for every SME in the UK. The impact of these proposals will be assessed by the independent reviewer of the Appeals Process – Professor Russel Griggs. The government welcomes these steps and looks forward to continuing to engage with the banks as progress is delivered and further steps taken.

1.171 The government is taking action to improve competition in banking and make it easier for new providers to compete effectively, including requiring the major banks to publish postcode-level lending data – with the first dataset to be published in December 2013. To go further, **the government will consult on proposals to require banks to share information on their SME customers with other lenders through Credit Reference Agencies, with the intention of legislating in the next session of Parliament.**

1.172 The Office of Fair Trading (OFT) has been collecting evidence on whether banks are requiring SMEs to open or maintain a business current account in order to qualify for a loan. **The government has asked the OFT to take decisive action to end this anti-competitive practice, if needed.** The OFT has written to the big banks to remind them of their responsibility to comply with the rules that restrict this practice, and to ask them to provide the OFT with evidence of their compliance.

1.173 The government recognises the vital role which social organisations play in solving social problems, building communities and contributing to economic growth. **From April 2014, the government will introduce a new and innovative social investment tax relief to encourage individuals to invest in social organisations.** The relief will be available for equity and certain debt investments in charities, community interest companies and community benefit societies to help them become self-sustaining in the long term. It will be the first of its kind in Europe and builds on the pioneering work of Sir Ronald Cohen and others on social investment.

1.174 The UK leads the world in the development of social impact bonds. **The government has also decided to provide tax relief on investment in social impact bonds** where the special purpose vehicle is structured as a company limited by shares.

1.175 The government knows there is still more to do to improve the tax and legislative climate for social investment. **The government will therefore publish a road map for social investment in January 2014** setting out its next steps. These include seeking state aid clearance for a larger tax relief scheme, looking at options for supporting indirect investment and making changes to regulations for community interest companies to make them more attractive to investors and social organisations.

Investment in energy supplies

1.176 Reliable, affordable energy supplies are essential to the UK's ability to compete in the global race. The government is taking action to incentivise investment in UK energy supplies, while mitigating the impact of energy costs for the most energy intensive businesses.

1.177 The government is giving certainty to investors in renewable electricity over how much they will be paid for generating electricity. This will allow them to invest in building onshore and offshore wind farms, large solar and converting coal plant to biomass. The government is announcing the 'strike prices' and providing an update to key contract terms under Contracts for Difference that will be available for renewable generation from April 2015. This will put the UK on track to meet its renewable energy target and drive crucial investment in the UK's energy infrastructure.

1.178 This also includes incentivising investment in the exploration for, and development of, the country's indigenous oil and gas resources, including shale gas, to put downward pressure on wholesale prices and increase the UK's security of supply. Autumn Statement 2013 announces a new tax allowance to kick start the exploitation of onshore oil and gas (including shale gas) in the UK. The economic benefits that shale gas could bring – thousands of jobs, billions of pounds of business investment, and lower energy bills – would extend beyond oil and gas to other manufacturing sectors, which is why major industrial employers have publicly supported its development.

1.179 The new tax allowance builds on the success of offshore field allowances in increasing investment in technically and commercially challenging fields. Like existing field allowances, it reduces the tax rate on a portion of a company's profits from 62% to 30% to reflect the challenging nature of these developments. Companies will receive an allowance equal to 75% of their capital spend on these projects.

1.180 Independent analysis shows that this allowance makes the UK tax regime for shale gas the most competitive in Europe.[76] Evidence collected from operators also indicates that the allowance makes the effective tax rate for shale gas projects lower than in the US – making the UK an attractive, competitive opportunity for global operators.

1.181 The work the government has done is already creating the right environment for companies to invest, as demonstrated by several recent announcements by large oil and gas companies who have made big investment commitments to explore the UK's shale gas resources.

1.182 In addition to putting the right tax regime in place to encourage business investment, the government is committed to ensuring local communities benefit from shale gas projects and to streamlining the regulatory framework, while making sure activity is safe and sustainable. Already this year the government has:

- worked with industry to introduce a scheme to ensure local communities benefit from hosting shale gas projects. Local communities are guaranteed to receive £100,000 for every fracked well site during the exploration phase and at least 1% of revenue – up to as much as £10 million over the lifetime of a project – during production
- published guidance for industry, planning authorities and communities on how shale gas (and other onshore oil and gas) developments should proceed through the planning system[77]
- streamlined and simplified the regulation of exploration activity through the Environment Agency, including developing a single application form for permits

1.183 Alongside incentivising investment onshore, the government is committed to maximising economic oil and gas production offshore. **The government welcomes the interim findings of Sir Ian Wood's review on maximising economic production of the UK's North Sea reserves and will set out plans to make the most of the UK's offshore oil and gas fields in 2014**.[78]

1.184 In addition, government is taking action to support businesses across the economy with transport and distribution costs. Businesses have already benefitted from cuts to fuel duty, which will provide £22.5 billion of support to road users over this Parliament.[79] To incentivise a shift to cleaner, cheaper fuel, Autumn Statement 2013 **commits to maintain the differential between the main rate of fuel duty and the rate for road fuel gases such as Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG) for 10 years**. This will provide businesses with the certainty they need to invest in alternatively fuelled commercial vehicles, supporting the de-carbonisation of the UK transport sector and contribute to reducing the transport fuel costs of businesses.

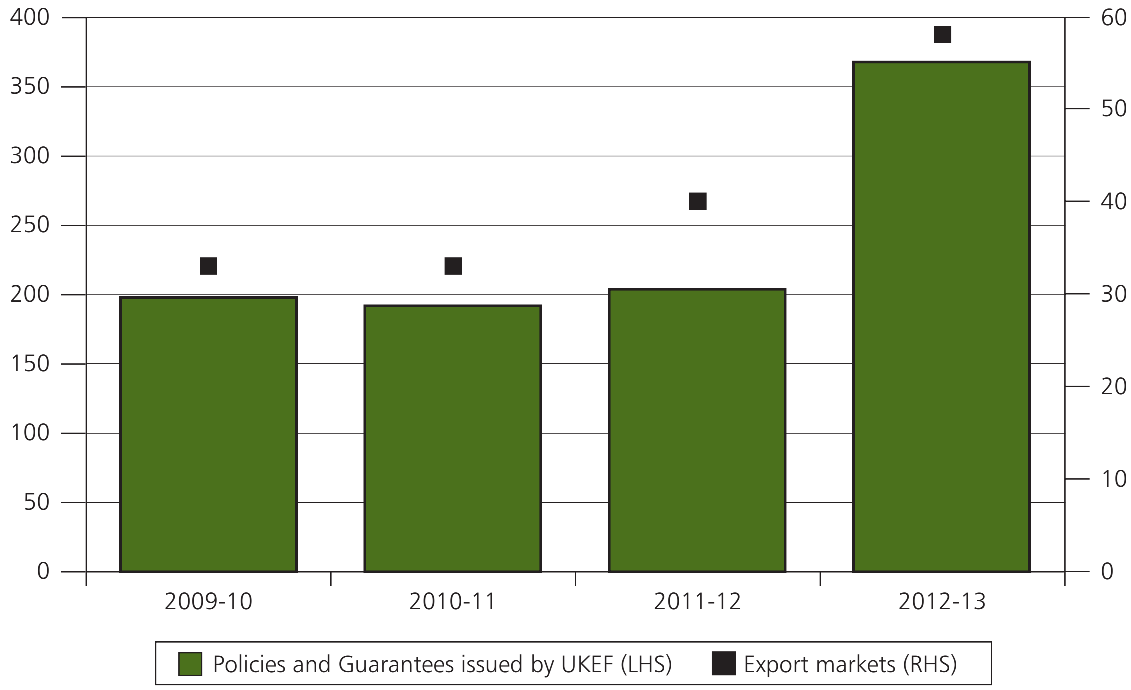
[76] 'Upstream Insight: UK advances shale gas fiscal incentives', Wood Mackenzie, 2013.
[77] 'Planning practice guidance for onshore oil and gas', DCLG, 2013, available at www.gov.uk.
[78] 'UKCS Maximising Recovery Review: Interim Report', Sir Ian Wood, 2013, available at www.woodreview.co.uk.
[79] HMRC and HMT calculations based on OBR Autumn Statement 2013 RPI forecasts.

1.185 The OBR forecast of receipts and spending on environmental levies is set out in Tables B.3 and B.4 in Annex B. An ONS decision to improve the methodology for estimating Renewable Obligation Certificates to better reflect the full costs has raised estimates of both receipts and spending compared with Budget 2013 (while having no effect on net borrowing).[80] This is a fiscally-neutral change in measurement, rather than a policy change, and reflects the methodology already used by government.

Support for UK exports

1.186 To help British exporters take advantage of opportunities in new and emerging markets, and reach its ambition of doubling exports by 2020, the government has already significantly increased the support it provides to British businesses. UK Trade and Investment (UKTI) is on course to reach its target of supporting 40,000 businesses in 2013-14, up from 23,600 in 2009-10.[81] Chart 1.15 shows how UK Export Finance (UKEF) activity has increased since 2009-10.

Chart 1.15: Number of UKEF transactions to support UK exporters and number of overseas markets where UKEF is active



Source: UKEF.

1.187 Autumn Statement 2013 announces further action to help UK businesses to succeed in global markets. The government will:

- **give UKTI greater financial independence and recruitment flexibility to back British business overseas and compete for inward investment**
- **establish British Business Centres to provide in-market services to SMEs in key emerging markets and step up UKTI coverage in China and India**
- **increase UKEF support to exporters, including: doubling UKEF's maximum commitment limit to £50 billion; broadening the scope of the existing Direct Lending and Working Capital Schemes in order to help more companies; doubling**

[80] 'Improving Government statistics – Aligning the Public Sector Finances and National Accounts and other developments to public sector statistics' (section 3.1.2), Office for National Statistics, 2013, available at www.ons.gov.uk.
[81] UKTI, 2009-10 data available at www.ukti.gov.uk, 2013-14 data is UKTI internal data.

the number of Export Finance Advisers; and supporting insurance, pension funds and other investors to lend in support of UK exporters

- **commit to the GREAT campaign in the longer term with a 50% increase in funding in 2014-15 and 2015-16** so that more of the world, including Emerging Markets such as China, India and Brazil, are aware of the UK's business, educational, tourism and cultural opportunities

1.188 While the UK has maintained its position as the most attractive destination in Europe for inward investment, the global market for foreign direct investment is increasingly competitive. To secure the UK's lead, this government is improving awareness and marketing of the Regional Growth Fund to inward investors and stepping-up support for investors through UKTI.

Support for areas of UK strength

1.189 Government has a role to play in providing targeted support to help UK industries succeed. The government has published sector strategies setting out plans for long-term partnerships between government and industry for 11 industrial sectors identified as offering significant growth opportunities for the UK economy.

1.190 The creative industries not only make a valuable cultural contribution to the UK, they are also an important part of a dynamic and diversified economy. To ensure that these highly skilled and innovative industries thrive in the UK, the government has introduced new reliefs for animation and high end TV, and already committed £16 million, industry match-funded, to support creative, digital skills in the UK and £15 million for innovative digital media content creation.[82] To go further, the government:

- **intends to introduce new support for theatres from April 2015 that recognises the unique value that the theatre sector brings to the UK economy**. A formal consultation will be launched in early 2014 that considers a limited tax relief for commercial theatre productions and a targeted tax relief for theatres investing in new works or touring productions to regional theatres
- **will make relief available at 25% on the first £20 million of qualifying production expenditure and 20% thereafter, for small and large budget films from April 2014, subject to state aid clearance. The government will also reduce the minimum UK expenditure requirement from 25% to 10% and will modernise the cultural test to align it with incentives in other member states and support visual effects and wider film production. The government will seek state aid clearance to increase the rate of relief to 25% for all qualifying expenditure when renotifying film tax relief in 2015**
- **will invest £5 million in the National Film and Television School's Digital Village**, to expand and upgrade its existing facility into a world-class training centre to provide a sustainable supply of UK talent for the digital and creative industries

1.191 Giving employees a meaningful stake in the business they work for can help companies to be more successful. At Budget 2013, the government announced that it would provide £50 million annually to incentivise growth of the employee ownership sector. **Autumn Statement 2013 announces that the government will go further and will provide additional funding of £25 million to support employee ownership, taking the total package for this sector to £75 million annually.** This will be used to fund:

- **a relief from capital gains tax on disposals of shares that result in a controlling interest in a company being held by a trust used as an indirect employee ownership structure**

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[82] 'Budget 2013', HM Treasury, 2013, available at www.gov.uk.

- **an annual exemption from income tax on bonuses or equivalent payments up to an amount of £3,600 paid to employees of companies that are indirectly employee owned**
- **an increase in the maximum annual value of shares that an employee can acquire with tax advantages under the Share Incentive Plans to £3,600 a year for 'free' shares and to £1,800 a year for 'partnership' shares. The Save As Your Earn savings contribution limit will be doubled from £250 to £500. This will be the first increase for these schemes in over a decade**

Equipping young people for the future

1.192 Autumn Statement 2013 sets out further action to ensure that young people have the skills they need to succeed. Continued advances in technology, particularly information technology, mean that an increasingly skilled workforce is vital for success in a modern knowledge economy. Across the Organisation for Economic Co-operation and Development (OECD) the share of employment that is in high-skilled occupations has risen by nearly 20% since 1998 and the share in low-skilled occupations has fallen by more than 12%.[83] Equipping young people with the skills to succeed in this evolving job market is crucial to securing UK global competitiveness in the recovery.

1.193 The way to ensure that young people are equipped with the skills they need is through world-class education. The government is taking action to reform every stage of the education system, through:

- investing in early intervention, by extending free early education to the 40% most disadvantaged 2 year olds by September 2014
- protecting spending on schools while radically reforming the system to raise standards, increase choice for parents, and target resources on disadvantaged pupils: over 3,400 academies and 176 free schools are now open with many more in the pipeline, and funding for the Pupil Premium will rise to £2.5 billion in 2014-15
- rolling out innovative University Technical Colleges (UTCs), which combine cutting-edge technical education with rigorous academic study. UTCs are set up and run by partnerships of universities and employers which are developed with the advice and support of the Baker Dearing Trust. Since September 2010, 17 UTCs have opened, and a further 27 proposals have been approved to open in due course. Once they are all open, these UTCs will be offering a high quality technical education to over 25,000 students. The Department for Education (DfE) will shortly be announcing the outcome of their assessment of the latest set of UTC proposals

1.194 Autumn Statement 2013 sets out further action to ensure the UK has the skills necessary to succeed as a modern knowledge economy, and young people have access to the jobs and experience they need to build their careers, by:

- supporting youth employment and improving basic skills, including making it cheaper to employ young people and investing to reduce the number of young people who are not in education, employment or training
- giving young people a choice of high-quality career paths by removing the cap on student numbers, reforming apprenticeships and providing additional funding for Start Up Loans

[83] 'OECD Skills Outlook 2013: First Results from the Survey of Adult Skills', OECD, 2013, available at skills.oecd.org.

Supporting youth employment and improving basic skills

1.195 Under this government, the state of the UK labour market has seen considerable improvement. Employment is at its highest ever level, while unemployment is now lower than when the coalition government came into power. However, there is much more to do to tackle youth unemployment, for which the rate stands at 24% for 18 to 20 year olds.[84] To help support young people and make sure that no one is left behind as the economy recovers, the government will make it cheaper for businesses to employ them. **Autumn Statement 2013 abolishes employer NICs for under-21 year olds earning less than £813 a week, equivalent to the point at which higher rate tax is charged, from April 2015**. It will apply to both existing employees and to employers taking on new staff. No individual's state pension entitlement will be affected by this measure. As a result:

- an employer will save over £500 for every under 21 year old earning £12,000
- an employer will save over £1,000 for every under 21 year old earning £16,000
- nearly 1.5 million under-21 year olds will be lifted out of employer NICs completely, with an average saving of £355 per employee

1.196 The government has acted on 3 early findings from the Cabinet Office's ongoing cross-departmental review of how best to support young people into work. The government is already raising the participation age for young people to age 18 by 2015. To support this and make it easier for young people who do not remain in full time education to find training opportunities, **the government will invest around £10 million a year in Jobcentre Plus support for 16 and 17 year olds who want help to find apprenticeships and traineeships, to be delivered in partnership with local authorities**. Alongside this, the government will ensure that the benefit rules do not impede the take-up and effectiveness of traineeships by exempting those undertaking a traineeship from the rule which prevents JSA claimants from doing more than 16 hours of study per week.

1.197 Low-skilled JSA claimants and those without work experience spend longer on benefits and find it more difficult to stay in employment when they find work.[85] And the recent OECD survey of adult basic skills places England 22nd for literacy and 21st for numeracy from 24 countries for young people.[86] The government is introducing a new requirement that all young people who have not achieved a level 2 qualification in maths and English at 16 should continue studying these subjects until age 19. Building on this, **the government will pilot a new scheme of support for young JSA claimants, under which:**

- **from day one of a claim, claimants without level 2 qualifications in English and maths will be required to do up to 16 hours per week of training alongside jobsearch or risk losing their benefits**
- **after 6 months on JSA, claimants will be required to participate in a work experience placement, a traineeship or community work placement**

A choice of high quality career paths

1.198 It is half a century since the Robbins Report into higher education in the UK set out the principle that *"courses of higher education should be available for all those who are qualified by ability and attainment to pursue them and who wish to do so"*.[87] Since then, the number of students in UK higher education has risen from 216,000 in 1962-63 to 1.78 million in 2011-12,

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[84] HM Treasury analysis, using Labour Force Survey data.
[85] 'Repeat Jobseeker's Allowance spells', DWP Research Report No 394, H. Carpenter, 2006; and BIS analysis using data from the Annual Population Survey (2012).
[86] 'OECD Skills Outlook 2013: First Results from the Survey of Adult Skills', OECD, 2013, available at skills.oecd.org.
[87] 'Report of the Committee on Higher Education', Robbins, 1963.

and the share of the UK labour force holding an undergraduate degree or higher in 2013 is 38%.[88]

1.199 At the same time, changes in technology have increased the demand for high skilled workers so that, despite higher supply, the premium in wages which graduates command over the less qualified has remained large and stable. Chart 1.16 shows that the share of the workforce in the UK and the US holding an undergraduate degree or higher has increased significantly from 1996 to 2011 and, crucially, this increased supply of graduates has not reduced wage differentials with the lower skilled. The fact that the wage premium has held up despite expansions in the number of students shows both that the demand for graduates remains high and that higher education is a very good investment for those who want to pursue it. Research suggests that the average net return over a lifetime of securing a degree is more than £100,000. Recent work by the Department for Business, Innovation and Skills (BIS) suggests that this is even higher, around £165,000 for men and £250,000 for women, taking account of fees and other costs of attending university.[89]

1.200 The government has reformed the funding for higher education, from 2012 allowing Universities to charge up to £9,000 per year in tuition fees, financed by income-contingent student loans. This has shifted the balance of funding from the general taxpayer to graduates. Demand for higher education from young people has remained very strong through the reforms, and application rates are now at or near record levels for every country in the UK. In particular, application rates from disadvantaged groups in England are at record levels. In 2004 demand from 18 year olds in advantaged areas was 4.3 times greater than in disadvantaged areas. This has fallen to 2.7 times in 2013.[90]

1.201 However, this strong demand for higher education significantly exceeds the supply of places. This is in part because the numbers of students providers can accept have been tightly controlled since 2009. This cap acts as a bar to aspiration, as people with the grades to enter higher education are excluded from doing so. And it also prevents the UK from developing the highly-skilled workforce demanded in modern economies.

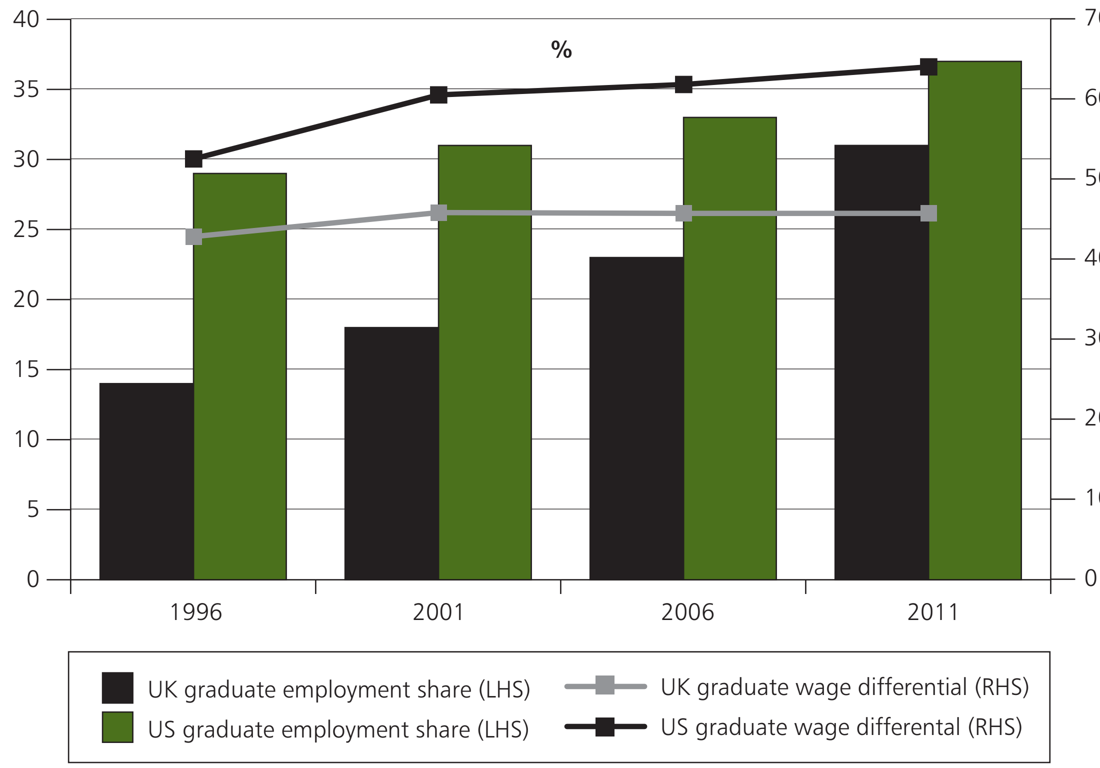
1.202 Autumn Statement 2013 announces that the government will remove the cap on student numbers at publicly-funded higher education institutions in England by 2015-16. This will enable institutions to expand their provision to meet demand from an estimated 60,000 young people a year who have the grades to enter higher education but cannot currently secure a place. **For 2014-15, the government will significantly increase the cap for HEFCE-funded institutions by 30,000**, allowing those institutions that want to begin expanding straight away to do so, and encouraging competition. To ensure that institutions provide places in the subjects most needed in the economy, the government will provide extra funding for STEM students of £50 million per academic year from 2015-16.

1.203 The government expects the extra cost of student grants and teaching grant to be around £720 million a year in 2018-19. The 2010 higher education reforms mean that students only pay back the full amount of their loan if their lifetime earnings are high enough. This means that there is an implicit subsidy in the loans. Based on current assumptions the government estimates that the cost of the extra implied subsidy in the medium term will be around £700 million a year. This expansion is affordable within a reducing level of public sector net borrowing as a result of the reforms to higher education finance the government has enacted. The additional outlay of loans over the forecast period will be more than financed by proceeds from the sale of the pre-reform income-contingent student loan book. Taking the two together, public sector net debt by 2018-19 will be lower as a result.

[88] 'Robbins Revisited', Social Market Foundation, 2013; Higher Education Statistics Agency, 2013; 'Graduates in the UK Labour Market' ONS, 2013.
[89] 'The Impact of Universities on the Lifecycle of Earnings: Some Further Analysis' BIS, Walker and Zhu, 2013.
[90] 'Demand for full-time undergraduate higher education (2013 cycle, March deadline)', UCAS Analysis and Research, 2013.

1.204 Freeing higher education institutions from number controls will help improve quality in the sector by increasing competition and allowing institutions who face strong demand to expand. To maintain quality in the sector and ensure value for money, **the government will retain number controls at alternative providers in 2014-15 on the basis of their 2012-13 levels. From 2015-16, it will allow student numbers at alternative providers to be freed in a similar manner as for HEFCE-funded provision**. The higher education sector has an internationally excellent reputation for quality. The government will continue to closely monitor quality of provision across the sector and reserves the right to reimpose number controls on institutions that expand their student numbers at the expense of quality.

Chart 1.16: Comparison of UK and US graduate employment shares and wage differentials 1996–2011[1]



Source: S. Machin and J. Lindley, Sutton Trust, 2013.

[1] The left hand axis is the employment share of those who have an undergraduate degree or higher in UK, or college degree, or higher in US as a percentage of people in work aged 26-60. The right hand axis is the log wage differential as a percentage. This is calculated by comparing the average wage of those who have an undergraduate degree or higher in the UK, or college degree or higher in the US, to the average wage for those whose highest quailification is a school level qualification (up to and including A-levels) in the UK, and high school graduates in the US.

Apprenticeships and entrepreneurship

1.205 Apprenticeships play a vital role in equipping young people with the skills they need to succeed in the labour market and build a rewarding career. This government has prioritised apprenticeships and delivered 1.5 million apprenticeship starts since 2010.[91]

1.206 To build on this success, the government will reform apprenticeship funding to ensure that employers are at the heart of the system and it delivers skills that meet the demands of UK businesses. **The government will put business at the centre of the apprenticeship system by enabling employers to receive funding for the training costs of apprentices directly through an HMRC-led system and ensuring that employers contribute**. This change will raise apprenticeship standards and ensure they align with the needs of business.

[91] 'Statistical First Release: Further Education & Skills: Learner Participation, Outcomes and Level of Highest Qualification Held', Skills Funding Agency and BIS, 2013 available at www.thedataservice.org.uk.

1.207 Alongside its investment in higher education, **the government will invest in higher apprenticeships. It will enable more people to develop high-level skills by providing £40 million to deliver an additional 20,000 higher apprenticeship starts over the next 2 academic years**.

1.208 The government launched the Start Up Loans programme in 2012 to support young people who, instead of pursuing further study or employment, want to start their own business. It provides loans and mentoring to budding entrepreneurs. To date, over 10,000 loans have been made and £162 million of funding has been committed to the scheme. The initial age limit on the scheme was removed in April 2013 in response to high demand, but it remains an especially valuable opportunity for young people. In order to meet the high levels of demand and achieve the scheme's objectives, **the government has committed an additional £160 million to Start Up Loans over 6 years**, doubling the amount of funding provided.

Science and Innovation

1.209 The UK has a world class research base, and the government is investing in innovation from basic science to the commercialisation of research.

1.210 Autumn Statement 2013 announces further measures in key areas to secure the UK's science base and take the lead in cutting-edge science and technology. The government is also driving innovation by supporting technologies that have the potential to provide major benefits to UK businesses and citizens. To support scientific research and to utilise cutting edge breakthroughs for economic growth the government will:

- **develop a network of Quantum Technology Centres**. The government will provide £270 million over 5 years to fund a programme to support translation of the UK's world leading quantum research into application and new industries – from quantum computation to secure communication
- **create a £75 million a year fund to improve the research and innovation capacity of Emerging Powers** and build valuable research partnerships for the UK
- **establish a Global Collaborative Space Programme**. The government will introduce a Global Collaborative Space Programme as an international pillar to our national space policy. A fund of £80 million over five years will enable UK scientists and companies to build stronger links with emerging powers in developing space capabilities and technology
- ensure that UK industry and the wider public benefit from the development of driverless cars including a review, reporting by end 2014, to ensure the legislative and regulatory framework supports the world's car companies to develop and test driverless cars in the UK, and **a prize fund of £10 million for a town or city to develop as a test site for consumer testing of driverless cars**
- **establish the Higgs Centre at Edinburgh University, named in honour of British Nobel laureate Peter Higgs**. The centre will provide cutting edge academic instrumentation and big data capabilities to support high tech start ups and academic researchers specialising in astronomy and particle physics
- **invest £5 million during 2014-15 in a large scale electric vehicle-readiness programme for public sector fleets**. The programme aims to promote the adoption of ultra low emission vehicles, demonstrating clear leadership by the public sector to encourage future wide-spread acceptance

1.211 To ensure that UK capabilities remain world leading in the long term, **the government will produce a Science and Innovation Strategy for Autumn Statement 2014**. Central to this will be a roadmap of how the government's long-term commitment on science capital announced at Spending Round 2013 will deliver the research and innovation infrastructure needed to ensure that the UK's capabilities remain world-leading while playing a key role in economic growth and scientific excellence.

1.212 Competitive markets are a key driver of innovation. **The government announces that the budget for the new Competition and Markets Authority (CMA) will be increased by £12 million in 2014-15**, to enable it to tackle cartels more effectively and open up markets to new entrants, disruptive technologies and greater investment. This will ensure that the combined competition authority is able to deliver a step change in competition enforcement from its first year.

Developing the UK's infrastructure

1.213 Infrastructure is the backbone of the economy, vital to growth and generating jobs now and in the future. The government is committed to providing the infrastructure necessary to address a legacy of historical under-investment and for Britain to compete in the global race. At Spending Round 2013, the government set out a long-term programme of capital investment, committing to publicly fund a pipeline of specific projects worth over £100 billion over the next Parliament, including for transport, science, housing and flood defence. NIP 2013 provides more detail on the £28 billion roads investment programme announced at Spending Round 2013.

1.214 The government has already delivered significant infrastructure improvements. Thirty six transport projects worth over £1.7 billion have been completed. Superfast broadband has now reached over 140,000 premises, with 10,000 additional premises being passed per week. 353 flood and coastal erosion schemes have been delivered, improving the standard of protection to over 112,700 homes. Spending Round 2013 set out a long-term funding envelope for HS2 of £42.6 billion (including £14.4 billion of contingency) at 2011 prices and in November 2013 the government deposited the phase 1 hybrid Bill into Parliament, which will authorise the construction and operation of phase 1 of HS2 between London and Birmingham.

1.215 In addition to the programme of capital spending set out at the start of this Parliament, at Autumn Statement 2011 and 2012 the government prioritised and brought forward capital investment on 27 road, rail and flood defence schemes. 99% of these schemes are on track according to the timetables set at the time of announcement. 2 of these schemes, and a further 11 individual projects, have completed as planned and a further 38 individual projects are in construction.[92]

National Infrastructure Plan 2013

1.216 The National Infrastructure Plan, first published in 2010, sets out the government's vision for UK infrastructure investment and its approach to delivering its key infrastructure objectives, to help businesses and investors plan for the future.[93] The 2013 update:

- brings together analysis of the UK's current and future infrastructure needs across different sectors for the first time
- articulates the rationale for selecting each of its Top 40 priority investments, and identifies key projects within those individual investments
- sets out new ways in which the government will drive delivery of the Top 40 investments, including a dedicated helpdesk and special consideration in the planning regime and UK Guarantee Scheme
- provides more detail on the timing, funding and status of each of its Top 40 priority investments

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[92] 'National Infrastructure Plan', Infrastructure UK and HM Treasury, 2010, available at www.gov.uk.
[93] 'National Infrastructure Plan', Infrastructure UK and HM Treasury, 2010, available at www.gov.uk.

- is published alongside the most robust forward-looking UK infrastructure pipeline ever, which includes more detail than ever before on the status of UK infrastructure projects

1.217 Table 1.7 sets out the status of the projects and programmes in the latest infrastructure pipeline. Of the total number of infrastructure projects and programmes in the pipeline, 291 (45%) are either projects in construction or part of a programme of investment where construction on one or more projects has begun. Seventy five of the projects under construction are due to complete by the end of 2015, worth over £3.3 billion of investment.[94]

Table 1.7: Status of schemes in the Infrastructure Pipeline

Sector	Scoping Phase	Planning and Consents	Consents Approved	Under Construction	Active Programmes	Total
Communications	0	0	0	1	6	7
Energy	90	55	81	54	35	315
Flood	22	2	7	12	24	67
Intellectual capital	2	0	0	4	2	8
Transport	65	12	2	55	49	183
Waste	0	2	12	20	0	34
Water	3	0	0	0	29	32
Total	**182**	**71**	**102**	**291**		**646**

Source: HM Treasury Major Infrastructure Tracking Unit.

1.218 The total value of pipeline investment increases year-on-year to 2015-16, reflecting long-term capital commitments to infrastructure the government made at Spending Round 2013, allocations or provisions for the next price control periods for regulated utilities, and increases in energy investment. However, over £260 billion of the pipeline is due to be invested beyond 2015 – this is a plan for the next decade and beyond, to ensure not only that the UK's immediate needs are met but also that the UK is equipped for the future.

1.219 NIP 2013 also sets out progress on the UK Guarantees Scheme, including **confirmation of a new cooperation agreement with Hitachi and Horizon with the aim of being able to agree an in-principle guarantee by the end of 2016 to support the financing of a new nuclear power plant at Wylfa, subject to final due diligence and ministerial approval.**

1.220 NIP 2013 also sets out details of further reforms to speed up the delivery of public and private infrastructure, including:

- **the introduction of a specialist Planning Court to tackle delays to infrastructure delivery** and reduce the impact of meritless claims raised through the Judicial Review process
- an overarching review of the Nationally Significant Infrastructure Planning Regime, focused on improving the pre-application phase and further streamlining of consenting, and **a freeze in planning fees for the Major Infrastructure Regime** until at least the end of this Parliament
- **the publication of a National Networks National Policy Statement** to provide policy certainty and confidence for the transport sector
- a new study on the economic regulators, focusing on how they could work together to improve the regulatory outcome for consumers and the economy as a whole. The study will consider how to develop better joint working, more clearly explain the role of economic regulation, and facilitate cross sector infrastructure investment. The work will be led by HM

[94] 'National Infrastructure Plan', Infrastructure UK and HM Treasury, 2010, available at www.gov.uk.

Treasury and BIS, with support from the economic regulators and their sponsor departments, and will report in spring 2014

- the government wants to ensure that households benefit from development in their local area. Building on the measures the government has already put in place at the local authority and community level (including the neighbourhood funding element of the Community Infrastructure Levy and the New Homes Bonus), the government will work with industry, local authorities and other interested parties to develop a pilot passing a share of the benefits of development directly to individual households.

1.221 NIP 2013 also announces government support for further capital investment, including:

- a £10 million competitive fund, opening in 2014, to market test innovative solutions, delivering superfast broadband services to the most difficult to reach areas of the UK. The government will continue to support local bodies to develop appropriate strategies to procure additional coverage in areas not covered by current plans, using the £250 million allocated at Spending Round 2013 to extend superfast broadband to 95% of UK premises by 2017
- support for the London Legacy Development Corporation and Mayor of London in developing their plans for the Queen Elizabeth Olympic Park. This aims to consolidate the success of the Games in order to maximise the economic and social benefits from the Olympic legacy, including plans for a new higher education and cultural quarter on the Park, in partnership with University College London and the Victoria and Albert museum

Insurance Growth Action Plan

1.222 The government has also published *The UK insurance growth action plan,* to enhance the position of the UK insurance sector as a global leader and increase its contribution to economic growth. It includes **a commitment by UK insurers to work alongside partners with the aim of delivering at least £25 billion of investment in UK infrastructure including, but not restricted to, projects in the published infrastructure pipeline, over the next 5 years,** building on the good outcome that the government achieved on the Solvency II Directive. The insurance sector is a key asset for the UK economy – employing over 300,000 people across the country, attracting global capital, serving the needs of consumers, and generating UK exports.[95] Further details of the action plan are set out in Chapter 2.[96]

Housing and planning

1.223 The government is committed to increasing the supply of housing and supporting those who aspire to own their own homes.

1.224 The government is taking action to ensure that the supply of housing responds to higher demand. The National Planning Policy Framework has streamlined planning policy, and £4.5 billon investment in Affordable Housing, £570 million Get Britain Building scheme, and £1 billion Build to Rent funds are providing support for new and stalled developments. These measures are working. Housing starts are now 89% above the trough in Q1 2009, the approval rate for planning applications is at a 13-year high, and over 100,000 new affordable homes have been built since 2011.[97]

[95] 'Key Facts About UK Financial and Professional Services', TheCityUK, 2013, available at www.thecityuk.com.
[96] 'The UK insurance growth action plan', HM Treasury, 2013, available at www.gov.uk.
[97] 'House Building: September Quarter 2013, England'', DCLG, 2013, available at www.gov.uk, 'Planning Applications: April to June 2013 (England)' and 'Planning Applications: April to June 2010 (England)', DCLG, 2013, available at www.gov.uk; 'Affordable Housing Supply: April 2012 to March 2013 England' and DCLG, 2013, available at www.gov.uk.

1.225 The government's Help to Buy schemes are supporting home ownership. Over 18,000 reservations for new homes have been made under the equity loan scheme since it was launched in April 2013. In the month since the Help to Buy: mortgage guarantee scheme rules were published, more than 2,000 people have put in applications to lenders totalling £365 million of new mortgage lending.[98] Over 900 developers have registered to deliver the equity loan scheme, and more than 65% of the mortgage market have committed to participate in the mortgage guarantee scheme.[99]

1.226 The government will take steps to address delays at every stage of the planning process, incentivise improved performance and reduce costs for developers, including:

- consulting on measures to improve plan making, including **introducing a statutory requirement to put a Local Plan in place**
- **legislating to treat planning conditions as approved where a planning authority has failed to discharge a condition on time**, and using legislative measures to strengthen the requirement for planning authorities to justify conditions that must be discharged before building can start
- **consulting on proposals to reduce the number of applications where unnecessary statutory consultations occur** and piloting a single point of contact for cases where conflicting advice is provided
- allowing developers to apply directly to the Department for Communities and Local Government (DCLG) where a planning authority makes fewer than 40% of its decisions on time
- carrying out an evaluation of the New Homes Bonus, which will complete at Easter 2014. **The government will consult on measures to further improve the incentive provided by the New Homes Bonus, in particular through mechanisms to withhold payments where planning approvals are made on appeal**
- **consulting on a new 10-unit threshold for section 106 affordable housing contributions**

1.227 Autumn Statement 2013 announces further action to boost housing supply and support home ownership. Building on the long-term capital settlements set out at Spending Round 2013, **the government will create a £1 billion, 6-year programme to fund infrastructure to unlock new large housing sites.** This will support the delivery of around 250,000 homes. The programme will begin in 2014-15, with investment decisions on 9 specific sites, capable of unlocking around 27,000 houses. £50 million of this will be earmarked for Local Enterprise Partnership supported bids, to deliver on their ambitions for housing growth.

1.228 The government will increase the funding available for new affordable homes, by increasing local authority Housing Revenue Account borrowing limits by £150 million in 2015-16 and £150 million in 2016-17, allocated on a competitive basis, and from the sale of vacant high-value social housing. This funding will support around 10,000 new affordable homes and will form part of the Local Growth Fund, available to local authorities who have a proposal agreed by their Local Enterprise Partnership (LEP). This will strengthen the role of the Local Growth Fund in transforming local economies, by providing much-needed housing to support growth. The government will prioritise bids on the basis of their value for money, and would expect partnership working with Housing Associations or through Joint Ventures. The government also expects bids to contribute public sector land, and disposal of high-value vacant stock to drive competitive bids. **To support this, the**

[98] 'Help to Buy puts new generation of home owners on housing ladder' (press release), HM Treasury 2013, available at www.gov.uk.
[99] 'New homes build Britain's recovery' (press release), DCLG, 2013, available at www.gov.uk.

government will ensure all councils are transparent in the value and size of their housing assets.

1.229 The government will also launch a review into the role local authorities can play in supporting overall housing supply.

1.230 The government will formally respond to the technical consultation on the New Homes Bonus and the Local Growth Fund in due course. The government will not include the New Homes Bonus in the Local Growth Fund, except for £70 million for the London Local Enterprise Partnership, which is chaired by the Mayor of London. The government will also make £110 million of Regional Growth Fund available for the Local Growth Fund. Alongside the funding for Large Sites and the Housing Revenue Account, which will be placed under the strategic influence of LEPs, **this additional investment will maintain the Local Growth Fund at £2 billion in 2015-16. The Local Growth Fund will be at least £2 billion every year of the next Parliament**. As set out in Spending Round 2013, the Local Growth Fund will bring the resources under the strategic influence of LEPs to at least £20 billion in the years to 2021. In addition to allocations from the Local Growth Fund, LEPs are encouraged to make the case for freedoms and flexibilities to support delivery of their wider strategic economic plans, with the presumption in favour of decentralisation.

1.231 The government recognises the importance of a fund that is flexible enough to meet the needs of local growth priorities. The government will determine the future composition of the Local Growth Fund at the next Spending Review.

1.232 As announced at Budget 2013, the government is conducting a feasibility study into the land auctions model. The government will report on its findings at Budget 2014.

Affordable Housing

1.233 The government's reforms to the Right to Buy scheme in 2012 have delivered a step-change in sales, supporting new affordable housing through 1:1 replacement of additional homes sold and helping buyers onto the housing ladder. Sales more than doubled from 3,740 in 2011-12 to 8,400 in 2012-13.[100] **The government will further support Right to Buy by introducing Right to Buy Agents to help buyers complete their home purchase, and provide £100 million to establish a fund to increase Right to Buy sales, by improving applicants' access to mortgage finance.**

1.234 The government also wants to help improve the chances of those in social housing. Regeneration of housing estates can reinvigorate blighted neighbourhoods, turning them into vibrant communities, as well as boosting the supply of housing in those areas. **The government will explore options for kick starting the regeneration of some of the worst housing estates through repayable loans.** The government also wants hardworking households to have the greatest opportunities to benefit by moving to take up a job or live closer to their employment or training. Those in social housing have limited choices. **The government will therefore consult on options for a right to move for local authority tenants who want to move home for reasons related to employment.**

Local Growth

1.235 The government is committed to delivering with Greater Cambridge their proposals on Gain Share – a payment by results mechanism whereby the local area will be able to keep a larger proportion of the proceeds of economic growth generated in, and around, the city of Cambridge. This recognises the growth potential that exists in Greater Cambridge and will drive economic growth and accelerate transport and housing infrastructure by unlocking over £1 billion of investment. The Government will announce details of how this proposal

[100] 'Right to Buy Sales: Jul 2013 to Sep 2013, England', DCLG, 2013, available at www.gov.uk.

will work alongside Budget 2014. Further information on City Deals will be announced in due course.

1.236 The government is working with Glasgow City Council to support delivery of Glasgow's vision for a City Deal which will help make Glasgow one of the fastest growing City Regions in the UK. The government is committed to delivering an ambitious City Deal for Glasgow by working with the Scottish Government and local delivery partners to deliver a package of support crossing devolved and reserved areas. Building on the City Deal work in England, the government will also work with the Devolved Administrations to explore whether aspects of the City Deal model could be applied across the UK.

1.237 In order to support the delivery of priority infrastructure projects, the UK government is planning to allow local authorities in Scotland and Wales access to cheaper borrowing at the Public Works Loan Board (PWLB) project rate. A total of £400 million of borrowing will be made available from 2014-15 to 2015-16 for the best, innovative growth-supporting projects, subject to agreement with the Devolved Administrations on the precise mechanics and conditions.

1.238 The government has also announced that nearly £800 million of borrowing at the PWLB project rate will be available to LEPs in partnership with local authorities in 2014-15 and 2015-16. This will be allocated on a competitive basis alongside the Local Growth Fund as part of growth deals.

Fairness

1.239 This government is determined to support the aspirations of hard-working people, and to ensure that no one is left behind as the economy recovers. Autumn Statement 2013 sets out further action to improve living standards, support people into work, and make the tax and welfare system fairer for everyone. The government will:

- deliver an average saving of £50 in household bills by reducing the impact of government policies on energy bills, while maintaining support for the poorest families and providing new home owners with incentives worth up to £1,000 to undertake energy efficiency measures
- freeze fuel duty for the remainder of this Parliament, by cancelling the increase planned for September 2014, saving the average motorist £11 every time they fill their tank by 2015-16; average pump prices will be 20ppl lower by the end of the Parliament than under pre-2010 plans
- provide free, healthy school meals for all infant school pupils in reception, year 1 and year 2
- introduce tougher conditions for benefits claimants to encourage work, and a new Help to Work scheme for the long-term unemployed
- allow married couples and civil partners to transfer £1,000 of their personal allowance to their spouse – worth up to £200 in 2015-16 to benefiting eligible couples
- cap the average increase in regulated rail fares for 2014 in line with RPI, complementing the decision by the Mayor of London to cap average fare increases in London for 2014
- take further action to tackle tax avoidance and evasion, raising more than £6.8 billion of new revenue over the forecast period – the largest package of any fiscal event this Parliament – and ensuring that everybody pays their fair share towards reducing the deficit
- introduce measures to reduce fraud, error and debt in the benefits and tax credit systems and to reduce levels of tax debt, delivering savings and additional tax revenues of more than £2.3 billion over the forecast period

Supporting living standards

1.240 The government's central strategy to deliver improved living standards is to support a sustained and responsible economic recovery. However, the government recognises the immediate pressure on households and has responded since 2010 with a range of policy interventions including:

- the largest ever increases in the level of the income tax personal allowance: from April 2014 the personal allowance will rise to £10,000, saving the typical taxpayer £705 per year compared to 2010[101]
- successive Council Tax freezes, saving the average household £1,100 during this Parliament[102]
- a new Tax-Free Childcare scheme which will support up to 2.5 million working families with 20% of their childcare costs
- protecting pensioners through the triple lock, guaranteeing ongoing increases in the basic State Pension

[101] Based on 2010-11 and 2014-15 personal tax parameters, HM Treasury analysis.
[102] DCLG figures on Council Tax freeze, www.gov.uk.

1.241 As a result of government policies and the resilience of the labour market, total real household incomes have grown by 3.9% since the crisis, and income inequality is at its lowest since 1986. Autumn Statement 2013 sets out further action to support household incomes.

Personal allowance

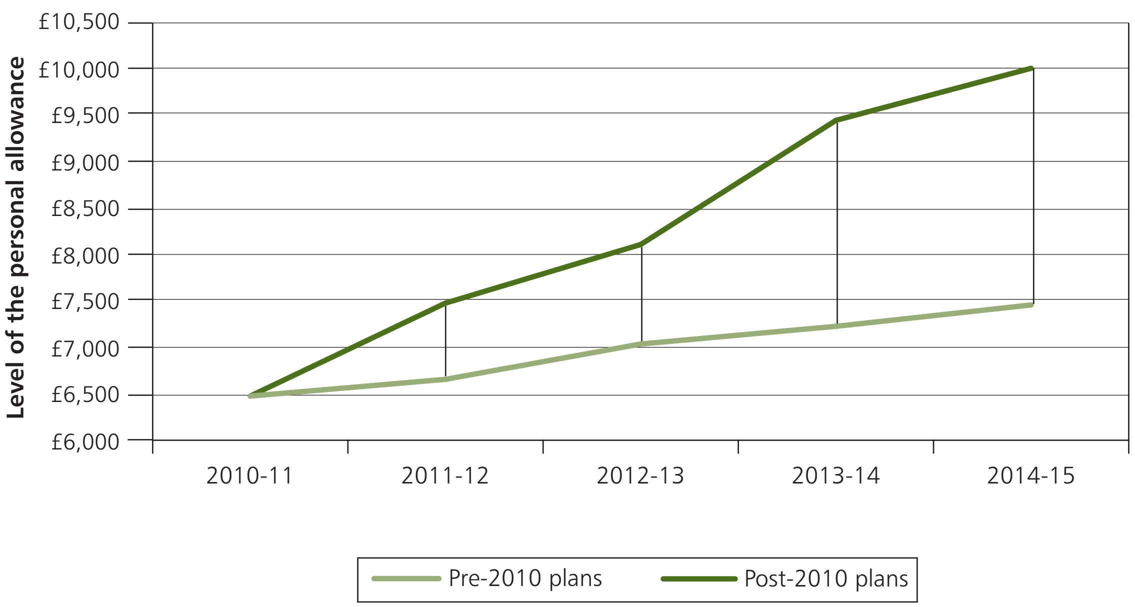
1.242 In May 2010 the Coalition Agreement set out the government's commitment to make the first £10,000 of income free from income tax. Budget 2013 announced that this commitment will be met a year ahead of schedule: the personal allowance will be increased by a further £560 to £10,000 from April 2014.

1.243 As a result, by April 2014 a typical basic rate taxpayer will pay £705 less income tax per year in cash terms than they would have in 2010-11, leaving them over £500 per year better off than under pre-2010 plans.

1.244 Individuals will feel the benefit of these increases every year. Chart 1.17 shows where the personal allowance will be compared to where it would have been under pre-2010 plans.

1.245 By April 2014, 2.7 million low income individuals will have been lifted out of income tax altogether since 2010, and 25.4 million individuals will have benefited from the increases in the income tax-free threshold.[103]

Chart 1.17: Personal allowance increases since 2010



Transferable tax allowance for married couples

1.246 Autumn Statement 2013 confirms that married couples and civil partners will be able to transfer £1,000 of their income tax personal allowance to their spouse. This will be effective from 2015-16 and will be available to couples where neither spouse is a higher or additional rate taxpayer. Choosing to transfer will mean that one spouse will pay tax on £1,000 less of their income – worth up to £200 in 2015-16.

1.247 Transferable tax allowances for married couples will benefit couples where one spouse does not use their full personal allowance. Transferring it to their taxpaying spouse will mean that the couple pay less tax together.

[103] Based on Survey of Personal Incomes (SPI) 2010-11 data and Budget 2013 OBR forecasts, HMRC analysis.

1.248 Autumn Statement 2013 announces that **the transferable amount will be uprated in proportion to the personal allowance.**

Childcare

1.249 High quality, affordable childcare is essential to improving childrens' life chances and supporting parents who want to get back into work. The government is prioritising investment in early education and childcare through increasing the free entitlement to 15 hours a week of free early education for all 3 and 4 year olds, and extending this offer to the 40% most disadvantaged 2 year olds by September 2014.

1.250 However, for some parents the high cost of childcare is still a significant disincentive to work. The government therefore announced at Budget 2013 a new Tax-Free Childcare Scheme for working families who do not already receive support through tax credits (or Universal Credit which is being rolled out gradually over the next few years). Tax-Free Childcare will be introduced from autumn 2015 and will ultimately provide 20% of childcare costs up to £1,200 per year for each child under 12.

1.251 The government has recently consulted on the detailed design and operation of Tax-Free Childcare. A response to the consultation will be published in early 2014.

Extending free school meals

1.252 Studies suggest that young children eating a healthy meal together at lunchtime can improve social skills and contribute to increased educational attainment, but some families struggle with the cost of school meals. In areas where universal free school meals have been piloted, key stage 2 pupils were on average 2 months ahead of their peers in English and mathematics, and these benefits were more marked among children from less affluent families.[104] Nutritious, universal free school meals will also benefit children's health. Around 10% of children are obese at the start of primary school, increasing to almost 20% by the time they leave.[105]

1.253 The government will make funding available to offer every pupil attending a state-funded school in reception, year 1 and year 2 a free school lunch from September 2014. Pupil Premium rates and eligibility will be unaffected. To assist schools with implementing this policy, the government will provide access to expert help and advice for schools that need the most support. **The government will also provide capital funding to increase capacity in school kitchens as well as funding to enable further education and sixth form colleges to provide free meals to disadvantaged young students**, in the way that school sixth forms are already required to do.

Energy

1.254 Energy bills have been rising sharply over the past 10 years. Between 2003 and 2012, the average household bill increased from £530 to £1,233 in cash terms, a rise of 88% in real terms.[106] This is largely because the price of gas on European markets has nearly tripled in nominal terms over the decade, which has in turn fed into UK energy prices.[107] The government cannot control the price of energy in the global market, but it can help bill payers by reducing the impact of social and environmental programmes on their bills and promoting competition.

Costs of government policy

1.255 The government's policies are helping to deliver the infrastructure the UK needs while meeting the government's environmental commitments and supporting vulnerable households

[104] Evaluation of the free school meal pilots, commissioned by the Department for Education and Department of Health.
[105] National Child Measurement Programme, 2011-12 school year, National Obesity Observatory, Public Health England.
[106] DECC, Annual Domestic Energy Bills – figures for average direct debit payment, www.gov.uk
[107] Statistical Review of World Energy 2013, www.bp.com

with their bills. These policies currently cost an average of £112 on bills and were projected to grow substantially in subsequent years.[108] In order to ensure that affordability objectives are met alongside security of supply and sustainability, the government is committed to ensuring these costs are kept to a minimum and do not rise beyond current levels to 2015.

1.256 Since 2010, the government has taken decisions to fund some policies through general taxation rather than through levies on bills. These include the Renewable Heat Incentive, rising to around £360 million by 2015-16, and a competition to demonstrate the commercial application of Carbon Capture and Storage (CCS), for which government funding is up to £1 billion.

1.257 The government is taking further action to reduce the cost of the policies which add to consumer bills. Autumn Statement confirms that the government will consult on reducing costs through:

- **a rebate saving domestic electricity customers £12 on their bill for the next 2 years, worth a total of £620 million.** The Warm Home Discount will continue to help millions of vulnerable households via a £135 rebate off their energy bill
- **reducing the cost of the Energy Companies Obligation (ECO), an insulation scheme delivered by major energy suppliers. This would result in £30-£35 off bills, on average, in 2014.**[109] The existing dedicated support in ECO for low income and vulnerable households would be maintained and extended from March 2015 until March 2017

1.258 In addition, electricity distribution network companies are willing to take voluntary action to reduce network costs in 2014-15. This will allow a further one-off reduction of an average of around £5 on electricity bills, which energy suppliers will also be able to pass on to their customers.

1.259 All of the major energy suppliers have confirmed on the basis of the proposals that they would pass the benefits of this package to their customers. However, the reduction in individual household bills will depend on the energy supplier. Some companies have not yet announced price rises for 2014, or have limited increases until the government's review of green levies has concluded. Others have announced price rises and have indicated that they would reduce their customers' bills as a result of these changes.

1.260 The value of the benefit will vary between companies, but on average, this package, including VAT, would be worth £50 to households, compared to what would have happened without these changes. This represents an aggregate saving to 26 million households of around £1.3 billion per year.

1.261 The government will ensure that its overall approach is carbon neutral by introducing new schemes worth £540 million over 3 years that will boost energy efficiency even further for home-movers, landlords and public sector buildings. It will:

- **provide energy efficiency grants of up to £1,000 for future home buyers to spend on important energy saving measures – equivalent to around half the stamp duty on the average house – or up to £4,000 for particularly expensive measures.** The scheme will be available to all people moving house including those who do not pay stamp duty, helping around 60,000 homes a year, over 3 years
- **introduce a scheme to support private landlords to increase the energy efficiency of their properties, which will improve around 15,000 of the least energy efficient rental properties each year for 3 years.** Together, the home-buyers and private rental schemes will be worth £450 million over 3 years

[108] DECC, Estimated impacts of energy and climate change policies on energy prices and bills, www.gov.uk
[109] Based on early indications of how suppliers will respond to the policies announced on 2 December 2013.

- **provide an additional £90 million over 3 years to improve the energy efficiency of schools, hospitals and other public sector buildings**

Competition and transparency

1.262 In 2010 there was no independent domestic supplier with a customer base greater than 50,000. Now, there are 3 independents with more than 100,000 customers, and a further 8 companies have entered the market since May 2010. However, 98% of domestic customers are still supplied by the 6 largest energy companies.[110] That is why the government and the Office of Gas and Electricity Markets (ofgem) are reforming the market by increasing transparency and promoting competition.

1.263 Ofgem's retail market reforms are simplifying tariffs and ensuring consumers are provided with clearer and better quality information to make it easier for them to determine the best deal for them and to switch if necessary. The government is working with Energy UK and the energy companies to speed up the switching process, with an ambition for consumers to be able to switch suppliers in 24 hours, as opposed to the 5 weeks that it takes currently. Making it simpler and quicker to switch will encourage consumers to engage more actively in the market and help drive competition.

1.264 In addition, the government announced in October 2013 that there will be a review of competition in the energy market led by Ofgem, working in conjunction with the OFT and the CMA. It will report by spring and will be carried out on an annual basis thereafter. This review will assess whether the market is competitive, and will recommend steps to make it more so, as necessary.

Fuel duty

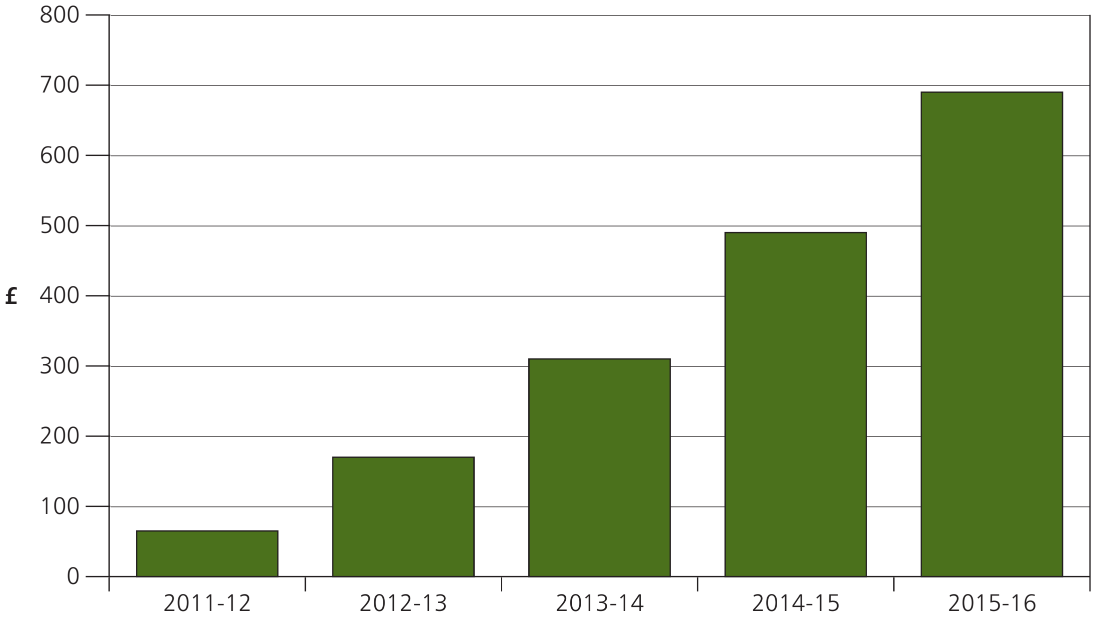
1.265 Autumn Statement 2013 announces that the fuel duty increase planned for September 2014, expected to be worth 1.61 ppl, will be cancelled. This ensures that fuel duty will be frozen for the remainder of this Parliament. In total, the duty will have been frozen for nearly four and a half years, the longest freeze for over 20 years.

1.266 As a direct result of government action, fuel duty in real terms is forecast to fall over this Parliament by 14%. Had the government implemented pre-2010 plans for the fuel duty escalator, rates would have increased by 7%.[111]

1.267 Furthermore, average pump prices are 13ppl lower than if the government had implemented the fuel duty escalator, and will be 20ppl lower by the end of the Parliament. This means that it currently costs the typical motorist £7 less to fill up their tank, and will cost £11 less by the end of the Parliament. In total, the government will have eased the burden on motorists by £22.5 billion over this Parliament. This equates to a saving of £680 for a typical motorist, £1,300 for a small business with a van, and £21,000 for a haulier by 2015-16.

[110] Ofgem's Retail Market Review report (October 2012), www.ofgem.gov.uk
[111] The fuel duty escalator would have increased the rate of fuel duty by RPI inflation plus 1ppl each year from 2010 to 2014.

Chart 1.18: Cumulative savings for the typical motorist each year (compared to pre-2010 plans to introduce a fuel duty escalator)



Source: HMRC/HM Treasury calculations on fuel duty are based on OBR Autumn Statement 2013 RPI forecasts.

Motoring

1.268 The government is taking further action to address costs for motorists. To bring down the high costs of fuel on motorways, new comparison road signs will be trialled which will show prices at different service stations along a route, making it easier for drivers to find the cheapest deal and encouraging competition on prices.

1.269 From 2014, **whiplash cheats, whose fraudulent compensation claims have driven up average motor insurance premiums, will be scrutinised by new independent medical panels.** This will ensure that only evidence from accredited professionals can be considered and will mean people can no longer profit from exaggerated or fraudulent compensation claims.

1.270 The statutory maximum price of the MOT test for a car will be frozen at £54.85 until 2015, a total saving of £50 million for motorists.

1.271 The paper tax disc will be abolished, removing an administrative inconvenience for millions of motorists.

Rail Fares

1.272 To help households with living costs **the government will further cap the average increase in regulated rail fares for the 2014 calendar year to RPI.** This will benefit over a quarter of a million annual season ticket holders who will, on average in 2014, save £25. For instance, an annual season ticket from Chelmsford to London should be around £35 less in 2014 than it would have been without this change whilst an annual season ticket from Oxford to London should be around £45 less. This measure will complement the decision by the Mayor of London to cap the average increase in Transport for London fares at RPI for 2014.

1.273 Autumn Statement 2013 confirms that **the permitted 'flex' above the overall cap on average rail fares will be reduced to 2%.** A commuter with a £2,000 season ticket could save up to £60 because of this measure, in a scenario in which the operator had chosen to apply the maximum permitted increase.

1.274 Autumn Statement 2013 also confirms **a trial of flexible rail season ticketing that will take place in the South East.** The innovative products being tested will benefit those who work flexibly or part-time.

Council Tax

1.275 At Spending Review 2013, the government announced that it intended to set the Council Tax referendum threshold at 2% for 2014-15 and 2015-16, with a grant equivalent to a 1% increase provided to local authorities in England that decide to freeze or reduce their Council Tax in 2014-15 and 2015-16. Any local authorities wishing to increase Council Tax beyond the threshold would have to consult local people.

1.276 The government has supported Council Tax freezes in every year of this Parliament. Council Tax would fall by 12% in real terms over the course of this Parliament if all local authorities froze Council Tax over the next 2 years.

1.277 Autumn Statement 2013 announces **a national Council Tax discount of 50% for annexes from April 2014.** This will support extended families living together, for example with children saving for a new home or elderly parents.

Pensions

1.278 Autumn Statement 2013 confirms that the basic State Pension will be increased in line with the triple lock in April 2014 – the higher of average earnings growth, inflation or 2.5%. This is a cash increase of £2.95 per week for the full basic State Pension. Triple lock means that the full basic State Pension in 2014-15 will be around £8.50 a week higher than it would have been if it had been uprated only in line with average earnings growth since 2011-12. **The benefits of the triple lock uprating will also be passed on to the poorest pensioners through an increase in the standard minimum income guarantee in Pension Credit to match the cash rise in the basic State Pension, and a rise in the Savings Credit threshold by 4.4%**. The effect of these two measures is broadly cost neutral.

1.279 As well as reforming the State Pension system for future pensioners, **the government will introduce a scheme to allow current pensioners, and those who reach State Pension age before the introduction of the new single tier pension, an option to top up their Additional State Pension record through a new class of voluntary National Insurance contributions.** The scheme will be introduced in October 2015 and will be time limited. The details of the scheme will be set out closer to the time of implementation, with the price of the new class of National Insurance being set at a broadly actuarially fair rate. The government will legislate for this scheme at the earliest available opportunity.

1.280 Budget 2013 announced that payments of £5,000 would be made to people who bought With-Profits Annuities from Equitable Life before September 1992, with a further £5,000 going to those on Pension Credit. **Autumn Statement 2013 confirms that the bulk of these payments will be made through direct payment into policyholders' bank accounts in December 2013.**

Supporting people into work

1.281 The introduction of Universal Credit will ensure that no one is better off on benefits than in work. Universal Credit began live operation as a Pathfinder in April 2013. The Pathfinder has now been operating successfully for 6 months and continues to be progressively rolled out across the country.

1.282 Alongside the Autumn Statement, the government has announced the next steps on Universal Credit, and has updated the migration schedule to reflect the testing and learning that is required to deliver a programme of this size and scope safely.[112]

1.283 The Universal Credit work allowances (disregards) for all claimants will be maintained at their current level for a period of 3 years from April 2014. The disregard is the net income that a claimant can earn prior to their benefit being tapered away. Universal Credit will be more generous than the system it replaces. **Three million households will be better off under Universal Credit, by an average of £174 per month.**

1.284 The government is committed to providing a benefits system that is fair to those that need it, but that is also fair to the taxpayer. As announced at Spending Round 2013, **the government will invest over £250 million in the first 2 years of a tougher regime of conditions for benefits claimants.** These measures are designed to ensure that claimants do everything they can to find work, and to reduce the number of claims being made by those who have undeclared earnings. Increased support to work is being introduced through:

- up-front work search, requiring jobseekers to write a CV and register on the Universal Jobmatch service immediately
- more frequent, weekly signing for half of all jobseekers
- quarterly interviews for all JSA claimants and those in the Universal Credit full conditionality group
- requiring all JSA claimants and Universal Credit claimants who are subject to work-related activity to wait 7 days before becoming eligible for financial support
- requiring claimants with poor spoken English to take immediate steps to improve this, with sanctions for those who fail to engage adequately
- requiring lone parents who are not working to prepare for work from the point where their youngest child turns 3
- requiring all JSA claimants and Universal Credit claimants who are subject to conditionality to verify their claim every year

1.285 Autumn Statement 2013 confirms that **the government will invest £700 million over 4 years in a new Help to Work scheme.** This will require all JSA claimants who are still unemployed after 2 years on the Work Programme to undertake intensive, often daily, activity to improve their employment prospects, or put something back into their community, with swift and severe sanctions for those who fail to comply.

1.286 Advisers will be given the power to mandate claimants to community work placements if their time out of the labour market has left them short of basic employment skills, experience and motivation – working full time for 6 months to maintain local green spaces, clear up litter or work for a local charity. A third of claimants will be required to intensify their job search by signing on daily for up to 3 months. For those with underlying problems, like homelessness and illiteracy, there will be an intensive regime of help.

1.287 Help to Work will provide the long-term unemployed with the experience and motivation they need to move back into work, and will particularly benefit those at the bottom of the income distribution. The different options for support will allow advisers to provide tailored help to individual claimants, while sending a clear message that every claimant must do everything they can to find work in return for their benefits.

[112] DWP, Written Ministerial Statement, www.gov.uk

Ensuring a fair contribution from business and individuals

1.288 The government is committed to ensuring that everyone contributes to reducing the deficit by paying their fair share of tax. That is why it is taking significant further steps this Autumn Statement to create a fairer tax system and ensure everyone pays the tax that is due.

1.289 The government announces a significant package of measures that will:

- ensure that those with the most in society make a fair contribution
- go further to clamp down on tax avoidance and aggressive tax planning, building on its success in dampening the avoidance market
- add to the unprecedented progress made in tackling offshore tax evasion and take further steps to tackle criminal gangs and fraudsters

1.290 Collectively, measures announced at Autumn Statement 2013 to tackle tax avoidance and evasion will raise more than £6.8 billion of new revenue over the forecast period and protect billions of pounds of revenue, making it the largest avoidance and evasion package announced this Parliament.

1.291 Supported by the government's investment of almost £1 billion in HMRC to tackle tax avoidance and evasion, HMRC has secured over £60 billion in compliance yield since the start of this Parliament. This is forecast to reach over £120 billion by the end of 2015-16, which is almost £40 billion more than would have been achieved had HMRC's performance stayed at 2010 levels.[113]

1.292 Building on this success, Autumn Statement 2013 announces that **the government will increase HMRC's compliance yield targets** so that HMRC will now be required to secure a further £3.7 billion in compliance yield by the end of 2015-16.

1.293 Autumn Statement 2013 also announces further activity to reduce levels of tax debt and to reduce fraud, error and debt in the benefit and tax credit systems. This will deliver savings and additional tax revenues of over £2.3 billion over the forecast period.

Creating a fairer tax system

1.294 The government is committed to a fair tax system in which those with the most contribute the most. Almost 30% of all income tax, a significant source of government revenue, is paid by just 1% of income taxpayers, with the top 5% paying around half of all income tax.[114] Since 2010, the government has taken action at every Budget to raise the amount of tax paid by the richest.

1.295 Autumn Statement 2013 announces further measures to ensure that those with the means to do so continue to pay their fair share of tax. The government will:

- **introduce capital gains tax on future gains made by non-residents disposing of UK residential property from April 2015** – a consultation on how best to introduce the new capital gains tax charge will be published in early 2014
- **reduce the capital gains tax private residence relief final period exemption from 36 months to 18 months to reduce the incentive for those with multiple homes to exploit the rules**

[113] HMRC Annual Report and Accounts and published performance data.
[114] HMRC Statistics: Shares of total income (before and after tax) and income tax for percentile groups, www.hmrc.gov.uk

Tackling tax avoidance and aggressive tax planning

1.296 The vast majority of people and businesses in the UK pay the tax they owe on time and do not try to avoid their responsibilities. But where they exist, tax avoidance and aggressive tax planning damage the ability of the tax system to raise revenue fairly and impose additional costs on all taxpayers.

1.297 Since June 2010, the government has been relentless in its efforts to tackle tax avoidance and has taken a range of action to prevent avoidance at the outset and to detect and tackle it more effectively where it persists. The government has introduced major reforms to the UK tax system, such as the General Anti-Abuse Rule and disguised remuneration legislation, made 34 changes to tax law to close loopholes, and taken a range of action to target the irresponsible minority of promoters who persist in selling tax avoidance schemes that have little or no prospect of success.

1.298 There are strong signs that the government's approach is working:

- disclosures of tax avoidance schemes fell by almost 50% between 2011-12 and 2012-13, and the number is continuing to fall, with only 17 schemes disclosed in the 6 months to September 2013[115]
- in 2004-05 almost 50% of all disclosures of tax avoidance schemes were made by major international accountancy firms; by 2012-13 that had fallen to 11%[116]
- the government's annual tax on enveloped dwellings, to clamp down on wealthy individuals who try to avoid tax by owning houses worth more than £2 million through companies, is expected to raise 5 times the original £20 million forecast for 2013-14
- since 2010, HMRC has secured more than £750 million extra tax from the UK's wealthiest taxpayers as a result of the government's investment in HMRC's High Net Worth Unit[117]
- 80% of the avoidance cases heard in the courts are being won by HMRC, with around £1.7 billion tax so far protected in 2013 alone, including over £1 billion by tackling large corporate tax avoidance schemes[118]

1.299 Despite these successes, a minority of taxpayers continue to seek out unacceptable ways to reduce the amount of tax that they pay. This increases the tax burden on the rest of society and creates an unfair playing field for businesses and employers. The government will therefore continue to take steps to close down avenues for tax avoidance and aggressive tax planning in 4 main areas.

Tackling avoidance by large business

1.300 Building on progress made during the UK's Presidency of the G8 in 2013, the government will continue to work with international partners through the G20 and OECD to prevent multinational companies from exploiting international tax rules to avoid paying tax, by taking forward work on the 15 Action Points identified in the Action Plan on Base Erosion and Profit Shifting.

1.301 Alongside this, the government is taking decisive action at home to ensure that domestic defences of the UK's competitive tax system are robust by tackling a number of schemes or arrangements being used by some companies to reduce their corporation tax liability in the UK.

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[115] HMRC Avoidance Disclosure Statistics, www.hmrc.gov.uk
[116] HMRC Avoidance Disclosure Statistics, www.hmrc.gov.uk
[117] HMRC internal statistics.
[118] Tribunal website figures (www.justice.gov.uk) and BAILLI figures (www.bailli.org).

1.302 Autumn Statement 2013 announces action to:

- **close down a corporation tax avoidance scheme exploiting the use of intra-group derivatives**
- **make changes to the Controlled Foreign Company (CFC) rules to prevent their abuse by addressing UK base erosion through the transfer of profits from intra-group lending offshore**
- **prevent offshore contractors who lease equipment to oil and gas operators from using associate companies in tax havens to minimise their UK tax bill**
- **improve the effectiveness of the worldwide debt cap rules by further limiting the ability of multinational groups to abuse them through allocating excessive debt to UK companies**

Tackling avoidance and aggressive tax planning by the richest

1.303 The government remains committed to ensuring that those with the most pay the most. This Autumn Statement **increases the contribution of the richest by a further £3.5 billion over the forecast period through measures to tackle tax avoidance including:**

- **preventing high-earning non-domiciled employees from avoiding tax by artificially splitting single employments to shift some of their employment income offshore and out of scope of UK tax**
- **as announced on 25 October 2013, acting to prevent large professional partnerships and wealthy individuals concentrated in private equity from abusing the rules on compensating adjustments in the transfer pricing code**

1.304 At Budget 2013, the government announced a review of partnerships, primarily to counter the use of limited liability partnerships to disguise employment relationships and the tax-motivated allocation of business profits to corporate partners, which are generally taxed at lower rates than individuals. During the consultation, the government received new information showing that the impact on alternative investment fund managers who operate as partnerships will be greater than anticipated. **Autumn Statement confirms that the government will take forward these proposals and that they will now bring in additional revenue over the forecast period.**

Tackling avoidance of employment taxes

1.305 Significant progress has already been made over this Parliament to tackle the avoidance of employment taxes by combating disguised remuneration, avoidance by Employee Benefit Trusts and ensuring the correct income tax and NICs are paid by employers and employees when offshore employment intermediaries are used. At Budget 2013, the government announced that it would continue to gather evidence about the avoidance of employment taxes to inform future policy decisions.

1.306 As the next step, **Autumn Statement 2013 announces action to prevent employers and employment intermediaries from avoiding employer NICs and circumventing their employer obligations.** The government strongly supports enterprise and those who choose to work for themselves, and believes that the tax system should continue to recognise the additional risk someone who is genuinely self-employed takes on. But the government is acting now to level the playing field so that companies cannot use employment intermediaries to disguise employment as self-employment and thus avoid employment taxes and deny employment rights to their workforce. **The government will legislate to prevent employment intermediaries from being able to use contrived contracts to**

disguise the employment of workers. This will take effect from April 2014 and raise around £400 million each year.

Clamping down on tax avoidance schemes

1.307 The government will build on its success in shrinking the market for selling and buying avoidance schemes by increasing sanctions for both promoters and users, and taking the first step in a ground-breaking new power which will require certain tax avoiders to pay any tax they try to avoid upfront.

1.308 Autumn Statement 2013 confirms that the government will:

- **introduce new requirements for users of failed avoidance schemes** to oblige them to settle the dispute where the avoidance scheme they are using has been defeated in another party's litigation through the Courts, with penalties attached for non-compliance
- **increase obligations and sanctions for high-risk promoters of tax avoidance schemes**, by introducing objective criteria for identifying and publishing the names of high-risk promoters, seeking more information from them and applying penalties where there is failure to comply. Their clients will also be required to identify themselves to HMRC

1.309 Autumn Statement also announces that the government will:

- **introduce a new power that requires taxpayers who are using avoidance schemes that have been defeated through the Courts to pay the tax in dispute with HMRC upfront.** This will provide HMRC will an additional tool to address a legacy stock of an estimated 65,000 avoidance cases, around 85% of which date back to before 2010. It will remove the cash advantage of sitting and waiting during an avoidance dispute, and bring in £700 million over the forecast period
- **consult on the scope for extending this power by widening the criteria for which taxpayers are required to pay any disputed tax upfront**

Tackling tax evasion and illicit trade

1.310 The government has made unprecedented progress working internationally to tackle offshore evasion. It has expanded the network of jurisdictions with which it automatically exchanges information to tackle offshore tax evasion, most recently through the groundbreaking agreements signed with the Crown Dependencies and Overseas Territories – namely the Isle of Man, Guernsey, Jersey, the Cayman Islands, Gibraltar, Bermuda, Montserrat, the Turks and Caicos Islands and the British Virgin Islands.

1.311 The UK has entered into agreements with Switzerland and the Crown Dependencies to recover significant amounts of previously unpaid UK tax. The UK-Swiss Agreement is now expected to secure a total of £1.9 billion over the forecast period. This is less than originally forecast and the government is working closely with the Swiss authorities to ensure the agreement is being fully and properly implemented. The agreement has, however, already yielded the Exchequer almost £800 million in unpaid tax which would not otherwise have been received.

1.312 A number of key measures introduced by the government to tackle avoidance and evasion have delivered significantly more yield than originally estimated. The UK's tax agreement with Liechtenstein, forecast to bring in a total of £630 million by 2013-14, has so far yielded over £800 million with over two and a half years left to run. The government's new annual tax on enveloped dwellings is expected to raise 5 times the original £20 million forecast for 2013-14. In addition, the proposals consulted on over the summer as part of the government's partnerships review will now bring in additional revenues of £1.9 billion on top of the original forecast.

1.313 The government has also worked with international partners in Europe, the G8, G20 and OECD to deliver a new global standard in automatic tax information exchange, which will provide a step change in the international community's ability to tackle offshore evasion. **Autumn Statement 2013 announces that HMRC will take action to ensure that it is ready to exploit the new data generated through the automatic exchange agreements it has recently signed, as well as the new global standard in automatic exchange, and that it will consult on enhanced sanctions to penalise those who hide their money offshore.**

1.314 As announced by the Prime Minister on 31 October 2013, the UK will lead by example by creating a publicly accessible central registry of company beneficial ownership information, to help prevent the misuse of companies for tax evasion, money laundering and other crimes.

1.315 Autumn Statement 2013 announces that the government will take further action to tackle tax evasion and illicit trading by criminal gangs and fraudsters. The government will:

- **increase HMRC's ability to remove illicit alcohol from the market by introducing a wholesaler registration scheme**
- **strengthen HMRC's capacity to disrupt the activities of organised criminal gangs operating in the road fuel market**
- **expand HMRC's international Fiscal Crime Liaison Officer Network and improve the intelligence flows between HMRC and the Border Force to tackle tobacco smuggling by organised criminals**

Tackling fraud, error and debt in the tax and benefits systems

1.316 This government is taking wide-ranging action to reduce fraud, error and debt in the tax and benefits systems. The government will invest an extra £140 million to ensure that everyone pays what they should, and to reduce the amount of debt owed to government.

1.317 To deliver savings of over £2.3 billion through reductions in fraud, error and debt, Autumn Statement 2013 announces that the government will:

- **stop tax credit payments during the year where, due to a change of circumstance, a claimant has already received their full annual entitlement** – this will prevent claimants building up overpayments that must be repaid at a later stage
- **maintain more regular contact with pensioners living abroad, to reduce overpayments in the state pension system that arise when a death goes unreported**
- **work in partnership with a private sector provider to carry out fraud and error checks to prevent money being paid out to tax credit claimants erroneously**
- **undertake more data matching across the benefits and tax systems to spot benefit claimants with undeclared income and to investigate these cases swiftly**
- **implement a Single Fraud Investigation Service to investigate fraud across the whole of the welfare system**
- **increase the use of private sector debt collection services to enable DWP and HMRC to expand their capacity to recover benefit and tax credit debts**
- **expand HMRC's capacity to collect additional tax debt that has gone repeatedly unpaid**

1.318 These measures will increase the government's ability to identify and tackle fraud, error and debt in the benefits and tax credit systems. As a result, HMRC will aim to reduce losses through error and fraud in the tax credit system towards 5.5% of finalised tax credit entitlement by 2014-15, down from 7.3% in 2011-12. The government has also been working with industry experts to consider measures that toughen and speed up sanctions for error and fraud. Further details will be announced shortly.

Distributional Analysis

1.319 Further information on the estimated distributional impact of this Autumn Statement is available in *Impact on households: distributional analysis to accompany Autumn Statement 2013*.[119]

[119] 'Impact on households: distributional analysis to accompany Autumn Statement 2013', HM Treasury, December 2013.

2 Autumn Statement policy decisions

2.1 Chapter 1 explains how the measures announced in this Autumn Statement advance the government's long-term goals. This chapter provides a brief description of all Autumn Statement policy decisions. These are decisions on tax measures, National Insurance contributions (NICs), measures that affect Annually Managed Expenditure (AME), changes to Departmental Expenditure Limits (DEL), and other policy measures. Unless stated otherwise, measures in this chapter are measures announced at this Autumn Statement or in the National Infrastructure Plan. The tables in this chapter set out the cost or yield of all Autumn Statement policy decisions with a fiscal impact in the years up to 2018-19.[1]

Fiscal impact of Autumn Statement policy decisions

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

2.3 Table 2.1 shows the cost or yield of all new Autumn Statement 2013 decisions with a direct effect on public sector net borrowing. This includes tax measures, measures affecting AME and changes to DEL.

2.4 Consistent with its commitment to transparency, the government is also publishing the methodology underlying the calculation of the fiscal impact of each policy decision. This is included in the supplementary document, *Autumn Statement 2013 policy costings*, published alongside this Autumn Statement.[2]

[1] The numbers in brackets after each measure refer to the line in Table 2.1 where its cost or yield is shown.
[2] 'Autumn Statement 2013 policy costings', HM Treasury, Department for Work and Pensions (DWP), and HM Revenue & Customs (HMRC), December 2013.

Table 2.1: Autumn Statement 2013 policy decisions[1]

	Head	£ million					
		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Spending Totals							
1 Spending total adjustment	Spend	+1,080	+1,120	+1,040	-	-	-
2 Special Reserve	Spend	+900	0	0	-	-	-
Households							
3 Income Tax: transferable marriage allowance	Tax	0	0	-495	-600	-660	-775
4 Free School Meals: extension	Spend	0	-620	-755	-	-	-
5 Fuel Duty: cancel 2014 increase	Tax	0	-415	-710	-735	-755	-780
6 Rail fares at RPI for 2014	Spend	-10	-35	-35	-	-	-
7 VED: direct debit	Tax	0	-5	-15	-15	-20	-20
Young People and Support for Work							
8 Employer NICs: abolish for under 21s basic rate earnings	Tax	0	0	-465	-495	-520	-530
9 Higher Education: abolish the cap on student numbers	Spend	0	-120	-290	-	-	-
10 Higher Education: additional funding for STEM subjects	Spend	0	0	-40	-	-	-
11 Further Education: additional higher apprenticeships	Spend	0	-10	-35	-	-	-
12 Help to work: support for long-term unemployed	Spend	0	-190	-230	-	-	-
13 Help to work: benefit savings	Spend	+25	+130	+140	-	-	-
14 New Enterprise Allowance: extension	Spend	0	-25	-55	-	-	-
Business Tax							
15 Business Rates: small business relief extension	Tax	0	-500	+65	+10	0	0
16 Business Rates: relaxing single property criteria	Tax	0	-5	-5	-5	-5	-5
17 Business Rates: cap increase at 2% in 2014-15	Tax	0	-270	-255	-255	-270	-275
18 Business Rates: £1,000 discount for two years for shops, pubs and restaurants up to £50,000 rateable value	Tax	0	-350	-425	+70	+10	0
19 Business Rates: reoccupation relief for retail premises	Tax	0	-5	-10	-5	0	0
20 Bank Levy: base and rate	Tax	0	+265	+520	+535	+535	+535
Enterprise and Housing							
21 Corporation tax: film tax relief	Spend	0	-10	-20	-	-	-
22 Employee Ownership: further support[3]	Tax	0	-15	-25	-25	-25	-30
23 Science: support for quantum technologies	Spend	0	-30	-35	-	-	-
24 Housing Revenue Account: additional flexibility[2]	Spend/Tax	0	0	-155	-5	+10	+20
25 Right to buy	Spend	0	0	-50	-	-	-
26 OTS Review: simplification of employee share schemes	Tax	0	+5	+5	+5	+20	+20
Energy and Environment							
27 Energy prices: support for vulnerable households	Spend	0	-320	-320	-	-	-
28 Energy efficiency: grants for households	Spend	0	-120	-120	-	-	-

29 Energy efficiency: grants for landlords	Spend	0	-30	-30	-	-	-
30 Energy efficiency: public sector	Spend	0	-30	-30	-	-	-
31 Fuel Duty: support for cleaner fuels	Tax	0	0	-5	-10	-20	-40
32 Climate Change Levy: data centres	Tax	0	-5	-15	-15	-15	-15
33 Corporation Tax: new pad allowance for shale gas	Tax	0	0	*	-5	-20	-20
Avoidance, tax planning and fairness							
34 Accelerated payments in follower cases	Tax	0	+135	+660	-35	-40	-45
35 Onshore employment intermediaries	Tax	0	+520	+425	+380	+415	+445
36 Dual Contracts	Tax	0	0	+85	+60	+60	+65
37 Compensating Adjustments	Tax	0	+60	+125	+120	+115	+110
38 Venture Capital Trusts: share buy-backs	Tax	0	+50	+35	+10	+20	+25
39 Avoidance schemes: using derivatives	Tax	+40	+40	+20	+10	0	0
40 Oil and gas: offshore chartering	Tax	0	+140	+115	+100	+90	+80
41 Partnerships: confirming extension to Alternative Investment Funds	Tax	0	0	+680	+430	+410	+400
42 Automatic Exchange of Information agreements with Overseas Territories	Tax	*	*	*	+25	+10	+5
43 Double taxation relief: closing loopholes	Tax	+10	+20	+5	0	0	0
44 CGT: amending final exemption period for private residences	Tax	0	0	+65	+90	+100	+105
45 CGT: application to non-residents	Tax	0	0	0	+15	+40	+70
46 Corporation tax: change of ownership rules	Tax	-30	-10	0	0	0	0
Fraud, Error and Debt							
47 Alcohol fraud wholesaler registration[4]	Tax	0	0	-5	+15	+230	+215
48 HMRC: extending online services[4]	Tax	0	0	+15	+50	+45	+50
49 Tax credits: improving collection and administration[2,4]	Spend/Tax	-5	+355	+615	+75	+10	+5
50 Tax credits: annual entitlement[2,4]	Spend/Tax	0	0	+65	+5	0	0
51 Tax debt: improved collection[4]	Tax	0	+55	+20	0	0	0
52 Overseas life certificates: extension	Spend	0	+20	+25	-	-	-
53 DWP fraud: sharing RTI data	Spend	0	+130	+20	-	-	-
Spending Round and Other Measures							
54 Gross tax costs of tax measures with spending impacts after 2015-16[5]	Tax	0	0	0	-20	-60	-85
55 Local authority capital receipts flexibility	Spend	0	+10	-20	-	-	-
56 Pension credit passthrough	Spend	0	-5	0	-	-	-
57 Final impact of Spending Round measures	Spend/Tax	+10	-60	-185	-185	-275	-380
58 Winter Fuel Payments: overseas eligibility	Spend	0	0	+20	-	-	-
59 Alcohol price floor	Tax	0	-5	-5	-5	-5	-5
TOTAL POLICY DECISIONS		**+2,020**	**-135**	**-75**	**-410**	**-570**	**-855**
Total spending policy decisions		+2,000	-45	-565	0	0	0
Total tax policy decisions		+20	-90	+490	-410	-570	-855

**Negligible*

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

[2] Spending measures do not affect borrowing in 2016-17, 2017-18 and 2018-19 as they fall within the Total Managed Expenditure assumption. Where numbers for spending measures are shown, this reflects tax elements to predominantly spending measures.

[3] This is additional to the £50m pa provided in Budget 2013.

[4] HMRC has been provided with additional funding of £150m for these measures. The costings are shown net of additional funding.

[5] These are adjustments for where tax policies have a spending element which feeds through to the TME assumption but not the bottom line in 2016-17, 2017-18, and 2018-19. See the Policy Costings document for further details.

Table 2.2: Update to Spending Round 2013, Table 3: Spending Round AME policy measures[1]

	Head	£ million					
		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Supporting Work[2]							
Additional interviews throughout claim	Spend	0	+55	+90	–	–	–
Seven waiting days for out-of-work claimants	Spend	0	+20	+90	–	–	–
Three-monthly interviews	Spend	0	+15	+25	–	–	–
Annual Verification[3]	Spend	0	0	+5	–	–	–
Social rent policy[4]	Spend/Tax	0	0	+55	-185	-275	-380
DWP benefits: recovering debt	Spend	0	+45	+55	–	–	–
Tax credits: recovering debt	Spend/Tax	+10	+75	0	–	–	–
Spending commitments not yet in Budgets[5]	Spend	0	-270	-505	–	–	–
TOTAL SPENDING REVIEW		**+10**	**-60**	**-185**	**-185**	**-275**	**-380**

[1] *All measures have been costed using latest OBR determinants and updated information. The net effect of these measures is set out in Table 2.1 line 57. Spending measures do not affect borrowing in 2016-17, 2017-18 and 2018-19 as they fall within the Total Managed Expenditure assumption. Both the Pension Credit and Manchester City Deal measures impact spending beyond 2015-16 and therefore have not been included in this table.*

[2] *Since the Spending Round, we have scored the impact of introducing the Supporting Work package in the legacy benefit system.*

[3] *This was previously a negligible measure.*

[4] *Local Authority rental income is classified as a receipt, and so scores as tax.*

[5] *This includes funding for the Supporting Work package, and other measures including tax free childcare and the additional operational and financial freedoms for museums. See Table 1, footnote 10 of Spending Round 2013.*

Public spending

Total Managed Expenditure

2.5 Total Managed Expenditure (TME) in 2018-19 will be held flat in real terms. The government will continue to prioritise capital investment over the medium to longer term so within the overall TME assumption, public sector gross investment (PSGI) will grow in line with GDP from 2018-19. Following Spending Round 2013 and in line with previous policy, TME in 2016-17 and 2017-18 will continue to fall in real terms at the same rate as over this Parliament. Fiscal consolidation for 2016-17, 2017-18 and 2018-19 is expressed as a reduction in TME. It would, of course, be possible to do more of this further consolidation through tax instead.

Table 2.3: Total Managed Expenditure[1]

	£ billion					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
CURRENT EXPENDITURE						
Resource AME	332.2	341.7	356.5	373.8	393.7	411.2
Resource DEL, excluding depreciation	317.8	316.7	313.0			
Ring-fenced depreciation	19.6	20.3	22.2			
Implied Resource DEL, including depreciation[2]				*328.4*	*316.8*	*310.1*
Public sector current expenditure	**669.7**	**678.8**	**691.8**	**702.2**	**710.5**	**721.3**
CAPITAL EXPENDITURE						
Capital AME	6.1	6.3	5.5	5.8	7.4	8.3
Capital DEL	42.1	45.5	46.9			
Implied Capital DEL[2]				*48.3*	*47.6*	*49.1*
Public sector gross investment	**48.2**	**51.8**	**52.4**	**54.1**	**55.0**	**57.5**
TOTAL MANAGED EXPENDITURE[3]	**717.8**	**730.5**	**744.3**	**756.3**	**765.5**	**778.7**
Total Managed Expenditure (%GDP)	*43.7%*	*42.7%*	*41.9%*	*40.7%*	*39.5%*	*38.4%*

Memo: average annual real growth in Total Managed Expenditure[3]		
	Over this Parliament	*-0.5%*
	In 2016-17 and 2017-18	*-0.5%*
	In 2018-19	*0.0%*

[1] Budgeting totals are shown net of the OBR's forecast Allowance for Shortfall whereas Spending Round 2013 tables showed AFS seperately. Resource DEL excluding ring-fenced depreciation is the Treasury's primary control within resource budgets, and is the basis on which Spending Review 2010 and Spending Round 2013 settlements were agreed. The OBR publishes public sector current expenditure in DEL and AME, and public sector gross investment in DEL and AME. A reconciliation is published by the OBR.

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

[3] The TME baseline for calculating assumed spending in the years beyond 2015-16 excludes the OBR's Allowance for Shortfall and the effect of all measures announced at Autumn Statement 2013.

Departmental Expenditure Limits

2.6 Reduction in departmental spending in 2013-14 – The government will reduce the Reserve provision in 2013-14 as a down payment on forecast underspends from departments, reflecting continued improvements in spending control and financial management. The Special Reserve provision is adjusted to reflect the planned reduction in personnel and equipment in Afghanistan as a result of further progress made by the Afghans in taking on responsibility for their security. The cost of operations will continue to be paid on the same basis. (1,2)

2.7 Reduction in departmental spending in 2014-15 and 2015-16 – Resource DEL budgets will be reduced by 1.1% in 2014-15 and 2015-16 to generate savings of £1.1 billion in 2014-15 and £1 billion in 2015-16. Health, schools and Official Development Assistance (ODA) budgets will continue to be protected in line with the policy set out at Spending Round 2013. Local government is excluded from this reduction to help local authorities freeze Council Tax in 2014-15 and 2015-16. HMRC is exempt from the reductions to enable them to continue to focus on tackling tax avoidance and evasion, and to contribute AME savings. The Single Intelligence Account is also excluded, reflecting the priority this government places on maintaining core counter terrorist capabilities and protecting UK citizens and interests against terrorism threats. (1)

Table 2.4: Reductions in departmental resource budgets[1]

	£ million	
	2014-15	2015-16
Education	167	156
NHS (Health)	0	0
Transport	41	36
CLG Communities	24	13
CLG Local Government	0	0
Business, Innovation and Skills	157	148
Home Office	118	113
Justice	77	71
Law Officers' Departments	6	6
Defence	277	272
Foreign and Commonwealth Office	13	13
International Development	0	0
Energy and Climate Change	12	11
Environment, Food and Rural Affairs	19	18
Culture, Media and Sport	13	12
Work and Pensions	84	68
Scotland	55	51
Wales	22	20
Northern Ireland	21	19
Chancellor's Departments	2	1
Cabinet Office	7	4
Small and Independent Bodies	7	7

[1] *The savings are entirely within non-ringfenced Resource DEL budgets. They may not sum to the savings in Table 2.1 due to rounding.*

2.8 Devolved Administrations' budgets – The Devolved Administrations' budgets will be adjusted in line with the Barnett formula and Statement of Funding Policy. As the Barnett formula is also applied to spending by the UK government at departmental level, each of the Devolved Administrations will benefit from additional funding to allocate according to their own priorities. As a result, each of the Devolved Administrations will see a net increase to their budget over the next 2 years.

International development

2.9 Official Development Assistance – The government will meet its commitment to spend 0.7% of the UK's Gross National Income (GNI) on ODA for the first time in 2013.

Financial transactions and contingent liabilities

2.10 A number of policy measures announced in this Autumn Statement do not directly affect public sector net borrowing in the same way as conventional spending or taxation. These include financial transactions that directly impact only on the central government net cash requirement (CGNCR) and public sector net debt, and transactions likely to be recorded as contingent liabilities. Table 2.5 shows the effect of financial transactions on CGNCR.

Table 2.5: Financial transactions: impact on central government Net Cash Requirement[1]

	Financial transactions	£ million					
		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
i	Higher education: abolish the cap on student numbers	0	-180	-600	-1,170	-1,670	-1,930
ii	Gross proceeds from the sale of the student loan book[2]	0	0	+2,300	+2,300	+2,300	+2,300
iii	Green Investment Bank[3]	0	0	-800	0	0	0
iv	Start Up loans	-10	0	-10	-40	-50	-50
v	Affordable rent to buy[3]	0	0	-300	-180	0	0
vi	Unlocking large housing sites[4]	0	-60	-255	-255	-255	-255
	TOTAL POLICY DECISIONS	**-10**	**-240**	**+335**	**+655**	**+325**	**+65**

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

[2] *The government expects to receive c. £12 billion in proceeds over 5 years, with a first sale by 2015-16. The proceeds are evenly distributed across a 5-year period for modelling purposes.*

[3] *These financial transactions were previously announced at Spending Round 2013.*

[4] *This measure was announced at Spending Round 2013, and is being extended at Autumn Statement 2013.*

Public sector pay and efficiency

2.11 Pay bill control – From 2014, the government will pilot a "pay bill control" in a small number of government organisations. Pay bill control will involve setting a new financial control to keep the organisation's pay bill within a pre-determined budget agreed with the Treasury. This new control will replace the 1% cap on pay awards for the organisations involved in the pilot.

2.12 Public sector pay beyond 2015-16 – The Treasury will consider how continuing reform of public sector pay policy can best contribute to consolidation beyond 2015-16, including how to get the best value for money from the pay bill.

2.13 Local service reform – The government will support local areas that want to deliver services differently if they can show it will save money, including by:

- allowing local authorities some flexibility to spend their receipts from new asset sales on the one-off costs of service reforms, following a recent consultation. Total spending of £200 million will be permitted across 2015-16 and 2016-17 and local authorities will be able to bid for a share of this flexibility (55)
- welcoming service reform proposals made by local enterprise partnerships (LEPs) as part of the Growth Deals process
- making sure pooled funding is an enduring part of the framework for the health and social care system beyond 2015-16
- working with departments to give local public services the same long-term indicative budgets as departments from the next Spending Review

2.14 Children's services: innovation programme – The government will launch a programme to increase the level of innovation in children's services to help local authorities improve outcomes and increase value for money, and will announce details ahead of Budget 2014.

2.15 Children's services: benchmarking tool – The Department for Education (DfE) and the Department for Communities and Local Government (DCLG) will work with local government to enable local authorities to benchmark and compare their costs and outcomes in children's services.

Public sector assets

2.16 Sale of student loan book – Following the successful sale of the remainder of the Mortgage Style student loan book, the government has appointed financial advisers to prepare for sale of the pre-Browne Income Contingent Repayment student loan book. The book will be disposed of in a number of tranches, with a first sale intended to occur by the end of financial year 2015-16. Over a 5 year period, the sale is expected to generate between £10 billion and £15 billion in sale revenues, with a central estimate of around £12 billion. Borrowers' loan terms will be fixed prior to a sale. The interest rate charged will remain at the Retail Prices Index (RPI) or base rate plus 1%, whichever is lower.

2.17 Asset sales – The government will increase the target for the sale of corporate and financial assets to £20 billion between 2014 and 2020. This includes (subject to value for money assessments and key policy objectives):

- a central estimate of around £12 billion expected from the sale of the Income Contingent Repayment student loan book over the target period
- additional assets identified for sale, which potentially could include London and Continental Railways property assets and the government's shareholding in Eurostar
- looking at options to bring private capital into the Green Investment Bank to enable it to operate more freely in delivering its objectives

In addition the government intends to launch an open approach to identify areas where private sector participation in government services or corporate and financial assets could be considered. This will take an informal approach and the most promising ideas will be considered in more detail.

Housing and local growth

2.18 Large Sites – The government will create a £1 billion, 6 year investment programme to fund infrastructure to unlock new large housing sites, supporting the delivery of around 250,000 homes.

2.19 Local Growth Fund – The government will maintain a £2 billion Local Growth Fund. The government will increase local authority Housing Revenue Account (HRA) borrowing limits by £150 million in 2015-16 and £150 million in 2016-17, allocated on a competitive basis and agreed by LEPs. The government will also make £110 million of Regional Growth Fund available for the Local Growth Fund. The government will also make £50 million of funding available to LEPs through the Large Sites scheme. (24)

2.20 New Homes Bonus – £70 million of the New Homes Bonus will be pooled within the London Local Enterprise Partnership, which is chaired by the Mayor of London. The New Homes Bonus will not be pooled to LEPs outside of London.

2.21 Right to Buy – The government will further support Right to Buy by introducing Right to Buy agents to help buyers complete their home purchase, and provide £100 million to increase Right to Buy sales by improving applicants' access to mortgage finance. (25)

2.22 Estate Regeneration – The government will explore options for effectively kick-starting the regeneration of some of the UK's worst housing estates through repayable loans.

2.23 Right to Move – The government will introduce a Right to Move for working households in social housing and consult on options during the spring.

2.24 Private rented sector guarantee – The government will extend the availability of the Private Rented Sector Guarantee Scheme until December 2016.

2.25 Local authority housing – The government will launch a review into the role local authorities play in supporting overall housing supply.

2.26 Large scale voluntary transfer – On 12 November 2013, the government published guidance setting out how local authorities can access support for debt write off as part of a transfer of their housing stock.

2.27 Social rent policy – In Spending Round 2013 the government announced that from 2015-16 social rents will increase by the Consumer Prices Index (CPI) plus 1% until 2024-25.

2.28 Affordable Rent to Buy – In Spending Round 2013 the government committed £400 million to support new affordable housing for rent and eventual sale.

2.29 Queen Elizabeth Olympic Park development plans – The government will support the London Legacy Development Corporation and Mayor of London in developing their plans for the Queen Elizabeth Olympic Park. This includes plans for a new higher education and cultural quarter on the Park, in partnership with University College London and the Victoria and Albert Museum.

2.30 Public Works Loan Board – The government will allow local authorities access to cheaper borrowing at the Public Works Loan Board (PWLB) project rate over the period 2014-15 and 2015-16, following on from the projects already confirmed. The government will:

- allocate nearly £800 million on a competitive basis alongside the Local Growth Fund. This will enable LEPs in partnership with local authorities to submit bids to borrow at the PWLB project rate as part of Growth Deals
- extend access to the PWLB project rate of up to £400 million for local authorities in Scotland and Wales. This will allow local authorities to invest in priority projects subject to agreement with the devolved administrations on the precise mechanics and conditions

2.31 Manchester City Deal – The government finalised Manchester's City Deal at Spending Round 2013, including the innovative 'Earn Back' mechanism, where Manchester will earn back money if it succeeds in generating additional economic growth. As a result of the City Deal, Manchester will undertake additional borrowing to invest in long-term infrastructure.

2.32 Glasgow City Deal – The government believes aspects of City Deals could be useful tools to boost growth and investment in cities outside England. Glasgow City Council has already expressed interest in exploring options for UK government support in reserved areas for a City Deal. The government is committed to delivering an ambitious City Deal for Glasgow by working with the Scottish Government and local delivery partners to identify a package that boosts Glasgow's economy.

2.33 Shetland Islands infrastructure support – The government will provide £10 million over 2 years to the Shetland Islands Council to support infrastructure development, recognising the vital contribution the council continues to make in supporting the oil and gas industry. The government expects the Scottish Government to commit similar sums to infrastructure development over that period.

2.34 Greater Cambridge Gain Share – The government is committed to delivering with Greater Cambridge their proposals on Gain Share – a payment by results mechanism whereby the local area will be able to keep a larger proportion of the proceeds of economic growth generated in, and around, the city of Cambridge. This recognises the growth potential that exists in Greater Cambridge and will drive economic growth and accelerate transport and housing infrastructure by unlocking over £1 billion of investment. The government will announce details on how this proposal will work alongside Budget 2014. Further information on City Deals will be announced in due course.

Living standards

2.35 Electricity bill rebate – The government will provide over £600 million funding for a £12 rebate on every domestic electricity bill for the next 2 years. (27)

2.36 Energy Companies Obligation (ECO) – The government will make a range of changes to ECO, including reducing the Carbon Emissions Reduction Obligation element of ECO by 33% for the period to 2015, and setting a target for the period to 2017 reflecting this same level of activity. This will result in £30 to £35 off bills, on average, in 2014.

2.37 Energy efficiency grant – The government will fund up to £1,000 for future home buyers to spend on important energy-saving measures – equivalent to around half the stamp duty on the average house – or up to £4,000 for particularly expensive measures. (28)

2.38 Energy efficiency support for landlords – The government will introduce a £90 million scheme to support private landlords in improving the energy efficiency of their properties, which will improve around 15,000 of the least energy efficient rental properties each year for 3 years. (29)

2.39 Public sector energy efficiency loans – The government will provide an additional £90 million of funding for public sector energy efficiency projects. (30)

2.40 Capping the increase in regulated rail fares – The government will limit the average increase in regulated rail fares to RPI for a year from January 2014. (6)

2.41 Cost of transport – The government will create a new webpage on www.gov.uk, providing a single source of information on the wide range of schemes designed to provide support to individuals and households to help manage the cost of transport.

2.42 Free school meals extended eligibility – The government will provide funding to support universal free school meals for children in reception, year 1 and year 2 and disadvantaged students in sixth form colleges from September 2014. Pupil Premium rates and eligibility will not be affected. The government will also provide capital funding to increase capacity in school kitchens and eating areas. (4)

2.43 Council Tax – The government will implement a national Council Tax discount of 50% for property annexes from April 2014.

Other spending measures

2.44 Sovereign grant – Sovereign grant will be £37.9 million in 2014-15, in line with the Sovereign Grant Act 2011.

2.45 Equitable Life – Budget 2013 announced that payments of £5,000 will be made to people who bought With-Profits Annuities from Equitable Life before September 1992. A further £5,000 will be paid to those on pension credit. Autumn Statement 2013 confirms that the bulk of these payments to living annuitants will be made through direct payment into their bank accounts in December 2013.

2.46 Minority language broadcasting in Northern Ireland – The government will confirm £4 million in 2015-16 to continue its support to the Irish Language Broadcast Fund and Ulster-Scots Broadcast Fund in Northern Ireland.

Personal tax and welfare

Income tax and National Insurance contributions

2.47 Transferable tax allowances for married couples – From 2015-16 spouses and civil partners will be able to transfer £1,000 of their income tax personal allowance to their spouse or civil partner. Couples where neither partner is a higher or additional rate tax payer will be eligible to transfer. The transferable amount will be increased in proportion to the personal allowance. (Finance Bill 2014) (3)

2.48 Employer National Insurance contributions for the under 21s – The government will abolish employer NICs for those under the age of 21 from April 2015, with the exception of those earning more than the Upper Earnings Limit, which is £42,285 a year (£813 per week) in 2015-16. Employer NICs will be liable as normal beyond this limit. This will be legislated for in the NICs Bill currently before Parliament. (8)

2.49 Tax exemption for employer-funded occupational health treatments – As announced at Budget 2013 the government will introduce a tax exemption for amounts up to £500 paid by employers for medical treatment for employees. In response to consultation the government will extend the exemption to medical treatments recommended by employer-arranged occupational health services in addition to those recommended by the new Health and Work Service. (Finance Bill 2014)

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

2.51 Social investment tax relief – The government will introduce a new tax relief for equity and certain debt investments in social enterprises with effect from April 2014. Organisations which are charities, community interest companies or community benefit societies will be eligible. Following consultation, investment in social impact bonds issued by companies limited by shares will also be eligible. The government will publish a roadmap for social investment in January 2014. (Finance Bill 2014)

2.52 Venture Capital Trusts (VCTs): changes to scheme – Following a consultation over the summer, investments that are conditionally linked in any way to a VCT share buy-back, or that have been made within 6 months of a disposal of shares in the same VCT, will not qualify for new tax relief. This change will take effect from April 2014. The government will also consult further on potential changes to VCT rules to address the use of converted share premium accounts to return capital to investors where that return does not reflect profits on the VCT's investments. To continue to facilitate use of VCTs by different types of retail investors, the government will change the VCT rules so that investors can subscribe for VCT shares via nominees. (Finance Bill 2014) (38)

Taxation of pensions and savings

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

2.54 Tax relief on loans to purchase life annuities – Following a consultation launched at Budget 2013, the government has decided not to legislate to withdraw relief for interest on loans taken out to purchase life annuities by people aged 65 or over before 1999.

2.55 Announcement of new ISA annual subscription limits – The government will uprate the ISA, Junior ISA and Child Trust Fund annual subscription limits in line with CPI. The 2014-15 ISA limit will be increased to £11,880 (half of which can be saved in a cash ISA). The Junior ISA and Child Trust Fund limits will both be increased to £3,840.

2.56 Class 3A voluntary National Insurance – In October 2015 the government will introduce a new class of voluntary NICs to allow pensioners who reach State Pension age before 6 April 2016 an opportunity to top up their Additional Pension records.

2.57 Drawdown: GAD Review – At Budget 2013, the government commissioned its Actuary's Department (GAD) to review income drawdown tables to ascertain if income drawdown rates are a reasonable match to annuity rates. In light of GAD's findings that withdrawal rates are a reasonable match to annuity rates, the government will not change the basis on which the GAD tables are formulated.

Capital gains tax

2.58 Capital gains tax (CGT): private residence relief – The government will reduce the final period exemption from 36 months to 18 months from April 2014. (Finance Bill 2014) (44)

2.59 CGT: non-residents – The government will introduce CGT on future gains made by non-residents disposing of UK residential property, from April 2015. A consultation on how best to introduce the new CGT charge will be published in early 2014. (45)

Employee ownership

2.60 Employee ownership – Following a consultation launched at Budget 2013, the government will introduce 3 new tax reliefs to encourage and promote indirect employee ownership:

- from April 2014, disposals of shares that result in a controlling interest in a company being held by an employee ownership trust will be relieved from CGT (Finance Bill 2014) (22)
- transfers of shares and other assets to employee ownership trusts will also be exempt from inheritance tax (IHT) providing certain conditions are met (Finance Bill 2014) (22)
- from October 2014, bonus payments made to employees of indirectly employee-owned companies which are controlled by an employee ownership trust will be exempt from income tax up to a cap of £3,600 per annum (Finance Bill 2014) (22)

2.61 Share Incentive Plans and Save As You Earn limits – The Share Incentive Plan annual limits will increase to £3,600 per year for free shares and to £1,800 per year for partnership shares. The maximum monthly amount that an employee can contribute to Save As You Earn savings arrangements will increase from £250 to £500. These changes will take effect from April 2014. (Finance Bill 2014) (22)

Inheritance tax and trusts

2.62 Simplification of trusts – Following consultation announced at Budget 2013, the government will legislate to simplify filing and payment dates for IHT relevant property trust charges. It will also introduce legislation to treat income arising in such trusts which remains undistributed for more than 5 years as part of the trust capital when calculating the 10-year anniversary charge. The government will consult on proposals to split the IHT nil rate band available to trusts with a view to delivering this change alongside simplification of the trust calculations in 2015. (Finance Bill 2014)

2.63 Vulnerable Beneficiary trusts – The government will extend with immediate effect from 5 December 2013 the CGT 'uplift' provisions that apply on the death of a vulnerable beneficiary and extend from 2014-15 the range of trusts that qualify for special income tax, CGT and IHT treatment. The government will consult further on ways to reform the tax treatment of trusts established to safeguard property for the benefit of vulnerable people. (Finance Bill 2014)

2.64 Inheritance Tax (IHT) online – During 2015-16, HMRC will provide an online service for IHT, reducing administrative burdens for customers and agents. (48)

Charities

2.65 Gift Aid – The government wants as many eligible donations as possible to attract Gift Aid, and will establish a new working group to revise the model Gift Aid Declaration to make it easier to understand, and to develop new promotional material to increase take-up. The government also intends to allow intermediaries to take a greater role in operating Gift Aid in order to reduce the number of instances where a new Gift Aid Declaration is given. However, following feedback from charities in the recent consultation exercise, it will consult further on the detail of how this can best be achieved, before changing legislation.

2.66 Cultural Gifts Scheme and estate duty – The government will amend legislation underpinning the Cultural Gifts Scheme to ensure that estate duty is brought into charge where appropriate. (Finance Bill 2014)

2.67 Community Amateur Sports Clubs (CASCs) – Following a consultation over the summer, the government announced on 25 November 2013 a series of reforms to the tax regime for CASCs. As part of these changes, from April 2014 donations by companies of gifts of money to CASCs will be eligible for corporate Gift Aid. (Finance Bill 2014)

2.68 Joint registration of charities – HMRC will develop a new IT system to allow charities that want to register with the Charity Commission for England and Wales, and also to apply to HMRC to claim charity tax reliefs, to submit their applications through a single online portal. (48)

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

Welfare

2.70 Discretionary Housing Payments (DHPs) 2013-14 – As announced by the Department for Work and Pensions (DWP) on 30 July 2013, the government has increased the amount of funding available for DHPs by £25 million in 2013-14, and made an additional £10 million of support available from DWP's existing DEL.

2.71 Discretionary Housing Payments 2014-15 and 2015-16 – The government will increase DHPs by £40 million in both 2014-15 and 2015-16. This will ensure the pot of DHPs available to support those affected by under-occupancy deductions will not be reduced for the next 2 years, giving councils discretion to make longer term awards. Funding of DHPs will be met from DWP's budget from 2014-15.

2.72 State Pension age – Future changes to the State Pension age will be driven by a guiding principle that people should expect to spend, on average, up to a third of their adult life in receipt of the State Pension. This implies that the increase in State Pension age to 68 could come forward to the mid 2030s, and the State Pension age could increase further to 69 by the late 2040s. DWP has published further details on how the principle will work in practice alongside this Autumn Statement. Changes to the State Pension age will be considered as part of future reviews.

2.73 Uprating of pensions benefits and tax credits – The government confirms that:

- the basic State Pension will be uprated by the triple guarantee: the higher of earnings, inflation or 2.5%. This means in April 2014 the basic State Pension will rise by 2.7%. This is a cash rise of £2.95 for the full basic State Pension

- the standard minimum income guarantee in Pension Credit will rise by the same amount as the cash increase in the basic State Pension. The Savings Credit threshold will rise by 4.4%. The net effect of these 2 measures is broadly cost neutral (56)
- the remaining benefits and tax credits which are not being uprated by 1% (as set out in Autumn Statement 2012) – including disability benefits, carers benefits, premia, and the Additional State Pension – will be uprated by 2.7% in April 2014, in line with inflation

2.74 Abolishing Assessed Income Periods in Pension Credit – As set out in Spending Round 2013, the government will remove the Assessed Income Period in Pension Credit awards. This means that from April 2016 households on Pension Credit will now need to report all changes in their circumstances that will affect their benefit as they happen. Pensioners aged 75 and over who have an indefinite assessed income period in place will be exempt unless the assessed income period would end under current rules.

2.75 Limiting exportability of winter fuel payments – As announced at Spending Round 2013, from winter 2015-16, winter fuel payments will no longer be payable to people living in an EEA country with an average winter temperature higher than that in the warmest region of the UK. (58)

2.76 Fraud and Error in DWP benefits: Life Certificates – The government will increase its activity on life certificates to ensure that state pension payments to pensioners living abroad are being made correctly, to shorten the period in which payment may continue erroneously after the person is deceased. (52)

2.77 Fraud and Error in DWP benefits: bulk data matching – The government will conduct a data-matching exercise for the entire benefit caseload in April 2014, with overpayments identified as a result of the match corrected during the 2014-15 financial year. This will compare information individuals have provided to HMRC for tax purposes with information they have provided to DWP for benefit claims. Any discrepancies will be passed to a fraud investigator. (53)

2.78 Fraud and Error in DWP benefits: Single Fraud Investigation Service – The government will implement from 2014 a single, integrated fraud investigation service to investigate welfare fraud across all benefits administered by DWP, HMRC and local authorities.

2.79 Recovery of benefit debt owed to DWP – The government will increase activity to recover benefit debt owed to government, using debt collection agencies with specialist skills in recovering difficult to collect debt. These contracts are resourced on a payment by results basis so represent good value for money for government.

2.80 Migration to Universal Credit – The government has set out the next steps on Universal Credit delivery. The work allowances (disregards) for all claimants will be maintained at their current level for a period of 3 years from April 2014.

Corporate tax

2.81 Energy tax: contracts for difference – The government will amend the definition of ‘contracts for difference’ in the corporation tax derivative rules to include the ‘investment contracts’ and ‘contracts for difference’ introduced in the Energy Bill. The change will be enacted through secondary legislation once the Energy Bill has received Royal Assent.

2.82 Bank Levy rate – The government will introduce legislation for the full rate of the Bank Levy to be set at 0.156% from 1 January 2014. (Finance Bill 2014) (20)

2.83 Bank Levy review – Following a 2013 review into the operational efficiency of the Bank Levy, the government will introduce legislation to:

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

These changes will take effect from January 2015, unless stated otherwise. A response to the consultation will be published alongside draft legislation on 10 December 2013. (Finance Bill 2014) (20)

2.84 Stamp Duty: House of Commons resolutions – Legislation will be introduced to ensure that any resolution for stamp duty would remain effective until replaced by an equivalent provision in the Finance Act. This is in line with the changes made to the Provisional Collection of Taxes Act by Finance Act 2011, as regards resolutions for other taxes and duties. (Finance Bill 2014)

2.85 Corporation tax: amending loss relief provisions – The government will amend existing corporation tax provisions to ease the rules restricting the availability of relief for corporation tax trading losses when companies change ownership. It will do that in 2 ways: by allowing a holding company to be inserted at the top of a group of companies and by amending the definition of 'a significant increase in capital' when a change of ownership occurs in a company with investment business, where it will be amended to the capital in the company after the change of ownership exceeding the amount of capital before the change of ownership by both £1 million and 25%. (Finance Bill 2014)

2.86 Changes to section 221 of Finance Act 2012 to allow regulations to be made to deal with Insurers Solvency 2 compliant instruments – The government will amend legislation to ensure regulations can be made to set out the tax treatment of Solvency 2 compliant capital instruments in advance of agreement to Solvency 2. The tax treatment of these instruments is uncertain under current tax legislation. (Finance Bill 2014)

2.87 Corporation tax: relief for theatres – The government will consult in early 2014 on the introduction from April 2015 of a limited tax relief for commercial theatre productions and a targeted tax relief for theatres investing in new works or touring productions to regional theatres.

2.88 Corporation tax: film tax relief – The government will make relief available at 25% on the first £20 million of qualifying production expenditure, and 20% thereafter, for small and large budget films from April 2014, subject to state aid clearance. The government will also reduce the minimum UK expenditure requirement from 25% to 10%, and will modernise the cultural test. The government will seek state aid clearance to increase the rate of relief to 25% for all qualifying expenditure when renotifying film tax relief in 2015. (Finance Bill 2014) (21)

Oil and gas taxes

2.89 Onshore oil and gas allowance – The government will introduce an allowance, with immediate effect from 5 December 2013, to support onshore oil and gas exploration and development. The allowance will exempt a portion of a company's profits from the supplementary charge. The amount of profit exempt will equal 75% of the qualifying capital expenditure a company incurs on onshore oil and gas projects. (Finance Bill 2014) (33)

2.90 Oil and gas exploration – The government will introduce a package of measures to support oil and gas exploration in the UK and UK Continental Shelf. The government will:

- extend the ring fence expenditure supplement from 6 to 10 accounting periods for all onshore ring fence oil and gas losses and qualifying pre-commencement expenditure incurred on or after 5 December 2013 (Finance Bill 2014)
- review options to mitigate the impact of the profit transfer targeted anti-abuse rule on oil and gas exploration and appraisal and similar activity in other sectors

The government will also make the following changes, which will have effect from the date that Finance Bill 2014 receives Royal Assent:

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

Indirect taxes

2.91 Fuel duty – The fuel duty increase that was due to take effect on 1 September 2014, expected to be worth 1.61 pence per litre (ppl), will be cancelled. (5)

2.92 Fuel duty incentives for cleaner fuels – The fuel duty differential between the main rate of fuel duty and the rate for road fuel gases such as compressed natural gas, liquid natural gas and biomethane will be maintained at current levels until March 2024. The differential between the main rate and the liquefied petroleum gas rate will continue to reduce by 1ppl each year to 2024. The government will review the impact of these incentives on vehicle uptake and the public finances at Budget 2018. The government will also seek EU approval to apply a reduced rate of fuel duty to methanol. (31)

2.93 Rural fuel rebate – The government has extended the call for information on extension of the current rural fuel rebate scheme to remote areas on the UK mainland. The government intends to submit its application for EU approval for the extension in January 2014.

2.94 Vehicle Excise Duty (VED) – The government will introduce legislation to reduce tax administration costs and burdens by making the following changes with effect from 1 October 2014:

- motorists will be able to pay their VED by direct debit annually, biannually or monthly, should they wish to do so. A 5% surcharge will apply to biannual and monthly payments (Finance Bill 2014) (7)
- a paper tax disc will no longer be issued and required to be displayed on a vehicle windscreen (Finance Bill 2014)

2.95 Alcohol price floor – As announced on 17 July 2013, the government will ban sales of alcohol below duty plus VAT in England and Wales from spring 2014. (59)

2.96 Filing VAT returns – The government will consult on draft amendments to regulations which will clarify the exceptional circumstances in which HMRC will allow alternative options for VAT registered businesses that are not able to file VAT returns online.

Environmental taxes

2.97 Climate Change Agreements: data centres – The government will introduce a climate change agreement for the data centres sector by the end of 2013. (32)

2.98 Climate Change Levy: exemption for mixed use fuel – The government will introduce a mixed use exemption from the climate change levy for solid fuels used in certain gasification processes.

2.99 Carbon Reduction Commitment (CRC): allowance prices for 2014-15 – CRC allowance prices in 2014-15 will be priced at £15.60 per tonne of carbon dioxide in the forecast sale and £16.40 per tonne of carbon dioxide in the buy to comply sale.

2.100 Aggregates Levy – As announced in the Written Ministerial Statement on 13 September 2013, the government will suspend the exemptions, exclusions and reliefs from the aggregates levy which are subject to the European Commission's state aid investigation, from 1 April 2014. The government will make provision for these to be reinstated should the outcome of the Commission's investigation allow, and to enable revenue received as a result of the suspensions to be repaid where practicable. (Finance Bill 2014)

Property tax

2.101 Business rates: indexation – The government will cap the RPI increase in business rates at 2% for 1 year from 1 April 2014. (17)

2.102 Business rates: discount – The government will introduce a business rates discount of £1,000 for retail and food and drink premises with a rateable value below £50,000 for 2 years up to the state aid limits from 1 April 2014. (18)

2.103 Business rates: reoccupation relief – The government will introduce a 50% business rates relief for 18 months up to the state aid limits for businesses that move into retail premises that have been empty for a year or more. Businesses which move into empty premises between 1 April 2014 and 31 March 2016 will be eligible for the relief. (19)

2.104 Small Business Rate Relief (SBRR) – The government will extend the doubling of SBRR for a further year from 1 April 2014. (15)

2.105 Small Business Rate Relief on second properties – The government will relax the SBRR rules to allow businesses in receipt of SBRR taking on an additional property to retain SBRR on the first property for 1 year, with effect from 1 April 2014. (16)

2.106 Business rates: payment – The government will allow businesses to pay business rates over 12 months rather than 10 months, with effect from 1 April 2014.

2.107 Business rates: appeals – The government will consult on reforms to the business rates appeals process and will commit to clear 95% of the September 2013 backlog of appeals before July 2015.

2.108 Business rates administration: longer-term reform – The government will publish a discussion paper in spring 2014 setting out the advantages and disadvantages of different options for longer-term reforms to business rates administration which maintain the aggregate tax yield.

2.109 Real Estate Investment Trusts (REITs) – The government will include REITs within the definition of 'institutional investor' from 1 April 2014.

Tax Simplification

2.110 Office of Tax Simplification (OTS) future review – The government has asked the OTS to carry out a review of what the government can do to further improve the competitiveness of UK tax administration, with particular regard to the World Bank's 'Doing Business' reports. Further details will be provided by the OTS shortly.

2.111 Office of Tax Simplification review of employee benefits and expenses – The government has implemented 4 of the 'Quick Wins' identified by the OTS in their interim report on employee benefits and published on 8 August 2013. The government will deliver a further 9 in January 2014 and consider a further 10 by the end of this Parliament. The government will consider the OTS's final recommendations ahead of Budget 2014 on receipt of its final report.

2.112 Government response to Office of Tax Simplification employee share schemes review – Following consultation announced at Budget 2013, the government will implement a package of simplifications proposed by the OTS on non-tax advantaged ('unapproved') employee share schemes. The changes will take effect during 2014. (Finance Bill 2014) (26)

2.113 Retail Export Scheme – HMRC has consulted on options for making the Retail Export Scheme easier to use and will publish a formal Summary of Responses before the end of 2013.

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

2.115 National Insurance for the self-employed – Following a consultation launched at Budget 2013, the government will continue to develop a simpler NICs process for the self-employed. A summary of responses to the consultation and details on next steps will be published in due course.

Avoidance and evasion

Business Tax

2.116 Avoidance scheme using Total Return Swaps – The government will close down a tax avoidance scheme, with immediate effect, which has enabled companies to pay their profits to a company in the same group located overseas, thus escaping a corporation tax liability. (Finance Bill 2014) (39)

2.117 Business premises renovation allowance – Following a technical review of the business premises renovation allowance published on 18 July 2013, the government is making changes to simplify the scheme, make it more certain in its application and reduce the risk of exploitation, with effect from April 2014. (Finance Bill 2014)

2.118 World wide debt cap provisions – The government will, with immediate effect from 5 December 2013, make 2 changes to improve the effectiveness of the world wide debt cap. The first change is to the grouping rules and the second change is to the regulation-making powers. (Finance Bill 2014)

2.119 Double taxation relief: closing loopholes – The government will, with immediate effect from 5 December 2013, close 2 loopholes to reinforce the UK's double taxation relief policy that relief for foreign tax should only be given where income has been doubly taxed, once in the UK and once in the foreign territory. (Finance Bill 2014) (43)

2.120 Modernising the taxation of corporate debt and derivative contracts – The government will introduce legislation to enhance existing anti-avoidance provisions at section 492 Corporation Tax Act 2009 (CTA 2009) to prevent abuse of the 'bond fund' rules in Chapter 3 of Part 6, CTA 2009, clarify and rationalise certain aspects of those rules, and permit corporate investors to make a claim in certain prescribed circumstances to disapply the bond fund rules. Legislation will also be introduced to clarify and rationalise the taxation of corporate partners where loan relationships and derivative contracts are held by a partnership. These changes follow consultation on the review of the legislation governing the taxation of corporate debt and derivative contracts. (Finance Bill 2014) (Finance Bill 2015)

2.121 Controlled foreign companies (CFCs): profit shifting – The government will, with immediate effect from 5 December 2013, make changes to the CFCs rules to address the transfer offshore of profits from existing UK intra-group lending, and also make a simple legislative fix to ensure the rules work as intended. (Finance Bill 2014)

2.122 Oil and gas bareboat chartering – The government will cap the amount deductible for intra-group leasing payments for large offshore oil and gas assets, known as bareboat charters, and introduce a new ring fence to protect the resulting revenue. The government will consult with industry in early 2014. (Finance Bill 2014) (40)

2.123 Code of Practice on Taxation for Banks – The government has published a list of those banks that have unconditionally adopted the strengthened Code of Practice on Taxation for Banks. Finance Bill 2014 will provide for HMRC to publish an annual report from 2015, which will name those banks that have and have not adopted the Code, and may also name any bank that in HMRC's opinion is not complying with the Code. (Finance Bill 2014)

2.124 Partnerships Review – At Budget 2013, the government announced a review of partnerships primarily to counter the use of limited liability partnerships to disguise employment relationships and the tax-motivated allocation of business profits to corporate partners, which are generally taxed at lower rates than individuals. During the consultation, the government received new information showing the impact on alternative investment fund managers who operate as partnerships will be greater than anticipated. The government is confirming that it will take forward these proposals and the expected yield from the measure has now increased to £3.27 billion from 2013-14 to 2018-19. (Finance Bill 2014) (41)

2.125 Corporate loss buying – The government made changes in Finance Act 2013 to the commencement rules originally proposed in draft legislation. The change confirmed that the rules do not apply in cases where there was a common understanding between the parties as to the principal terms of a transaction (that would otherwise have been within the scope of the new rules) before 20 March 2013. (46)

Personal tax

2.126 Artificial use of dual contracts by non-domiciles – The government will legislate to prevent a small number of high-earning, non-domiciled individuals from avoiding tax through the artificial division of the duties of 1 employment between the UK and overseas. From April 2014, UK tax will be levied on the full employment income where a comparable level of tax is not payable overseas on the overseas contract. (Finance Bill 2014) (36)

2.127 Compensating adjustments – As announced on 25 October 2013, the government will introduce legislation, with effect from 25 October 2013, to prevent abuse of the rules relating to compensating adjustments in the transfer pricing code. (Finance Bill 2014) (37)

2.128 Close company loans to participators – Following consultation launched at Budget 2013, the government does not intend to make any immediate changes to the structure or operation of the tax charge on loans from close companies to individuals who have a share or interest in them.

2.129 Employment intermediaries facilitating false self-employment – The government will amend existing legislation to prevent employment intermediaries being used to avoid employment taxes by disguising employment as self employment. The government will consult on strengthening existing legislation to ensure the correct amount of tax and NICs are paid where the worker is, in effect, employed, with effect from April 2014. (Finance Bill 2014) (35)

2.130 Charity avoidance vehicles – The government will introduce legislation to amend the definition of a charity for tax purposes to put beyond doubt that entities established for the purpose of tax avoidance are not entitled to claim charitable tax reliefs. (Finance Bill 2014)

2.131 Company car tax – To protect tax revenues, and taking effect from 6 April 2014, the government will introduce legislation to:

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

Tax evasion and fraud

2.132 Automatic information exchange agreements – Since Budget 2013 the government has signed automatic tax information exchange agreements with the Isle of Man, Guernsey, Jersey, the Cayman Islands, Gibraltar, Bermuda, Montserrat, the Turks and Caicos Islands and the British Virgin Islands. (42)

2.133 Offshore evasion strategy – HMRC will launch a project in early 2014 to ensure it is ready to exploit the data generated by the new automatic exchange of information agreements. At Budget 2014 HMRC will consult on a range of enhanced sanctions to penalise those who hide their money offshore and enhance deterrence.

2.134 Organised crime and offshore tax evasion – The government will expand the network of HMRC officers attached to British missions abroad to reduce the threat to the Exchequer from smuggling, fraud and fiscal crime by international organised criminal groups.

2.135 Oils fraud – The government will strengthen HMRC's capacity to disrupt the activities of organised criminal gangs operating in the road fuel market.

2.136 Alcohol fraud – Following consultation, the government will introduce new measures to reduce the illicit trade in alcohol products, including a registration scheme for alcohol wholesalers that will start to take effect in 2016, and also a requirement that from early 2014 alcohol traders take reasonable steps to ensure that their suppliers and customers are legitimate. (Finance Bill 2015) (47)

Marketed avoidance schemes

2.137 High-risk promoters – The government consulted over the summer on proposals announced at Budget 2013 to introduce a new information disclosure and penalty regime for the high-risk promoters of tax avoidance schemes. The government will introduce objective criteria for identifying high-risk promoters, and a higher standard of 'reasonable excuse and reasonable care' that will then apply to them. Clients of high-risk promoters will also be required to identify themselves to HMRC. (Finance Bill 2014)

2.138 Penalties in avoidance cases – The government consulted over the summer on proposals announced at Budget 2013, to introduce new powers requiring taxpayers to amend their tax returns in cases where a tax avoidance scheme they have used has been shown not to work in another party's litigation, and to face a new penalty if they pursue litigation on the same scheme and are likewise unsuccessful. The government will now act on those proposals and will also link them to the 'pay now' notices also introduced in this Autumn Statement. (Finance Bill 2014)

2.139 Accelerated tax payment in avoidance cases – In addition to introducing a new regime of follower penalties, the government will remove the cash advantage from sitting and waiting during a tax avoidance dispute by issuing new 'pay now' notices to taxpayers. These will initially be issued to taxpayers who are using tax avoidance schemes which have already been defeated in the courts. The government will also consult on the scope for widening the criteria for 'pay now' notices. (Finance Bill 2014) (34)

Fraud, error and debt

2.140 Tax credits: stopping payments where annual entitlement already received – From April 2015, tax credits payments will be stopped in-year where, due to a change in circumstances, a claimant has already received their full annual entitlement. This will prevent claimants building up overpayments that must be repaid at a later stage. (50)

2.141 Expanding collection of tax credit debt – The government will expand the use of private sector debt collection services. (49)

2.142 Using the private sector to increase capacity in error and fraud – The government will work with a private sector partner to carry out fraud and error checks. (49)

2.143 Fixed term appointments for debt – HMRC will make use of fixed term appointment staff to collect debts that HMRC would otherwise be unable to collect. (51)

2.144 Tax credits: recovering debt – Spending Round 2013 announced that HMRC will pay debt collection agencies on a payment by results basis to collect additional tax credit debt.

Tax compliance and administration

2.145 Large business tax risks – The government will further strengthen HMRC's capacity to assess the tax risks posed by large multinational companies.

2.146 Compliance yield target – The government will increase HMRC's compliance yield targets by £2.5 billion to £23 billion in 2013-14 and £0.6 billion in each of 2014-15 and 2015-16 to £24.1 billion and £25.1 billion respectively.

2.147 HMRC Data – Following consultation, the government will proceed with next steps to make aggregated and anonymised HMRC data available for wider public benefit, publishing draft legislation for further consultation in early 2014. The government will also continue work on proposals to release VAT registration data, announcing decisions in early 2014.

Financial services

2.148 Release of debts in resolution – As announced on 26 November 2013 and taking effect from that date, the government will introduce legislation to amend the corporation tax rules on loan relationships that apply to cases where credits are not required to be brought into account on the release of debts. It will include the case where a debt is released as a result of the application of any of the stabilisation powers under Part 1 of the Banking Act 2009. (Finance Bill 2014)

2.149 Loan origination – The government will publish an initial consultation to explore how a regime to allow loan origination by investment funds might be introduced in the UK.

2.150 Exchange traded funds (ETFs) – From April 2014 the government will remove the stamp duty and Stamp Duty Reserve Tax (SDRT) charge on purchases of shares in ETFs that would currently apply if an ETF were domiciled in the UK.

2.151 Retail participation in capital markets: increasing retail bonds for ISAs – The government is exploring whether to increase the number of retail bonds eligible for stocks and shares ISAs by reducing the requirement that such securities must have a remaining maturity above 5 years.

2.152 Retail participation in capital markets: public equity markets – The government will publish a discussion paper on enhancing equity financing in the UK, including options to improve access to public equity markets for UK businesses and retail investors.

2.153 Accelerate removal of quarterly reporting requirements – The government will introduce an element of the Transparency Directive in advance of the November 2015 deadline for implementation, to remove the requirement for listed companies to publish quarterly reports. The government plans to bring forward enabling secondary legislation early in 2014, allowing the Financial Conduct Authority to implement this change following public consultation.

2.154 Insurance Growth Action Plan – The government published on 4 December 2013 an action plan to increase the contribution of the UK insurance sector to economic growth, including a commitment by the UK insurance industry to work alongside partners with the aim of delivering at least £25 billion of investment in UK infrastructure over the next 5 years.

Supply-side reform of the economy

Science and innovation

2.155 Science and Innovation Strategy – The government will produce a Science and Innovation Strategy for Autumn Statement 2014. Central to this will be a roadmap of how the government’s long-term commitment on science capital announced at Spending Round 2013 will deliver the research and innovation infrastructure needed to ensure that the UK’s capabilities remain world-leading while playing a key role in economic growth and scientific excellence.

2.156 Driverless cars – The government will support the development of driverless cars through reviewing the regulation and legislation that applies to the testing of driverless cars, and creating a prize fund of £10 million awarded to a town or city to develop as a testing ground.

2.157 Ultra-low emission vehicles – The government will invest £5 million during 2014-15 in a large scale electric vehicle readiness programme for public sector fleets. The programme aims to promote the adoption of ultra-low emission vehicles, demonstrating clear leadership by the public sector to encourage future widespread acceptance.

2.158 Quantum technologies – The government will provide £270 million of funding over 5 years to build a national network of Quantum Technology Research Centres in the UK. It will introduce an innovation programme to support translation of quantum research into applications and supporting new industries. (23)

2.159 Global Collaborative Space Programme – The government will introduce a Global Collaborative Space Programme as an international pillar to the UK’s national space policy. A fund of £80 million over 5 years will enable UK scientists and companies to build stronger links with emerging powers in developing space capabilities and technology.

2.160 Emerging Powers Research Fund – The government will create an Emerging Powers Research Fund of £75 million per year to improve the research and innovation capacity of emerging powers and support research and innovation collaboration with the UK.

2.161 Higgs Centre – The government will provide £11 million for the creation of the Higgs Centre. This will support high-tech business start ups.

Education and skills

2.162 Higher education – The government will remove controls on the number of students who can attend higher education institutions in 2015-16. In 2014-15, an additional 30,000 student places will be created at publicly-funded institutions. (9)

2.163 Extra STEM funding for higher education institutions – The government will provide extra funding for the teaching of STEM subjects of £50 million per academic year. (10)

2.164 School Sport Premium – The government will provide £150 million of funding to continue the school sport premium into the academic year 2015-16, meaning primary schools will be able to put in place longer-term plans to improve their PE and sport provision. Sport England will launch a £18 million Lottery-funded scheme Primary School Sports Facilities Fund from 2014 to improve sports facilities in primary schools, to benefit both school children and the wider community.

2.165 Higher Apprenticeships – The government will provide an additional contribution of £40 million to deliver an additional 20,000 higher apprenticeships starts in the 2013-14 and 2014-15 academic years. (11)

2.166 Apprenticeships – The government will develop a model which uses HMRC systems to route apprenticeship funding direct to employers. The government will consult on the technical details of the system in early 2014, and on the option of an alternative funding route for the smallest businesses. The government also commits to:

- introduce a compulsory employer cash contribution for a significant proportion of the external training costs of an apprentice (excluding English and maths)
- provide an additional contribution to the costs of training for 16 to 17 year olds and separately consider the approach for 18 year olds
- introduce a number of caps on the maximum government contribution per apprentice
- withhold a proportion of the funding for a payment by results approach

Access to Finance

2.167 British Business Bank – Alongside the £1 billion of new capital already announced, the government will use £250 million of unspent funding from the Business Finance Partnership to enable the British Business Bank to increase its range of planned interventions in the small and medium sized enterprise (SME) finance market.

2.168 Additional funding for Start Up Loans – The government will provide an additional £160 million for Start Up Loans to 2018-19 in order to meet higher than expected demand and allow the scheme to roll out to all ages.

2.169 Independent Appeals Process for SMEs – The government believes that awareness of the Independent Appeals Process amongst SMEs is far too low. The government therefore welcomes the step proposed by banks to address this.

2.170 SME credit data – The government will consult on proposals to require banks to share information on their SME customers with other lenders, through Credit Reference Agencies.

2.171 Tied banking products – The Office of Fair Trading (OFT) has been collecting evidence on whether banks are requiring SMEs to open or maintain a business current account in order to qualify for a loan. The government has asked the OFT to take decisive action to end this anti-competitive practice, if needed.

Exports and international

2.172 Reforming UK Trade and Investment (UKTI) – Ahead of Budget 2014, the government will consider reforms to provide UKTI with control over a single budget and increased flexibility to recruit staff.

2.173 UK Export Finance (UKEF) – To enable UKEF to do more business and deliver more appropriate export finance support to exporters, the government will:

- double UKEF's maximum commitment limit to £50 billion
- increase to $15 billion the limit on UKEF-guaranteed bond issuances to ensure that a broad range of competitive finance sources are available for UKEF backed exports
- broaden the scope of the direct lending scheme and seek to expand the working capital scheme by making it available to more companies
- double the number of regionally based Export Finance Advisers to support more SME exporters
- adapt its guarantees so they are suitable for a wider range of potential investors in export credits

2.174 Increasing export support in emerging markets – The government will increase UKTI's presence in India and China by investing £6 million in 2014-15 and £3 million in 2015-16. As announced by the Prime Minister, British Business Centres will be established in 6 key emerging markets in 2014-15 in order to support SME exporters.

2.175 GREAT campaign – The government will continue to fund the GREAT campaign in 2014-15 and 2015-16 and funding will be increased by 50% to £45 million in each year.

2.176 Coastal Communities Fund – The government will extend the Coastal Communities Fund to 2016-17.

Competition and markets

2.177 Competition and Markets Authority (CMA) – The 2014-15 budget for the new CMA will be increased by £12 million to £59.9 million.

2.178 Economic Regulators Study – The government is undertaking a study on the economic regulators, which will consider how to develop better joint working, more clearly explain the role of economic regulation, and facilitate cross sector infrastructure investment. The study will report in spring 2014.

Labour market

2.179 Help to Work – From April 2014 the government will introduce a new package of targeted measures to help the long-term unemployed, who are still unemployed after 2 years on the Work Programme, back to work. Claimants will be referred to 3 different types of support depending on need: daily signing, mandatory intervention or community work placements. (12,13)

2.180 Jobcentre Plus support for 16 and 17 year olds – Through Jobcentre Plus, the government will support 16 and 17 year olds not in education, employment or training to find apprenticeships and traineeships, in partnership with local authorities.

2.181 16-hour study rule for traineeships – The 16-hour study rule currently prevents Jobseekers's Allowance (JSA) claimants from doing more than 16 hours of study per week. The government will exempt claimants undertaking a traineeship from this rule.

2.182 Piloting skills support for unemployed 18 to 21 year olds – The government will pilot a new scheme of support for young benefit claimants. From day 1 of a claim, training will be mandatory for young people without level 2 qualifications in English and maths. After 6 months of a claim, all 18 to 21 year old JSA claimants will be expected to participate in a work experience placement, a traineeship or community work placement.

2.183 New Enterprise Allowance – The New Enterprise Allowance scheme, which helps unemployed people to set up their own business, will be extended to March 2016. (14)

2.184 Supporting Work: 3-monthly interviews – As announced at Spending Round 2013, to support people back to work, the government will require all JSA claimants and Universal Credit claimants in the full conditionality group to undertake an interview every 3 months to take a detailed look at their strategy for job search.

2.185 Supporting Work: additional interviews throughout claim – As announced at Spending Round 2013, to support people back to work the government will introduce more frequent (weekly) signing for half of all jobseekers. The individual claimants called in every week will be chosen at adviser discretion – with focus given to those who most need support or who are not engaging fully with the system.

2.186 Supporting Work: 7 waiting days for out-of-work claims – As announced at Spending Round 2013 to support people back to work, all income-related and contributory JSA claimants, and Universal Credit claimants who are subject to work related activity, will be required to wait 7 days before becoming eligible for financial support.

2.187 Supporting Work: annual verification – As announced at Spending Round 2013, all Universal Credit claimants who have been subject to full conditionality for at least 12 months and all JSA claimants who have been claiming for 12 months will need to verify their claim each year, supporting this government's efforts to reduce fraud and error in the benefits system.

Other supply-side

2.188 Museum freedoms pilot – As announced at Spending Round 2013, the government will introduce a 4 year pilot of new operational freedoms for museums from this year. This will enable national museums to take independent decisions on issues such as pay and procurement, and to access finance to unlock new projects, commercial revenues and philanthropic donations.

2.189 National Film and Television School – The government will invest £5 million in the National Film and Television School's Digital Village.

National infrastructure

2.190 Northern Line Extension Agreement with the Greater London Authority (GLA) – The government and the GLA have agreed the terms of a support package to enable the extension of the Northern Line to Battersea Power Station involving a loan of up to £1 billion from the PWLB to the GLA, the creation of a 25-year Enterprise Zone in the Wandsworth and Lambeth area, and a UK Guarantee facility to support loan repayment.

2.191 Judicial Review reform – In early 2014 the government will establish a specialist planning court with set deadlines to accelerate the handling of cases, and take forward work to ensure that minor procedural claims are dealt with proportionally and allow appeals to 'leapfrog' directly to the Supreme Court in a wider range of circumstances.

2.192 Nationally Significant Infrastructure Project planning review – Alongside the *National Infrastructure Plan* (NIP 2013) the government has launched an overarching review of the Nationally Significant Infrastructure Planning Regime focusing on shortening the lengthy pre-application phase and further streamlining of the consenting process.

2.193 Nationally Significant Infrastructure Project planning fees – The government will freeze planning application fees for the Nationally Significant Infrastructure Planning (NSIP) regime for the remainder of this Parliament.

2.194 'Top 40' planning applications – To support the delivery of 'the Top 40' infrastucture investments, the government will ensure, where possible, that these projects have the option to use the NSIP regime by having regard to the 'Top 40' designation when making considerations under section 35 of the Planning Act 2008.

2.195 National Networks National Policy Statement – Alongside NIP 2013 the government has published the National Networks National Policy Statement for consultation and parliamentary scrutiny.

2.196 Energy efficiency for transport infrastructure – A guarantee for £8.8 million has been approved under the UK Guarantee scheme to help provide finance for the installation of energy saving lighting equipment across a portfolio of car parks managed and operated by National Car Parks Limited (NCP) resulting in a 60% reduction in energy consumption.

2.197 Superfast broadband roll-out – The government will open a £10 million competitive fund to market test delivery of superfast broadband services to the most difficult to reach areas of the UK. The government will continue to support local bodies to develop appropriate procurement strategies for delivery into those areas not covered by current plans, using the £250 million allocated at Spending Round 2013.

2.198 A garden bridge for London – The government will provide a £30 million contribution to support the construction of a new Garden Bridge across the River Thames in London. This will supplement funding from Transport for London and private donations.

2.199 Roads improvements – The government will provide funding to support improvements to the A50 around Uttoxeter starting in 2015-16 to support local growth, jobs and housing. This project will be subject to the usual developer contributions.

2.200 Improving transport links to Gatwick Airport – The government will, in response to recommendations made by the independent Airports Commission, take forward a package of measures to improve surface access to Gatwick Airport, comprising:

- £50 million towards the cost of full redevelopment of the railway station, subject to agreeing satisfactory contributions from Gatwick Airport
- accelerating the Network Rail study into improvements to the Brighton Mainline
- a pilot of smart ticketing on Gatwick to London rail links, subject to ongoing commercial negotiations
- work to explore the feasibility of improving road access to Gatwick on the M23, M25 and local roads

2.201 Improving transport links to other airports – The government will, in response to recommendations made by the independent Airports Commission, take forward 2 feasibility studies into transport links to airports, including:

- a study into southern rail access to Heathrow, to complete in 2015
- widening the scope of the current East Anglian Mainline study to include exploring options for improving access to Stansted

2.202 Nuclear power plant at Wylfa – The government is entering into a cooperation agreement with Hitachi and Horizon with the aim of agreeing an in-principle guarantee by the end of 2016 to support the financing of a new nuclear power plant at Wylfa, subject to final due diligence and ministerial approval.

Planning

2.203 Local Plans – The government will consult on measures to improve plan making, including a statutory requirement to put a Local Plan in place.

2.204 Permitted development – The government will consult on liberalising change of use from retail to restaurant or assembly and leisure uses, and liberalising planning restrictions on mezzanine floors in retail premises, where this will support town centres.

2.205 Planning conditions – The government will legislate to treat planning conditions as approved where a planning authority has failed to discharge a planning condition on time. The government will consult on legislative measures to strengthen the requirement for planning authorities to justify any conditions that must be discharged before building can start.

2.206 Statutory consultees – The government will consult on proposals to reduce the number of applications where unnecessary statutory consultations occur and pilot a single point of contact for cases where conflicting advice is provided by key statutory consultees.

2.207 Planning authority performance – The government will consult on increasing the threshold for designation under the Growth and Infrastructure Act from 30% to 40% of decisions made on time.

2.208 Section 106 contributions – The government will consult on a new 10 unit threshold for section 106 affordable housing contributions to reduce costs for smaller builders.

2.209 New Homes Bonus – The government will consult on measures to improve further the incentive of the New Homes Bonus, in particular withholding payments where local authorities have objected to development, and planning approvals are granted on appeal.

2.210 Development Benefits – The government wants to ensure that households benefit from development in their local area. Building on the measures we have already put in place at the local authority and community level (including the neighbourhood funding element of the Community Infrastructure Levy and the New Homes Bonus), the government will work with industry, local authorities and other interested parties to develop a pilot for passing a share of the benefits of development directly to individual households.

A Financing

A.1 This annex sets out revisions to the government's financing plans for 2013-14, which were previously updated on 23 April 2013. Further details of the revised remit for 2013-14, including progress against the remit to date, can be found on the Debt Management Office's (DMO) website at www.dmo.gov.uk

Financing arithmetic

A.2 As set out in Chapter 4 of the Office for Budget Responsibility's (OBR) December 2013 *Economic and fiscal outlook* (EFO), the revised forecast for the 2013-14 central government net cash requirement (excluding Bradford and Bingley plc (B&B) and Northern Rock (Asset Management) (NRAM)) (CGNCR exc. B&B and NRAM) is £99.0 billion. The relationship between public sector net borrowing and CGNCR exc. B&B and NRAM is also set out in the OBR's EFO.

A.3 The net financing requirement (NFR) comprises the CGNCR exc. B&B and NRAM, plus any financing required for gilt redemptions, additional Official Reserves and other adjustments, less the net contribution to financing from National Savings and Investments (NS&I).

A.4 The NFR is forecast to be £153.0 billion in 2013-14, a reduction of £15.5 billion on the figure forecast in April 2013. The change reflects mainly:

- a reduction in the forecast for the CGNCR exc. B&B and NRAM of £12.0 billion
- a £3.5 billion increase in the forecast net contribution to financing from NS&I

A.5 The majority of the reduction in the NFR will be accommodated by a reduction in the planned end-year stock of Treasury bills. There will be a net change in the planned end-year Treasury bill stock of -£13.5 billion from that set out in April 2013, taking the planned end-March 2014 Treasury bill stock to £56.5 billion.

A.6 Planned gilt sales in 2013-14 will be reduced by £2.0 billion, to £153.7 billion. This reduction will be accommodated via a scaling down of the mini-tender programme.

A.7 The updated financing arithmetic is shown in Table A.1.

Gilt issuance by maturity and type

A.8 The maturity skew of gilt issuance by auction and syndication was set out in April 2013. This skew will remain broadly unchanged. In particular:

- short maturity conventional gilt issuance will remain unchanged at £42.9 billion (27.9% of total issuance)
- medium maturity conventional gilt issuance will remain unchanged at £32.5 billion (21.1% of total issuance)

- long maturity conventional gilt issuance will increase slightly to £34.3 billion (22.3% of total issuance)
- index-linked gilt issuance will increase slightly to £37.6 billion (24.4% of total issuance)

A.9 In addition, the DMO will plan to deliver sales via mini-tender of £6.5 billion (4.2% of total issuance). This represents a £2.0 billion reduction on the planned level announced in October 2013.[1] The DMO determines the maturities and types of gilts to be issued by mini-tender, in consultation with the market.

Gilt issuance methods

A.10 Auctions will remain the government's primary method of gilt issuance. The government will continue to use syndications and mini-tenders as supplementary methods of gilt issuance.

A.11 Overall, it is anticipated that for 2013-14:

- £124.7 billion (81.1% of total issuance) will be issued by pre-announced auctions
- £22.5 billion (14.6% of total issuance) will be issued by syndications
- £6.5 billion (4.2% of total issuance) will be issued by mini-tenders

National Savings and Investments

A.12 NS&I's forecast net contribution to financing has increased from zero to £3.5 billion. Since Budget 2013, rates on NS&I's products have been reduced while inflows have risen. Given the increase in gilt yields over the same period, raising finance through NS&I is now comparatively more cost effective than through equivalent gilts, as measured by the Value Indicator. Reflecting this, NS&I's net financing target for 2013-14 has been revised to £2 billion, within a range of zero to £4 billion.

[1] The DMO announced on 22 October 2013 a re-allocation of £0.75 billion to the syndication programme from the mini-tender programme. This followed a similar £0.75 billion re-allocation on 24 September 2013.

Table A.1: Revised financing arithmetic for 2013–14

£ billion	April 2013	Autumn Statement 2013
Central government net cash requirement excluding B&B and NRAM	**111.0**	**99.0**
Gilt redemptions	51.5	51.5
Financing for the Official Reserves	6.0	6.0
Buy-backs[1]	0.0	0.0
Planned short-term financing adjustment[2]	0.0	0.0
Gross financing requirement	**168.5**	**156.5**
less		
National Savings and Investments	0.0	3.5
Net financing requirement	**168.5**	**153.0**
Financed by:		
1. Debt issuance by the Debt Management Office (DMO)		
a) Treasury bills[3]	**12.8**	**-0.7**
b) Gilts	**155.7**	**153.7**
of which		
Conventional:		
Short	42.9	42.9
Medium	32.5	32.5
Long	33.5	34.3
Index-linked	36.8	37.6
Mini-tenders	10.0	6.5
2. Other planned changes in net short-term debt[4]		
Change in the Ways and Means Advance	0.0	0.0
3. Changes in net short-term cash position[5]	**0.0**	**0.0**
Total financing	**168.5**	**153.0**
Short-term debt levels at end of financial year		
Treasury bill stock[6]	70.0	56.5
Ways and Means Advance	0.4	0.4
DMO net cash position	0.5	0.5

Figures may not sum due to rounding.

[1] Purchases of 'rump' gilts, with a small nominal outstanding, in which Gilt-edged Market Makers (GEMMs) are not required to make two-way markets. The government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

[2] To accommodate changes to the current year's financing requirement resulting from: (i) publication of the previous year's CGNCR outturn; (ii) an increase in the DMO's cash position; and/or (iii) carryover of unanticipated changes to the cash position from the previous year.

[3] The stock change shown for 2013-14 is a planning assumption and measures the change in the level of the Treasury bill stock in issue between end-March 2013 and that currently forecast for end-March 2014. The stock of Treasury bills for this purpose comprises both those issued at weekly tenders and those issued separately to individual cash management counterparties. The stock change shown for 2013-14 is that currently required to take the stock of Treasury bills to £56.5 billion by end-March 2014.

[4] Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment; (ii) net Treasury bill sales; and (iii) changes to the level of the Ways and Means Advance.

[5] The change in the net short term cash position for 2013-14 reflects the changes to the public finance forecasts and any changes to financing from NS&I and Treasury bills (including those sold directly to counterparties separately from weekly tenders). It will also reflect any differences between the gilt sales outturn and the level planned. In addition, the change will include any impact on financing arising from other activities carried out within government (e.g. issuance of tax instruments, transfers between central government and other sectors, and foreign exchange transactions). The zero change for the net short term cash position in 2013-14 assumes that the DMO's planning assumption for the end-year Treasury bill stock is met. A negative (positive) number here indicates an increase (reduction) in the financing requirement for the following financial year.

[6] The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements.

B OBR's Economic and fiscal outlook: selected tables

B.1 The Office for Budget Responsibility (OBR) has published its December 2013 *Economic and fiscal outlook* alongside Autumn Statement 2013. This annex reproduces the OBR's key projections for the economy and public finances. Further details and explanations can be found in its report.

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

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2012	2013	2014	2015	2016	2017	2018
UK economy							
Gross domestic product (GDP)	0.1	1.4	2.4	2.2	2.6	2.7	2.7
GDP level (2012=100)	100.0	101.4	103.9	106.2	108.9	111.8	114.8
Nominal GDP	1.8	3.6	4.6	3.8	4.3	4.5	4.5
Output gap (per cent of potential output)	-2.6	-2.3	-1.8	-1.6	-1.2	-0.7	-0.2
Expenditure components of GDP							
Domestic demand	1.0	1.4	2.4	2.1	2.5	2.7	2.7
Household consumption[1]	1.2	1.9	1.9	1.7	2.4	2.8	2.8
General government consumption	1.7	0.7	0.4	-0.5	-1.0	-1.8	-1.1
Fixed investment	0.9	-2.5	6.7	7.9	8.2	8.0	7.0
Business	2.6	-5.5	5.1	8.6	8.7	8.9	7.9
General government[2]	4.6	-6.9	7.3	1.2	2.1	0.5	-1.1
Private dwellings[2]	-2.5	6.1	9.7	10.0	10.0	9.7	8.4
Change in inventories[3]	-0.3	0.4	0.2	0.0	0.0	0.0	0.0
Exports of goods and services	1.0	1.2	4.0	4.8	5.1	4.9	4.7
Imports of goods and services	3.1	1.7	3.8	4.3	4.7	4.8	4.7
Balance of payments current account							
Per cent of GDP	-3.8	-3.4	-1.6	-1.5	-1.4	-1.2	-1.1
Inflation							
CPI	2.8	2.6	2.3	2.1	2.0	2.0	2.0
RPI	3.2	3.1	2.9	3.3	3.6	3.7	4.0
GDP deflator at market prices	1.7	2.1	2.2	1.6	1.7	1.7	1.7
Labour market							
Employment (millions)	29.5	29.9	30.2	30.4	30.7	30.9	31.2
Wages and salaries	2.8	2.9	3.7	3.9	4.4	4.7	4.7
Average earnings[4]	2.0	1.5	2.6	3.3	3.5	3.7	3.8
ILO unemployment (% rate)	7.9	7.6	7.1	7.0	6.6	6.1	5.6
Claimant count (millions)	1.59	1.43	1.27	1.23	1.18	1.13	1.10
Household sector							
Real household disposable income	1.6	0.5	1.1	1.1	2.1	2.5	2.6
Saving ratio (level, per cent)	6.8	5.7	5.0	4.6	4.6	4.4	4.3
House prices	1.6	3.2	5.2	7.2	4.8	3.7	3.8
World economy							
World GDP at purchasing power parity	3.2	2.9	3.6	3.9	4.1	4.2	4.2
Euro area GDP	-0.6	-0.4	0.9	1.2	1.7	1.9	2.0
World trade in goods and services	2.4	2.8	5.4	5.8	6.0	6.1	6.1
UK export markets[5]	2.0	2.3	4.9	5.2	5.3	5.4	5.4

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

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

[3] Contribution to GDP growth, percentage points.

[4] Wages and salaries divided by employees.

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

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

	Percentage change on previous year unless otherwise specified						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
GDP and its components							
Real GDP	0.0	2.0	2.3	2.3	2.6	2.7	2.7
Nominal GDP (£ billion)[1]	1570	1642	1712	1777	1857	1940	2026
Nominal GDP[1]	1.4	4.6	4.3	3.8	4.5	4.4	4.5
Nominal GDP (centred end-March)	2.6	5.1	3.8	4.1	4.5	4.5	4.5
Wages and salaries[2]	2.4	3.9	3.4	4.1	4.5	4.7	4.7
Non-oil PNFC profits[2,3]	4.3	6.9	7.1	5.8	6.3	6.3	4.8
Non-oil PNFC net taxable income[2,3]	9.9	8.2	7.0	4.6	4.7	4.3	2.9
Consumer spending[2,3]	3.8	4.4	3.9	3.8	4.5	4.9	4.9
Prices and earnings							
GDP deflator	1.8	2.0	2.1	1.5	1.8	1.7	1.7
RPI (September)	2.6	3.2	2.8	3.3	3.6	3.8	4.0
CPI (September)	2.2	2.7	2.2	2.1	2.0	2.0	2.0
Whole economy earnings growth	1.1	2.4	2.5	3.4	3.6	3.7	3.7
'Triple-lock' guarantee (September)	2.5	2.7	2.5	3.3	3.5	3.7	3.8
Key fiscal determinants							
Claimant count (millions)[4]	1.57	1.37	1.26	1.22	1.17	1.12	1.10
Employment (millions)	29.6	30.0	30.3	30.5	30.7	31.0	31.3
VAT gap (per cent)	11.4	10.8	10.4	10.4	10.4	10.4	10.4
Financial and property sectors							
Equity prices (FTSE All-share index)	3091	3473	3690	3831	4001	4180	4367
HMRC financial sector profits[1,3,5]	3.4	1.4	2.3	3.8	4.5	4.4	4.5
Financial sector net taxable income[1,3]	3.7	0.4	3.0	3.0	5.5	4.0	4.5
Residential property prices[6]	2.1	3.7	5.8	7.0	4.2	3.7	3.8
Residential property transactions ('000's)	931	1110	1280	1355	1410	1467	1527
Commercial property prices[7]	1.6	1.4	2.9	3.8	4.0	3.5	3.0
Commercial property transactions[7]	1.5	4.3	4.0	2.9	3.9	4.5	4.6
Volume of stampable share transactions	-18.1	10.2	4.1	-2.4	-2.6	-2.7	-2.8
Oil and gas							
Oil prices ($ per barrel)[3]	112.0	108.3	103.7	98.9	97.4	97.4	97.4
Oil prices (£ per barrel)[3]	70.6	69.3	64.0	60.8	59.7	59.6	59.7
Gas prices (p/therm)	59.1	64.5	67.4	65.6	65.6	65.6	65.6
Oil production (million tonnes)[3,8]	44.6	39.2	39.2	39.2	39.2	39.2	39.2
Gas production (billion therms)[3,8]	13.8	12.5	12.5	12.5	12.5	12.5	12.5
Interest rates and exchange rates							
Market short-term interest rates (%)[9]	0.7	0.5	0.6	1.2	1.9	2.5	3.1
Market gilt rates (%)[10]	1.6	2.6	3.0	3.4	3.7	4.0	4.2
Euro/Sterling exchange rate	1.23	1.18	1.20	1.20	1.21	1.22	1.23

[1] *Not seasonally adjusted.*

[2] *Nominal.*

[3] *Calendar year.*

[4] *UK seasonally-adjusted claimant count.*

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

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

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

[8] *Department of Energy and Climate Change (DECC) forecasts available at www.gov.uk/oil-and-gas-uk-field-data*

[9] *3-month sterling interbank rate (LIBOR).*

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

Table B.3: Current Receipts: OBR forecast

	£ billion						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Income tax (gross of tax credits)[1]	152.3	155.5	167.3	177.9	189.5	201.2	214.0
of which: Pay as you earn	*132.0*	*134.8*	*139.6*	*148.4*	*157.7*	*167.8*	*178.8*
Self assessment	*20.6*	*20.8*	*27.4*	*28.6*	*30.5*	*32.0*	*33.6*
Tax credits (negative income tax)	-3.0	-2.7	-2.7	-2.6	-1.6	-0.3	0.0
National insurance contributions	104.5	106.9	109.2	113.5	124.4	130.6	137.2
Value added tax	100.7	106.2	109.8	113.7	117.7	121.8	126.1
Corporation tax[2]	40.4	39.5	41.5	42.0	42.4	43.9	44.7
of which: Onshore	*35.6*	*35.8*	*38.2*	*39.1*	*40.1*	*41.2*	*41.9*
Offshore	*4.8*	*3.7*	*3.2*	*2.8*	*2.3*	*2.7*	*2.8*
Corporation tax credits[3]	-0.9	-1.0	-0.9	-0.8	-0.8	-0.8	-0.9
Petroleum revenue tax	1.7	1.3	1.4	1.4	1.2	1.2	1.2
Fuel duties	26.6	26.8	26.6	26.9	28.0	28.7	29.6
Business rates	26.1	26.6	27.0	28.9	30.3	31.0	32.4
Council tax	26.3	27.1	27.7	28.2	29.0	30.0	30.9
VAT refunds	13.8	13.8	13.7	13.4	13.3	12.9	12.5
Capital gains tax	3.9	5.0	6.7	8.0	8.9	9.8	10.8
Inheritance tax	3.1	3.5	3.8	4.2	4.7	5.2	5.6
Stamp duty land tax	6.9	8.9	10.8	12.5	13.9	15.2	16.8
Stamp taxes on shares	2.2	2.9	2.8	2.9	2.9	3.0	3.0
Tobacco duties	9.6	9.7	9.9	10.1	10.3	10.5	10.7
Spirits duties	3.0	3.0	3.1	3.3	3.4	3.6	3.8
Wine duties	3.5	3.7	3.9	4.2	4.6	5.1	5.5
Beer and cider duties	3.6	3.6	3.5	3.5	3.6	3.7	3.8
Air passenger duty	2.8	3.1	3.2	3.4	3.7	3.9	4.3
Insurance premium tax	3.0	3.1	3.2	3.3	3.4	3.4	3.5
Climate change levy	0.7	1.7	2.1	2.6	2.7	2.8	3.0
Other HMRC taxes[4]	5.9	6.4	6.5	6.9	7.1	7.4	7.6
Vehicle excise duties	6.0	6.0	5.8	5.7	5.6	5.4	5.3
Bank levy	1.6	2.2	2.7	2.9	2.9	2.9	2.9
Licence fee receipts	3.1	3.1	3.2	3.2	3.2	3.3	3.3
Environmental levies	2.3	4.1	4.8	5.6	6.4	7.4	8.7
Swiss capital tax	0.0	0.9	0.0	0.0	0.0	0.0	0.0
EU ETS auction receipts	0.3	0.4	0.3	0.4	0.4	0.4	0.4
Other taxes	6.6	6.1	6.7	6.8	6.5	6.6	6.5
National Accounts taxes	**556.6**	**577.3**	**603.6**	**632.0**	**667.6**	**699.6**	**733.1**
Less own resources contribution to EU	-5.3	-5.1	-5.0	-5.2	-5.0	-5.2	-5.4
Interest and dividends exc. APF	8.0	7.1	8.1	9.8	12.7	15.1	17.5
Gross operating surplus	27.8	28.3	28.9	29.9	31.1	32.0	32.9
Other receipts	-0.2	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3
Current receipts exc. APF	**586.9**	**606.6**	**634.5**	**665.3**	**705.2**	**740.3**	**776.8**
APF dividend receipts	6.4	12.2	12.1	7.4	3.2	0.5	0.0
Current receipts	**593.3**	**618.8**	**646.6**	**672.7**	**708.4**	**740.8**	**776.8**
Memo: UK oil and gas revenues[5]	*6.5*	*5.0*	*4.6*	*4.2*	*3.5*	*3.9*	*4.0*

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

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

[3] Includes reduced liability company tax credits.

[4] Consists of landfill tax, aggregates levy, betting and gaming duties and customs duties and levies.

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

Note: Table is on accruals basis in line with National Accounts definitions.

Table B.4: Total Managed Expenditure: OBR forecast

	£ billion						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Public sector current expenditure (PSCE)							
PSCE in RDEL[1]	**316.5**	**316.4**	**316.6**	**312.6**	**305.7**	**294.1**	**287.4**
PSCE in AME	**340.8**	**353.3**	**362.1**	**379.2**	**396.4**	**416.4**	**433.9**
of which:							
Social security benefits	182.9	180.0	183.2	187.9	192.6	198.2	203.5
Tax credits	28.7	28.8	28.6	28.8	31.0	33.7	35.1
Net public service pension payments	10.2	10.2	11.1	12.5	13.8	14.9	16.1
National lottery current grants	1.1	1.3	1.5	1.5	1.6	1.7	1.8
BBC domestic services current expenditure	3.4	3.6	4.0	3.7	3.8	3.9	3.9
Other PSCE items in departmental AME	1.1	1.2	1.1	1.1	1.1	1.1	1.1
Expenditure transfers to EU institutions	8.3	8.7	7.3	8.6	8.1	7.3	8.2
Locally-financed current expenditure	22.8	34.3	35.0	36.9	39.2	41.7	43.9
Central government gross debt interest	47.6	49.5	53.9	60.0	65.3	72.5	76.9
Depreciation	17.3	18.1	18.8	19.5	20.2	21.0	21.7
Current VAT refunds	11.6	11.4	11.4	11.2	11.0	10.6	10.4
Single use military expenditure	4.8	4.9	4.2	4.2	4.4	4.3	4.5
Environmental levies	2.0	3.5	4.4	5.3	6.2	7.4	8.9
Other National Accounts adjustments	-1.0	-2.3	-2.4	-2.1	-2.0	-2.0	-2.1
Total public sector current expenditure	**657.2**	**669.7**	**678.7**	**691.8**	**702.2**	**710.5**	**721.3**
Public sector gross investment (PSGI)							
PSGI in CDEL[1]	**32.2**	**32.6**	**37.1**	**36.6**	**38.0**	**37.3**	**38.8**
PSGI in AME[2]	**12.5**	**15.6**	**14.7**	**15.6**	**16.1**	**15.9**	**14.5**
of which:							
National lottery capital grants	0.4	0.5	0.5	0.5	0.6	0.6	0.6
Other PSGI items in departmental AME[2]	-1.7	0.7	0.6	0.4	0.4	0.4	0.4
Locally-financed capital expenditure	5.7	6.5	5.3	6.0	6.2	6.1	5.0
Public corporations capital expenditure	7.3	7.8	8.2	8.2	8.2	8.1	8.3
Other National Accounts adjustments	0.7	0.0	0.1	0.4	0.7	0.7	0.2
Total public sector gross investment[2]	**44.7**	**48.2**	**51.8**	**52.2**	**54.1**	**53.2**	**53.4**
Less depreciation	-22.5	-23.3	-24.1	-24.9	-25.8	-26.7	-27.6
Public sector net investment[2]	**22.2**	**24.9**	**27.7**	**27.3**	**28.3**	**26.5**	**25.7**
Total managed expenditure[2]	**701.9**	**717.8**	**730.5**	**744.0**	**756.3**	**763.7**	**774.6**
Royal Mail and APF spending	-28.0	0.0	0.0	0.2	0.0	1.8	4.1
Total managed expenditure (headline)	**673.9**	**717.8**	**730.5**	**744.3**	**756.3**	**765.5**	**778.7**

[1] Implied DEL numbers for 2016-17, 2017-18 and 2018-19. Calculated as the difference between PSCE and PSCE in AME in the case of PSCE in RDEL, and between PSGI and PSGI in AME in the case of PSGI in CDEL.

[2] Excludes Royal Mail and APF spending.

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

	% GDP						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Receipts and expenditure							
Public sector current receipts[1] *(a)*	37.4	37.0	37.1	37.4	38.0	38.2	38.3
Total managed expenditure[1] *(b)*	44.7	43.7	42.7	41.9	40.7	39.4	38.2
of which:							
Public sector current expenditure[1] *(c)*	41.9	40.8	39.6	38.9	37.8	36.6	35.6
Public sector net investment[1] *(d)*	1.4	1.5	1.6	1.5	1.5	1.4	1.3
Depreciation[1] *(e)*	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Deficit							
Public sector net borrowing[1] *(b-a)*	7.3	6.8	5.6	4.4	2.7	1.2	-0.1
Surplus on current budget[1] *(a-c-e)*	-5.9	-5.3	-4.0	-2.9	-1.2	0.2	1.4
Cyclically-adjusted surplus on current budget[1]	-4.1	-3.7	-2.7	-1.8	-0.4	0.7	1.6
Cyclically-adjusted net borrowing[1]	5.5	5.2	4.3	3.3	1.9	0.7	-0.3
Primary balance[1]	-4.7	-4.2	-2.9	-1.6	0.1	1.8	3.1
Cyclically-adjusted primary balance[1]	-2.9	-2.6	-1.6	-0.4	1.0	2.3	3.3
	£ billion						
Public sector net borrowing[1]	115.0	111.2	96.0	78.7	51.1	23.4	-2.2
Surplus on current budget[1]	-92.8	-86.3	-68.3	-51.4	-22.8	3.1	28.0
Cyclically-adjusted surplus on current budget[1]	-63.6	-60.2	-46.1	-31.6	-7.0	13.0	31.6
Cyclically-adjusted net borrowing[1]	85.8	85.1	73.8	58.9	35.3	13.5	-5.9
Primary balance[1]	-74.5	-68.2	-49.5	-27.7	2.4	34.9	62.6
Cyclically-adjusted primary balance[1]	-45.4	-42.0	-27.3	-7.9	18.1	44.8	66.2

[1] *Excluding Royal Mail Pension Plan transfer and APF cash transfers.*

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

	% GDP						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Receipts and expenditure							
Public sector current receipts *(a)*	37.8	37.7	37.8	37.9	38.1	38.2	38.3
Total managed expenditure *(b)*	42.9	43.7	42.7	41.9	40.7	39.5	38.4
of which:							
Public sector current expenditure *(c)*	41.9	40.8	39.6	38.9	37.8	36.6	35.6
Public sector net investment *(d)*	-0.4	1.5	1.6	1.5	1.5	1.5	1.5
Depreciation *(e)*	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Deficit							
Public sector net borrowing *(b-a)*	5.1	6.0	4.9	4.0	2.6	1.3	0.1
Surplus on current budget *(a-c-e)*	-5.5	-4.5	-3.3	-2.5	-1.1	0.2	1.4
Cyclically-adjusted net borrowing	3.3	4.4	3.6	2.9	1.7	0.8	-0.1
Primary balance	-3.0	-4.2	-2.9	-1.6	0.1	1.7	2.9
Cyclically-adjusted primary balance	-1.1	-2.6	-1.6	-0.5	1.0	2.2	3.1
Fiscal mandate and supplementary target							
Cyclically-adjusted surplus on current budget	-3.6	-2.9	-2.0	-1.4	-0.2	0.7	1.6
Public sector net debt[1]	73.9	75.5	78.3	80.0	79.9	78.4	75.9
Financing							
Central government net cash requirement	6.7	5.9	5.5	4.5	3.6	2.1	0.3
Public sector net cash requirement	6.8	5.7	5.2	4.2	3.4	1.9	0.0
Stability and Growth Pact							
Treaty deficit[3]	5.2	6.2	5.0	4.2	2.7	1.4	0.2
Cyclically-adjusted Treaty deficit[2]	3.3	4.6	3.7	3.0	1.9	0.9	0.1
Treaty debt ratio[3]	88.3	90.8	93.1	94.7	93.9	91.7	88.7
	£ billion						
Public sector net borrowing	80.6	99.0	83.9	71.5	47.8	24.8	1.9
Surplus on current budget	-86.4	-74.2	-56.2	-44.0	-19.6	3.5	28.0
Cyclically-adjusted net borrowing	51.4	72.9	61.7	51.7	32.1	14.8	-1.7
Cyclically-adjusted surplus on current budget	-57.2	-48.0	-34.0	-24.2	-3.8	13.4	31.6
Public sector net debt	1182	1269	1365	1451	1515	1554	1573
Memo: Output gap (per cent of GDP)	*-2.7*	*-2.1*	*-1.8*	*-1.5*	*-1.1*	*-0.6*	*-0.1*

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

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

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

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

	£ billion						
	Outturn	Forecast					
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Surplus on current budget[1]							
June 2010 forecast	-65.1	-40.2	-16.9	0.4			
March 2013 forecast	-98.9	-95.7	-81.8	-69.7	-41.2	-17.7	
Change	*6.1*	*9.3*	*13.5*	*18.3*	*18.3*	*20.8*	
December 2013 forecast	-92.8	-86.3	-68.3	-51.4	-22.8	3.1	28.0
Net investment[1]							
June 2010 forecast	24.0	19.9	20.6	20.9			
March 2013 forecast	22.0	24.2	26.6	25.8	25.8	25.0	
Change	*0.2*	*0.7*	*1.1*	*1.5*	*2.4*	*1.5*	
December 2013 forecast	22.2	24.9	27.7	27.3	28.3	26.5	25.7
Net borrowing[1]							
June 2010 forecast	89.1	60.1	37.5	20.5			
March 2013 forecast	120.9	119.8	108.4	95.5	67.0	42.7	
Change	*-5.9*	*-8.6*	*-12.4*	*-16.8*	*-15.9*	*-19.3*	
December 2013 forecast	115.0	111.2	96.0	78.7	51.1	23.4	-2.2
Net debt							
June 2010 forecast	1162	1235	1284	1316			
March 2013 forecast	1189	1286	1398	1502	1580	1637	
Change	*-7*	*-18*	*-33*	*-51*	*-65*	*-82*	
December 2013 forecast	1182	1269	1365	1451	1515	1554	1573
	% GDP						
Net borrowing[1]							
June 2010 forecast	5.5	3.5	2.1	1.1			
March 2013 forecast	7.8	7.5	6.5	5.5	3.7	2.3	
Change	*-0.5*	*-0.7*	*-0.9*	*-1.1*	*-1.0*	*-1.1*	
December 2013 forecast	7.3	6.8	5.6	4.4	2.7	1.2	-0.1
Cyclically-adjusted surplus on current budget[1]							
June 2010 forecast	-1.9	-0.7	0.3	0.8			
March 2013 forecast	-4.4	-3.6	-2.4	-1.7	-0.3	0.7	
Change	*0.4*	*-0.1*	*-0.3*	*-0.1*	*-0.1*	*0.0*	
December 2013 forecast	-4.1	-3.7	-2.7	-1.8	-0.4	0.7	1.6
Cyclically-adjusted net borrowing[1]							
June 2010 forecast	3.4	1.8	0.8	0.3			
March 2013 forecast	5.9	5.1	4.0	3.2	1.7	0.7	
Change	*-0.4*	*0.1*	*0.3*	*0.1*	*0.2*	*0.0*	
December 2013 forecast	5.5	5.2	4.3	3.3	1.9	0.7	-0.3
Net debt[2]							
June 2010 forecast	69.8	70.3	69.4	67.4			
March 2013 forecast	75.9	79.2	82.6	85.1	85.6	84.8	
Change	*-2.0*	*-3.6*	*-4.3*	*-5.1*	*-5.7*	*-6.4*	
December 2013 forecast	73.9	75.5	78.3	80.0	79.9	78.4	75.9

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

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

List of abbreviations

AME	Annually Managed Expenditure
APF	Asset Purchase Facility
B&B	Bradford and Bingley plc
BIS	Department for Business, Innovation and Skills
CASC	Community Amateur Sports Club
CBI	Confederation of British Industry
CCL	Climate Change Levy
CCS	Carbon Capture and Storage
CFC	Controlled Foreign Company
CGNCR	Central government net cash requirement
CGT	Capital gains tax
CMA	Competition and Markets Authority
CNG	Compressed natural gas
CO	Cabinet Office
CPI	Consumer Prices Index
CRC	Carbon Reduction Commitment
CTA2009	Corporation Tax Act 2009
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limits
DfE	Department for Education
DFID	Department for International Development
DfT	Department for Transport
DH	Department of Health
DHP	Discretionary Housing Payment
DMO	Debt Management Office
DWP	Department for Work and Pensions
ECO	Energy Companies Obligation
EEA	European Economic Area
EFO	Economic and fiscal outlook
ETF	Exchange traded fund
FCA	Financial Conduct Authority
FCO	Foreign and Commonwealth Office
FLS	Funding for Lending Scheme
FPC	Financial Policy Committee

G7	A group of 7 major industrial nations (comprising: Canada, France, Germany, Italy, Japan, UK and US)
G8	A group of 8 major industrial nations (comprising: Canada, France, Germany, Italy, Japan, Russia, UK and US)
G20	A group of 20 finance ministers and central bank governors representing 19 countries plus the European Union
GAD	Government Actuary's Department
GDP	Gross Domestic Product
GLA	Greater London Authority
GNI	Gross National Income
GVA	Gross Value Added
HEFCE	Higher Education Funding Council for England
HMRC	Her Majesty's Revenue & Customs
HMT	Her Majesty's Treasury
HO	Home Office
HRA	Housing Revenue Account
HS2	High Speed 2
ICB	Independent Commission on Banking
IHT	Inheritance Tax
IMF	International Monetary Fund
ISA	Individual savings account
JSA	Jobseeker's Allowance
LCR	London and Continental Railways
LEP	Local Enterprise Partnership
LFS	Labour Force Survey
LNG	Liquefied natural gas
LTV	Loan to value
MOD	Ministry of Defence
MoJ	Ministry of Justice
MPC	Monetary Policy Committee
NFR	Net Financing Requirement
NICs	National Insurance contributions
NIP 2013	National Infrastructure Plan 2013
NRAM	Northern Rock Asset Management
NS&I	National Savings and Investments
OBR	Office for Budget Responsibility
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OFGEM	Office of Gas and Electricity Markets
OFT	Office of Fair Trading
OGUK	Oil & Gas UK
ONS	Office for National Statistics
OTS	Office of Tax Simplification

PRA	Prudential Regulation Authority
PSNB	Public Sector Net Borrowing
PSND	Public Sector Net Debt
PPL	Pence per litre
PSGI	Public Sector Gross Investment
PWLB	Public Works Loan Board
RBS	Royal Bank of Scotland
RDEL	Resource Departmental Expenditure Limit
REIT	Real Estate Investment Trust
RPI	Retail Prices Index
SBRR	Small Business Rate Relief
SDLT	Stamp Duty Land Tax
SDRT	Stamp Duty Reserve Tax
SGP	Stability and Growth Pact
SME	Small and medium-sized enterprise
STEM	Science, technology, engineering and mathematics
TME	Total Managed Expenditure
UKEF	UK Export Finance
UKFI	UK Financial Investments
UKTI	UK Trade and Investment
UTC	University Technical College
VAT	Value Added Tax
VED	Vehicle Excise Duty
VCT	Venture Capital Trust

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Chapter 1 – Autumn Statement

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