HM Treasury

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Policy paper

Budget 2016

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Executive summary

1.

This is a Budget that puts the next generation first. In uncertain times and against a deteriorating global economic outlook, this Budget delivers security for working people. It takes the next bold steps in the government's long-term economic plan. It reduces the deficit, achieves a surplus and makes the reforms needed so Britain is fit for the future.

The UK is forecast to grow faster than any other G7 economy this year, with employment at record highs, but with productivity growth weaker than forecast. So this Budget sets out long-term solutions to long-term problems and invests in the education, builds the infrastructure and supports the savings of the next generation.

In this Budget, the government will take action to:

- make additional savings equivalent to 0.5% of total government spending, to ensure the nation lives within its means
- back business with a major overhaul of corporation tax reliefs, a lower corporation tax rate and a big reduction in small business rates
- boost enterprise with a reduction in Capital Gains Tax and tax for the self-employed
- accelerate education reforms and improve children's health with a soft drinks industry levy
- support working people with a £11,500 personal allowance and a £45,000 higher rate threshold
- back savers with a new flexible Lifetime ISA for young people and a higher ISA limit for all

1.1 The UK economy and public finances

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

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

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

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

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

As a result, the deficit at 3.8% is forecast to be down by almost two thirds from its peak, bank capital ratios have doubled and there are over 2 million new jobs since 2010. Had the government not taken action to reduce the structural deficit from its 2009-10 level, cumulative borrowing would have been £930 billion higher in 2019-20.

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

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

This is a Budget which acts now so that the country doesn't pay later. It is a Budget that steers Britain through uncertain times, providing security now and opportunity for the next generation.

1.2 Economic and fiscal forecast

The OBR forecasts GDP growth of 2.0% in 2016, 2.2% in 2017 and 2.1% to the end of the forecast period. It forecasts employment to be 31.5 million in 2016, rising each year to 32.1 million in 2020. CPI is forecast to be below the 2.0% inflation target in 2016, returning gradually to 2.0% in 2018.

Public sector net borrowing is forecast to fall to 3.8% of GDP in 2015-16 and then to fall each year for the remainder of the forecast period. The OBR forecasts that the public finances will deliver a surplus of £10.4 billion in 2019-20 and £11.0 billion in 2020-21. Public sector net debt is forecast to fall to 74.7% of GDP in 2020-21.

1.3 Sound public finances

The government's first duty to the next generation is to put the public finances on a sustainable footing. This provides the bedrock of security for working people. This Budget will ensure that the UK will meet its fiscal target of achieving a surplus in 2019-20. In addition to measures announced at the Spending Review and Autumn Statement, the government will:

- conduct a departmental efficiency review, which will help deliver a further £3.5 billion of savings from public spending in 2019-20, while maintaining the protections set out at the Spending Review and Autumn Statement
- ensure that the cost of providing public sector pensions in the future is fairly reflected in the contributions made by employers, by reducing the public service pension scheme discount rate
- continue to spend 0.7% of gross national income on Official Development Assistance (ODA) adjusted in line with the latest economic forecasts

1.4 Support for working people

This Budget provides security for working people and opportunity for the next generation. The government will:

- reduce tax on working people further by increasing the personal allowance to £11,500 and the higher rate threshold to £45,000 in 2017-18
- freeze fuel duty, saving the average driver £75 every year compared to pre-2010 fuel duty escalator plans
- recognise the role pubs play in local communities and support the Scotch whisky industry by freezing duty on beer, spirits and most ciders
- drive forward the radical devolution of power to school leaders, expecting all schools to become academies by 2020, or to have an academy order in place to convert by 2022
- introduce a new soft drinks industry levy to help tackle childhood obesity, by incentivising companies to reduce the sugar in the drinks they sell, to fund a doubling of the primary schools sports premium to £320 million per year from September 2017
- give the next generation choice and flexibility in their savings, by increasing the ISA limit to £20,000 and launching a new flexible Lifetime ISA for under

40s in which people can save up to £4,000 each year and receive an additional 25% bonus from government. Savings, including the government bonus, can be accessed to buy a first home and in retirement
- launch a new Help to Save scheme for people on low incomes, providing a 50% government bonus on up to £50 of monthly savings, benefiting up to 3.5 million people

1.5 Backing business and creating opportunity

This Budget backs business and enterprise to drive up productivity growth and create job opportunities. This Budget continues to lower taxes, with new support for small business and entrepreneurs, while also modernising the tax system and taking steps to ensure that taxes are fair and are paid.

The government will:

- cut the rate of corporation tax to 17% in 2020, benefiting over one million companies, large and small
- cut business rates for all properties in England, with 600,000 small firms paying no rates so that the business rates burden will fall by £6.7 billion over the next five years
- cut the higher rate of Capital Gains Tax from 28% to 20% and the basic rate from 18% to 10% from April 2016 (except for residential property and carried interest), and extend entrepreneurs’ relief to long term investors in unlisted companies
- cut National Insurance contributions for 3.4 million self-employed people, by abolishing Class 2 National Insurance
- modernise the corporation tax rules on losses, making the system more flexible for businesses while ensuring that companies making large profits pay tax on these, and further restricting banks’ use of their historic losses
- reform Stamp Duty Land Tax on non-residential property transactions, cutting the tax for many small businesses purchasing property, with over 90% of non-residential transactions paying the same or less
- abolish the bureaucratic and burdensome Carbon Reduction Commitment

energy efficiency scheme and replace it, in a revenue neutral way, with an increase in the Climate Change Levy from 2019

- support the oil and gas industry by permanently zero-rating Petroleum Revenue Tax, reducing the Supplementary Charge from 20% to 10% and introducing targeted measures to encourage investment in exploration, infrastructure and late-life assets
- give large companies more time to prepare for a new corporation tax payments schedule, with a broadly neutral impact on the public finances

1.6 Opportunity across the UK

To tackle the long term economic challenges in the UK, this Budget announces radical reforms that will drive future prosperity, investing in the infrastructure that will deliver economic growth for the next generation. The Budget drives forward the devolution revolution, giving local areas further control over the decisions that affect their communities.

Headline measures include:

- strengthening city regions within Scotland and Wales by agreeing a City Deal for Cardiff and opening negotiations on deals for Swansea and Edinburgh
- agreeing new mayoral devolution deals with the West of England, East Anglia and Greater Lincolnshire as well as agreeing additional mayoral devolution deals with Greater Manchester and Liverpool City Region
- building the Northern Powerhouse, by giving the go ahead to High Speed 3 between Leeds and Manchester, aiming to bring down journey times from 50 minutes to around 30 minutes, investing an extra £161 million to accelerate the transformation of the M62, and £75 million to improve other road links across the North including the A66 and A69
- securing London’s future infrastructure by giving the green light for Crossrail 2 to proceed. The government will provide £80 million to develop the project with the aim of bringing forward a Hybrid Bill this Parliament

1.7 Budget decisions

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

Table 1: Budget 2016 policy decisions (1)

	£ million				
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Total tax policy decisions (2)	+645	-960	-470	+330	-2,760
Corporation Tax: defer bringing forward payment for large groups for two years	0	-6,000	-3,850	+5,965	+3,600
Total spending policy decisions	-360	-590	-450	+7,620	+3,335
TOTAL POLICY DECISIONS	+285	-7,550	-4,770	+13,915	+4,175
Memo: TOTAL POLICY DECISIONS (2)	+285	-1,550	-920	+7,950	+575

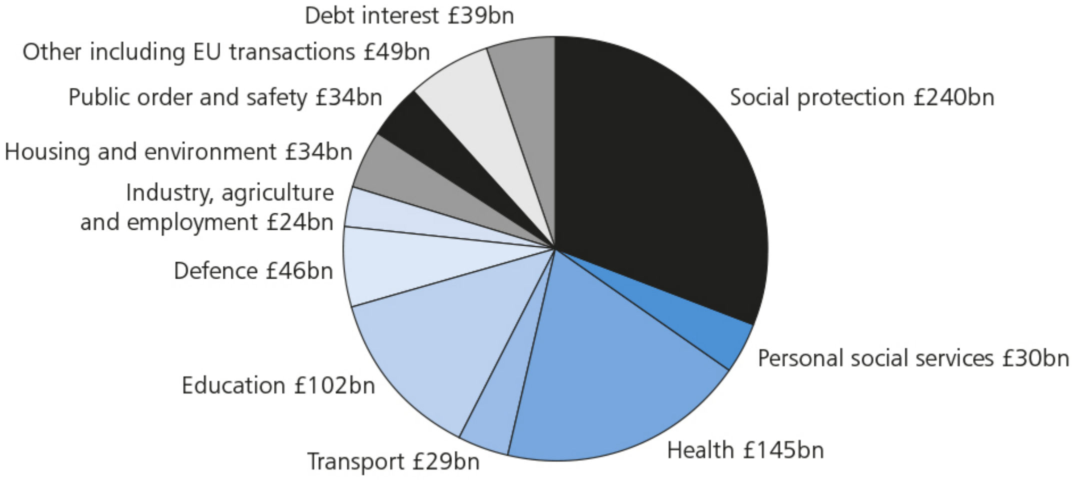
(1) Costings reflect the OBR’s latest economic and fiscal determinants.

(2) This excludes the delay to the timing of corporation tax payments by larger groups. As it represents a cash-flow impact the effect of this measure over the scorecard period is broadly neutral.

1.8 Government spending and revenue

Chart 1 shows public spending by main function. Total Managed Expenditure is expected to be around £772 billion in 2016-17.

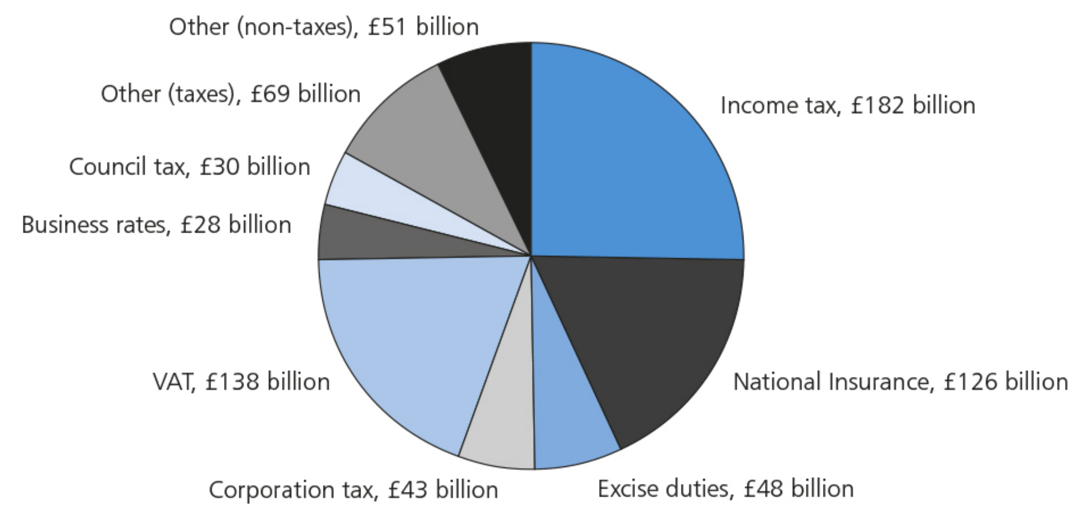
Chart 1: Public sector spending 2016-17



Sources: Office for Budget Responsibility 2016-17 estimates. Illustrative allocations to functions are based on HMT analysis including capital consumption figures from the Office for National Statistics. Figures may not sum due to rounding.

Chart 2 shows the different sources of government revenue. Public sector current receipts are expected to be around £716 billion in 2016-17.

Chart 2: Public sector receipts 2016-17



Source: Office for Budget Responsibility, 2016-17 forecast. Figures may not sum due to rounding.
Other (taxes) includes capital taxes, stamp duties, vehicle excise duties and other smaller tax receipts. Other (non-taxes) includes interest and dividends, gross operating surplus and other smaller non-tax receipts.

2. The UK economy and public finances

2.1 Britain and the global economy

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

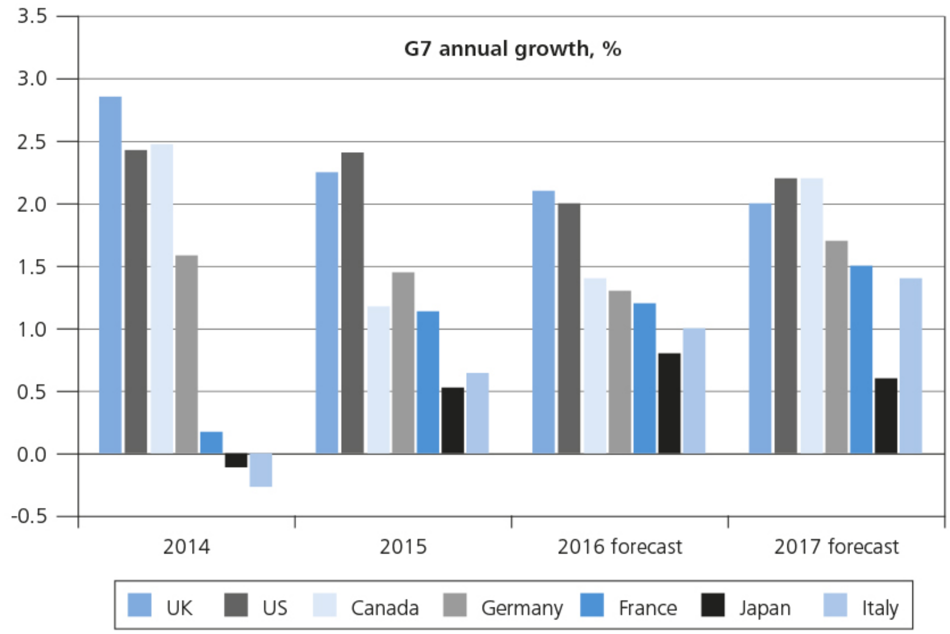
The global economic outlook has deteriorated since the Spending Review and Autumn Statement 2015. Both the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) have revised down their global forecasts for GDP in 2016. The IMF predicts global growth of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

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

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

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

Chart 1.1: International comparison of GDP growth



Source: Organisation for Economic Co-operation and Development.

2.2 Global outlook

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

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

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

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

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

2.3 OBR economic forecast

Table 1.1: Summary of the OBR’s central economic forecast (1)

Percentage change on a year earlier, unless otherwise stated

		Forecast				
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
GDP growth	2.2	2	2.2	2.1	2.1	2.1
Main components of GDP						
-Household consumption (2)	2.9	2.4	2.2	2.1	2	1.9

-General government consumption	1.7	0.2	0.6	0.5	0.2	0.7
-Fixed investment	4.2	2.9	4.5	4.1	4	4.3
–Business	4.7	2.6	6.1	5.8	5.5	4.4
–General government (3)	2.2	0.2	1.9	-0.3	-0.2	6.5
–Private dwellings (3)	3.4	5.1	2.8	3	3	2.9
-Change in inventories (4)	-0.4	0.2	0	0	0	0
-Net trade (4)	-0.5	-0.4	-0.1	-0.1	-0.1	-0.1
CPI inflation	0	0.7	1.6	2	2.1	2
Employment (millions)	31.2	31.6	31.7	31.9	32	32.1
LFS unemployment (% rate) (5)	5.4	5	5	5.2	5.3	5.3

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

(2) Includes households and non-profit institutions serving households.

(3) Includes transfer costs of non-produced assets.

(4) Contribution to GDP growth, percentage points.

(5) Labour Force Survey.

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

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

Spending Review and Autumn Statement 2015.[13]

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

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

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

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

	Potential productivity (1)	Potential average hours	Potential participation rate (2)	Potential unemployment rate (2,3)	Potential population (2)	Potential output growth (4)
OBR estimates for the UK						
Jun 2010	21.9	-2	-1.8	0	5.8	24.1
Mar 2016	14.4	-1	0	-0.2	6.7	20.6
Change	-7.5	0.9	1.8	-0.2	0.9	-3.5

OBR calculations based on CBO estimates for the US						
Aug 2010	24.3	-0.8	-3	0	9.5	30.8
Jan 2016	15.4	-0.6	-5.6	0.3	10.6	20
Change	-8.9	0.2	-2.6	0.3	1.1	-10.8

(1) Output per hour.

(2) Corresponding to those aged 16 and over.

(3) Percentage point growth between 2010 and 2020.

(4) Changes may not sum due to rounding and interaction effects.

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

Source: Office for Budget Responsibility.

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

2.4 Britain in a stronger position to face the challenge ahead

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

- the public finances have improved. In 2010, the IMF forecast the UK to have the largest budget deficit in the G20, at 11.4% of GDP.[14] As a result of the action that the government has taken, the OBR forecast that the UK's deficit as a share of GDP will be reduced by almost two-thirds to 3.8% of GDP in 2015-16
- the financial sector is much more resilient. Since 2010, the government has legislated for the ring-fencing of large banks' retail arms from their investment banking arms, insulating these core functions vital to households and SMEs, and put the Bank of England back in charge of bank prudential regulation. As the Governor of the Bank of England said, "UK banks are now significantly more resilient than before the global financial crisis. Capital requirements for the largest banks have risen ten-fold. Their holdings of liquid assets have increased four-fold. Their trading assets are down by a third, and inter-bank exposures have shrunk by two thirds"[15]
- household finances are more robust. Debt-to-income ratios have fallen from 155% in Q1 2010 to 142% in Q3 2015. The share of households with very high mortgage debt-to-income ratios has been falling and is now back at levels seen in the 1990s.[16] Interest payments as a proportion of income were 4.8% in Q3 2015, the lowest on record and down from 6.3% in Q1 2010

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

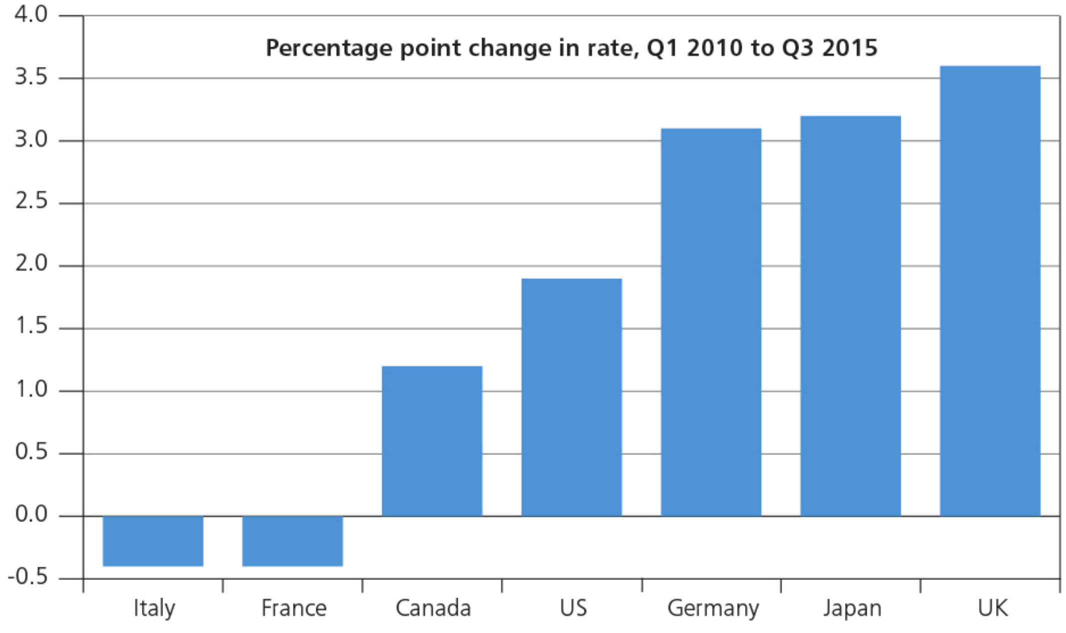
2.5 Employment and earnings

2.6 Employment

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

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

Chart 1.2: International comparison of employment



Source: Organisation for Economic Co-operation and Development.

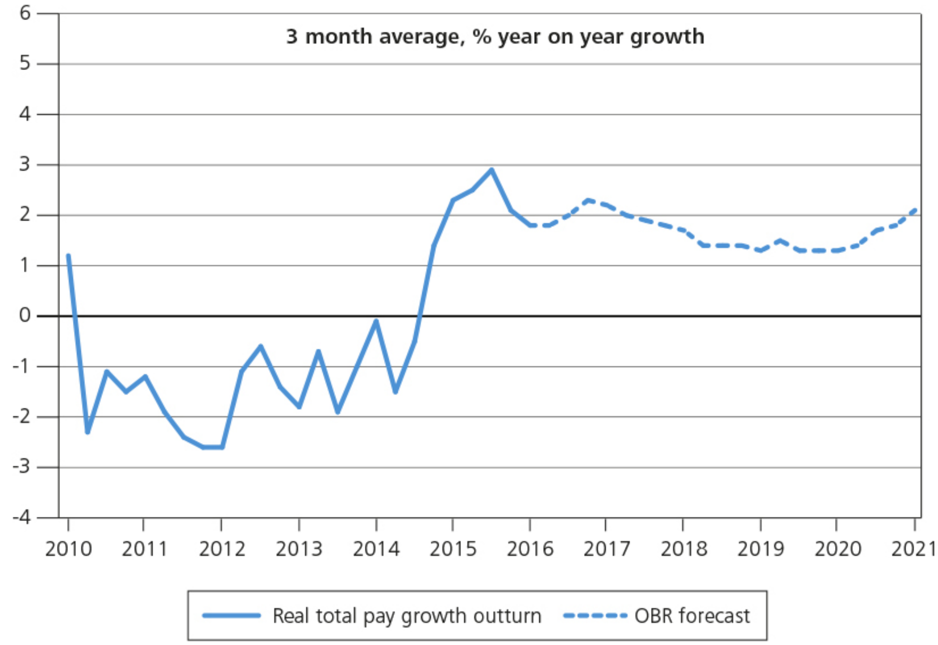
2.7 Earnings

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

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

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

Chart 1.3: Real total pay growth



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

2.8 Long-term solutions to long-term problems

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

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

Furthermore, the Monetary Policy Committee (MPC) forecasts inflation to return to the 2% target in the medium term. As the Governor of the Bank of

England has recently said, "the G20 needs to use the time purchased by monetary policy to develop a coherent and urgent approach to supply-side policies".[20]

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

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

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

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

regions, including new devolution deals for the East and West of England

2.9 Economic rebalancing

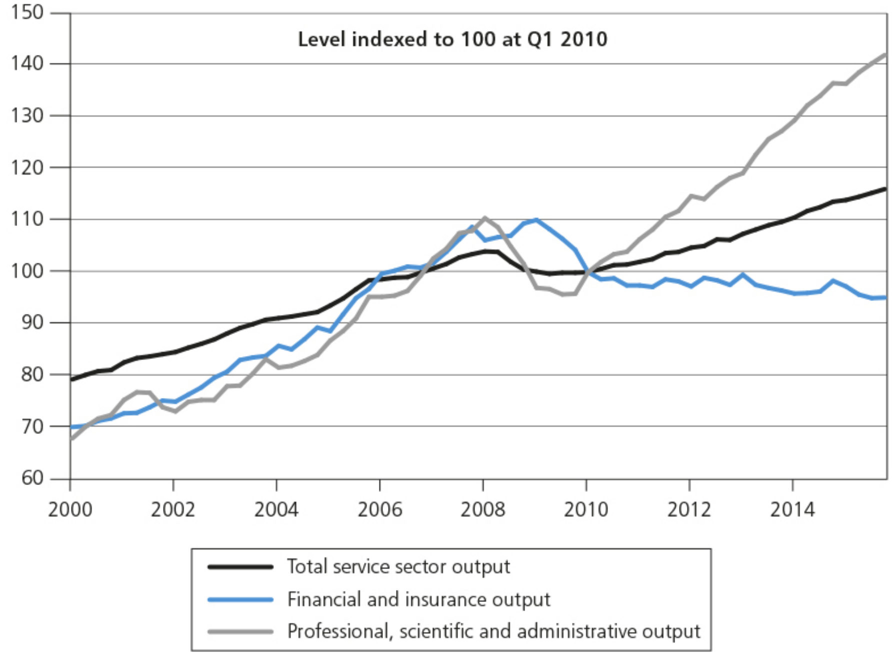
The financial crisis of 2008 and 2009 revealed an unstable and unbalanced model of economic growth in the UK. Since 2010 the government has taken steps to support more balanced growth across sectors and regions and to promote savings and investment.

2.10 Sector rebalancing

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

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

Chart 1.4: Rebalancing within the services sector



Source: Office for National Statistics.

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

2.11 Regional rebalancing

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

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

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

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

2.12 External rebalancing

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

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

2.13 The UK and the EU

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

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

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

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

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

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

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

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

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

2.15 Monetary policy and credit easing

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

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

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

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

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

2.16 The government's fiscal plan

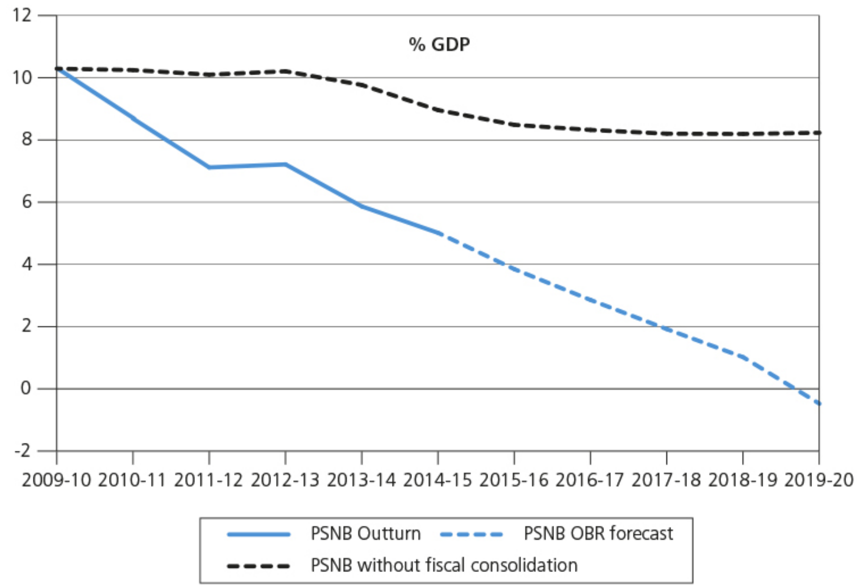
Significant progress has been made since 2010 in fixing the public finances. In 2009-10, the government borrowed around £1 in every £4 it spent. In 2015-16 the government is forecast to borrow around £1 in every £10 it spends and this is expected to reduce to around £1 in every £14 in 2016-17.[39]

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

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

However, the persistence of the structural deficit means that borrowing would have been higher in every year from 2010-11.

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



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

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

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

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

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

Autumn Statement 2015

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

(1) Outturn figures for Autumn Statement are given as estimated at Autumn Statement.

(2) Debt at end March. GDP centred on end March.Source: Office for Budget Responsibility and Office for National Statistics.

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

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

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

2.17 Fixing the public finances and achieving a surplus

2.18 Public spending

The government will build on the measures set out at Spending Review 2015 to deliver a surplus and ensure the sustainability of the public finances. Over the last five years government expenditure was reduced from the unsustainable level of 45% of GDP in 2010-11.[44] Spending Review 2015 set out savings of £21.5 billion, of which £9.5 billion was reinvested in the government's priorities. This Budget sets out that the government is adjusting those plans and will find a further £3.5 billion of savings from public spending in 2019-20, in line with continuing action to ensure maximum efficiency from every pound of public spending. This is equivalent to less than 0.5% of total spending, in 2019-20.

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

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

2.19 Delivering further efficiency savings

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

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

2.20 Sound financial management

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

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

At Spending Round 2013, the government announced a control total to limit payments under PFI and PF2 contracts in nominal terms in each future Parliament. The control total is set at £70 billion and the Treasury is on track to meet this target, with forecast cumulative spending from 2015-16 to 2019-20 for payments on all PFI and PF2 contracts funded by central government standing at £51.7 billion.[48]

2.21 Capital investment

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

2.22 Overview of the OBR central fiscal forecast

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

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

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

(1) General government net borrowing on a Maastricht basis.

(2) Debt at end March; GDP centred on end March.

(3) General government gross debt on a Maastricht basis.

(4) Equivalent to the ‘Total policy decisions’ line in Table 2.1.

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

2.23 Performance against the government’s fiscal targets

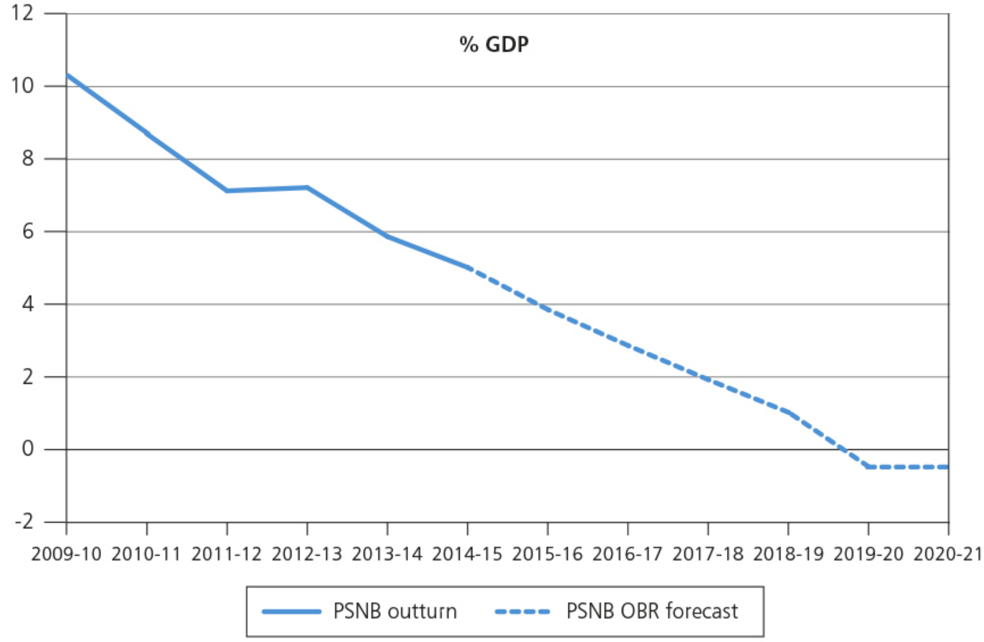
The Charter for Budget Responsibility was approved by the House of Commons on 14 October 2015.[49] It defines the government’s fiscal mandate as a surplus on the headline measure of Public Sector Net Borrowing (PSNB) by 2019-20, maintaining a surplus in normal times thereafter. This is supplemented by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

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

The OBR’s March 2016 ‘Economic and fiscal outlook’ provides an assessment of the government’s performance against its fiscal targets. It confirms the government is on track to meet its fiscal mandate, achieving a surplus of £10.4

billion on the measure of public sector net borrowing in the target year of 2019-20 and to maintain a surplus in the following year, 2020-21.[50] The OBR's judgement is that the government's policies are more likely than not to achieve the mandate in 2019-20.[51]

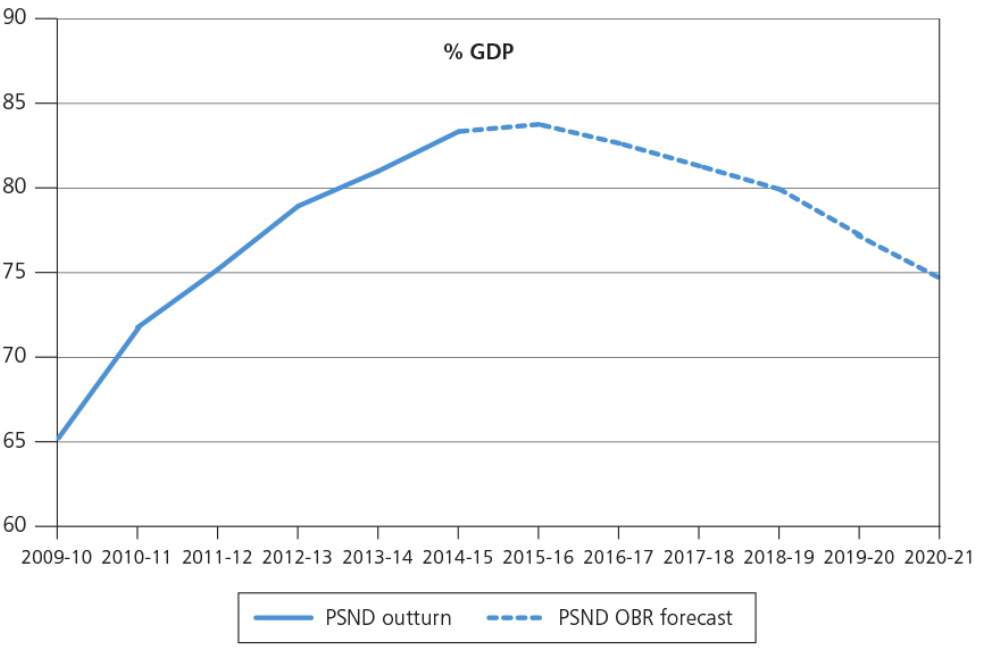
Chart 1.6: Public sector net borrowing (PSNB)



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

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

Chart 1.7: Public sector net debt (PSND)



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

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

2.24 Welfare Cap

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

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

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

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

Table 1.5: The welfare cap

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

Source: HM Treasury

2.25 Financial sector and other state-owned asset sales

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

PSND while maximising value for taxpayers.

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

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

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

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

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

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

2.26 Debt and reserves management

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

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

3. Support for working people

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

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

3.1 Lower tax society: cutting tax for working people

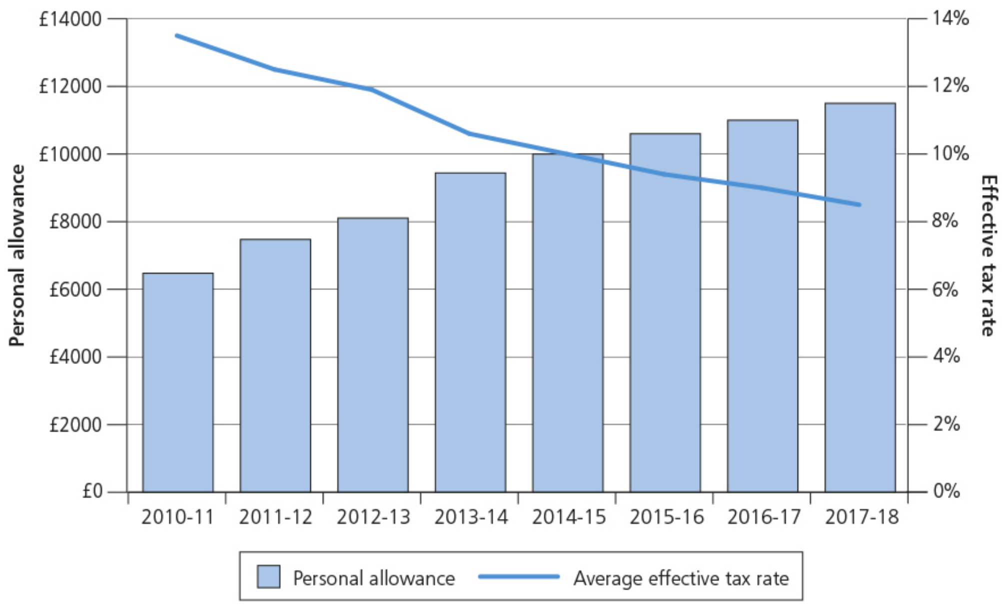
The government is determined to support those in work by continuing to cut taxes and has committed to raise the personal allowance to £12,500, and the higher rate threshold to £50,000 by the end of this parliament.

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

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

This Budget goes further. The government will increase the higher rate threshold by £2,000 to £45,000 in 2017-18. This will be the biggest above inflation cash increase to this threshold since it was introduced by Lord Lawson in 1989.68 This delivers the government's ambition to reverse the trend whereby an increasing number of individuals are faced with paying the higher rate. In 2017-18, there will be 585,000 fewer higher rate taxpayers than at the start of the parliament.69

Chart 1.8: Personal allowance increases since 2010

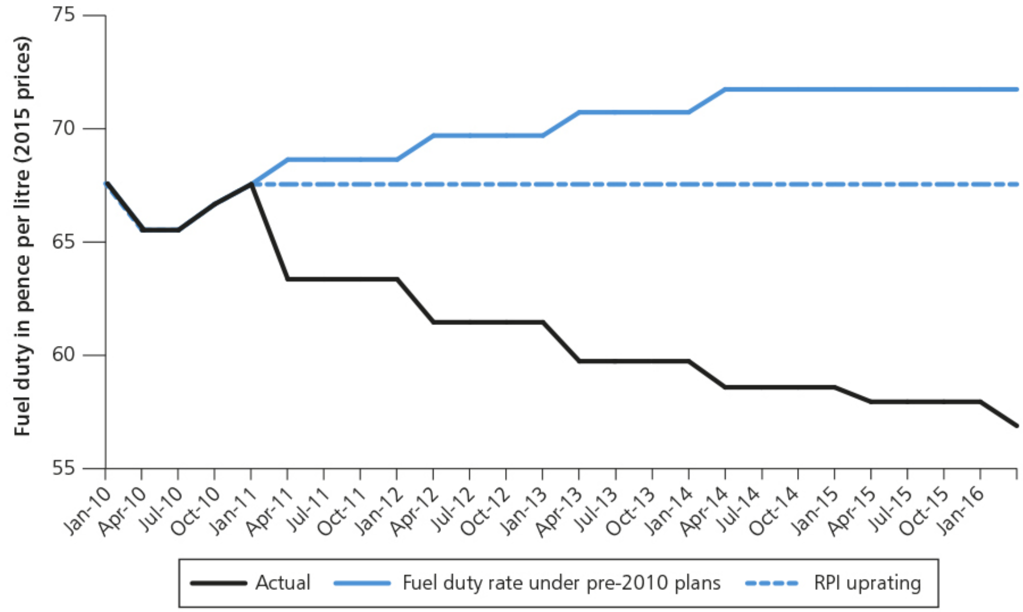


Source: HMT analysis of personal tax parameters.
[1] This is based on an individual with earnings of £20,000 in each year.
[2] The average effective tax rate is for income tax only.

3.2 Freezing fuel duty

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

Chart 1.9: Fuel duty rates in 2015 prices



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

3.3 Freezing alcohol duties

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

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

3.4 Investing in the next generation

3.5 Education

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

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

3.6 Soft drinks industry levy to pay for school sport

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

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

Sugar consumption is a major factor in childhood obesity, and sugar-sweetened soft drinks are now the single biggest source of dietary sugar for children and teenagers.[81] A single 330ml can of cola can contain more than a child's daily recommended intake of added sugar.[82] Public health experts have identified sugar-sweetened soft drinks of this kind as a major factor in the prevalence of childhood obesity.[83]

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

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

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

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

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

3.7 Improving health

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

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

3.8 Apprenticeships

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

From April 2017, employers will receive a 10% top-up to their monthly levy contributions in England and this will be available for them to spend on apprenticeship training through their digital account. The government will set out further details on the operating model in April and draft funding rates will be published in June.

3.9 Lifetime learning, from basic skills to PhDs

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

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

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

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

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

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

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

The government consultation ‘Strengthening the incentive to save’ looked at the way pensions are taxed.[89] The consultation found that while the current system gives everyone an incentive to save into a pension, and people like the

25% tax free lump sum, it is also inflexible and poorly understood. Young people in particular are not saving enough, often because they feel they have to choose between saving for their first home and saving for retirement.[90] Budget 2016 therefore addresses both of these concerns, continuing to prioritise transparency, choice and flexibility for savers.

3.11 A brand new flexible saving opportunity for the next generation

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

3.12 The Lifetime ISA

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

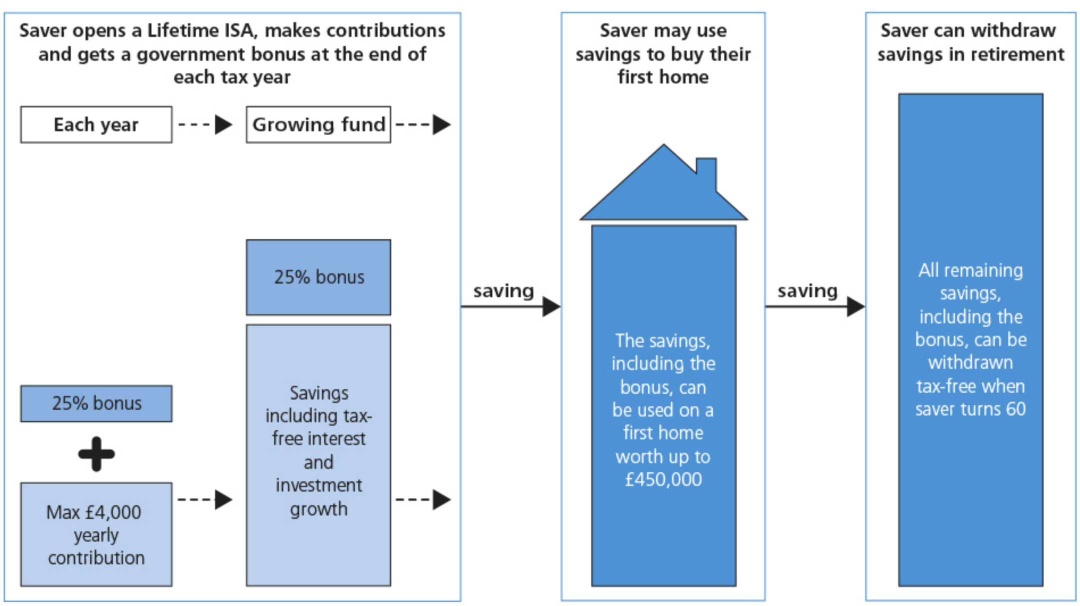
Contributions can continue to be made with the bonus paid up to the age of 50. Funds can be used to buy a first home with the government bonus at any time from 12 months after opening the account, and can be withdrawn from the Lifetime ISA with the government bonus from age 60 for use in retirement.

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

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

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

Figure 1: The Lifetime ISA



3.13 Help to Save

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

3.14 Understanding pension savings

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

3.15 Financial advice

The government welcomes the recommendations of the Financial Advice Market Review (FAMR),[94] which aims to support the provision of affordable and accessible advice for everyone, at all stages of their lives. FAMR was a joint review between the Financial Conduct Authority and Her Majesty's

Treasury, and its recommendations were published on 14 March. The government commits to implement all of the recommendations for which it is responsible, and will:

- consult on introducing a single clear definition of financial advice to remove regulatory uncertainty and ensure that firms can offer consumers the help they need
- increase the existing £150 Income Tax and National Insurance relief for employer-arranged pension advice to £500
- consult on introducing a Pensions Advice Allowance. This will allow people before the age of 55 to withdraw up to £500 tax free from their defined contribution pension to redeem against the cost of financial advice. The exact age at which people can do this will be determined through consultation. This means that a basic rate taxpayer could save £100 on the cost of financial advice The government will also restructure the delivery of public financial guidance to make it more effective.[95]

3.16 Home ownership

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

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

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

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

3.17 A more streamlined planning system

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

- the government's intention to move to a more zonal and 'red line' planning approach, where local authorities use their local plans to signal their development strategy from the outset and make maximum use of permission in principle, to give early certainty and reduce the number of stages developers must go through to get planning permission
- measures to speed up the planning system, including minimising the delays caused by planning conditions, and ensuring the delivery of local plans by 2017
- a consultation on options for increasing transparency in the property market, including by increasing the visibility of information relating to options to purchase or lease land
- that the government will deliver provisions to provide greater freedoms and flexibilities for the deployment of mobile infrastructure, including reducing planning restrictions for existing telecoms infrastructure and allowing taller new ground based masts to be built

3.18 Unlocking more land for housing

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

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

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

3.19 Garden towns, cities, and villages

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

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

3.20 Additional properties

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

Following consultation, the government has decided:

- to help those moving in difficult circumstances, purchasers will have 36 months rather than the originally proposed 18 months to either claim a refund from the higher rates or before the higher rates will apply, in the event that there is a period of overlap or a gap in ownership of a main residence
- there will be no exemption from the higher rates for significant investors, and the higher rates will apply equally to purchases by individuals and corporate investors

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

3.21 Preventing homelessness

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

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

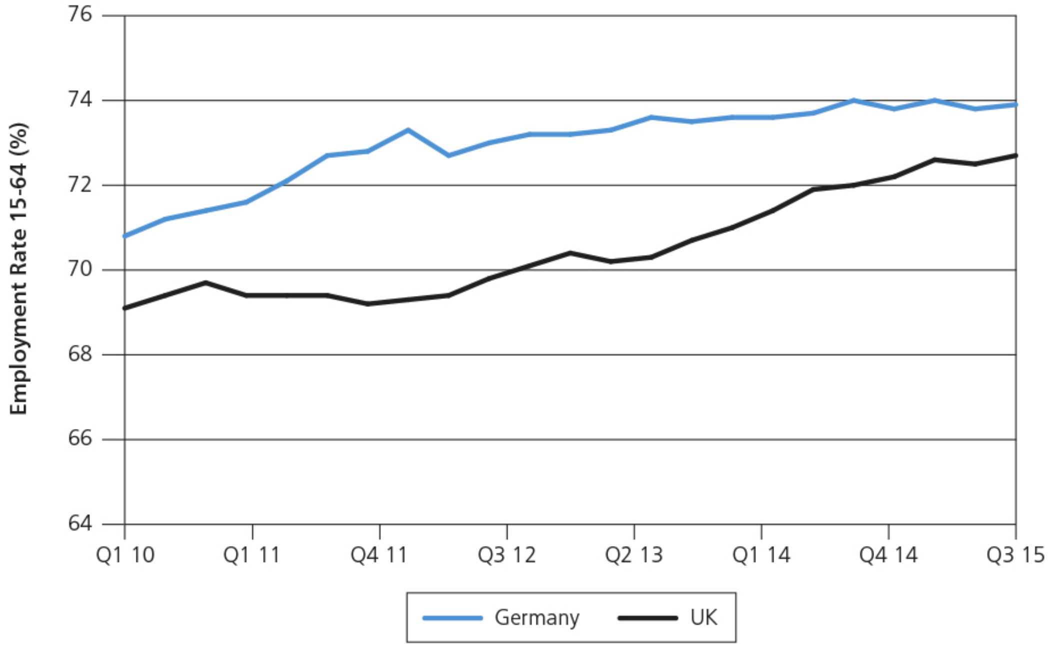
- invests £100 million to deliver low-cost 'second stage' accommodation for rough sleepers leaving hostel accommodation and domestic abuse victims and their families moving on from refuges. This will provide at least 2,000 places to enable independent living for vulnerable households and individuals,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

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

3.22 Delivering full employment

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

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



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

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

3.23 Disability employment reform

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

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

3.24 Support for parents in employment

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

To support families in this Budget, government will launch a consultation in May 2016 on how to implement its commitment to extend Shared Parental

Leave and Pay to working grandparents. The consultation will also cover options for streamlining the system, including simplifying the eligibility requirements and notification system, and will explore the potential to make better use of digital technology.

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

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

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

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

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

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

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

3.26 Addressing imbalances in the tax system

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

3.27 Different forms of remuneration

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

3.28 Tax and NICs rules for pay-offs

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

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

3.29 Salary sacrifice

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

3.30 Off-payroll engagement in the public sector

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

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

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

3.31 Loans to participators

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

4. Backing business and enterprise

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

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

4.1 Competitive taxes in a global economy

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

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

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

4.2 Business tax road map

In 2010, the government set out a corporate tax road map for the first time. This outlined plans to back business through lower corporation tax rates and the modernisation of tax rules and administration. The road map gave businesses the certainty to invest, and a clear and consistent direction for reform. Investment has grown by 30% since 2010, twice as fast as consumption over the same period.[118] Meanwhile, the UK was the number one recipient for inward investment in the EU in 2014,[119] creating job opportunities across the UK.

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

- cut tax rates to drive growth and support small businesses
- modernise the business tax system in line with international best practice

- ensure a level playing field, with large multinationals paying their fair share of tax

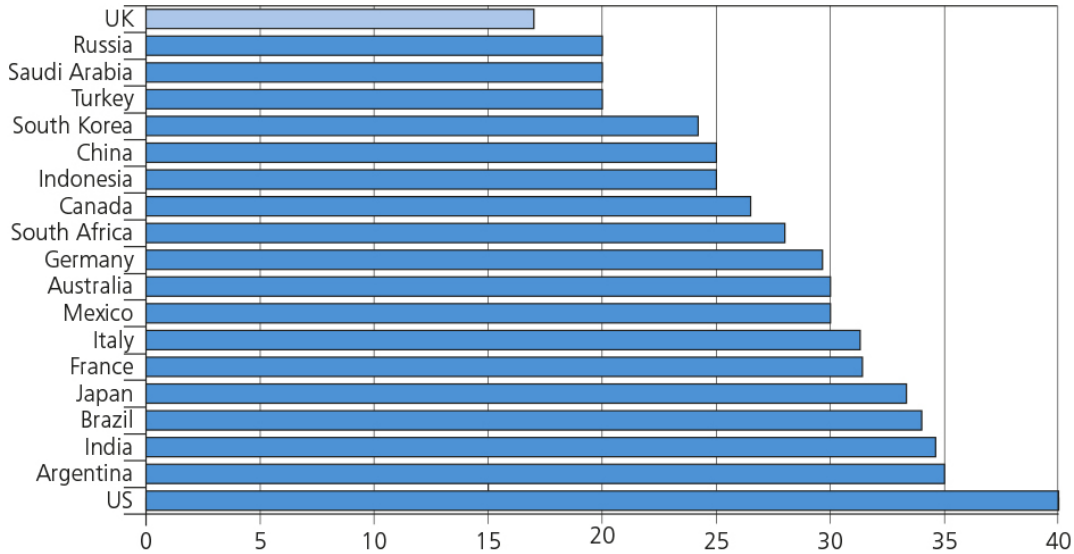
4.3 Lower tax rates to drive growth and support small businesses

4.4 Lower corporation tax

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

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

Chart 1.11: G20 Corporate Tax Rates in 2020*



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

4.5 Cutting business rates

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

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

- permanently double Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses. Businesses with a property with a rateable value of £12,000 and below will receive 100% relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. 600,000 small businesses, occupiers of a third of all properties, will pay no business rates at all – a saving worth up to £5,900 in 2017-18. An additional 50,000 will benefit from tapered relief[123]

- increase the threshold for the standard business rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate.[124] This will reduce business rates for many small businesses – including some high street shops

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

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

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

These measures build on the devolution revolution confirmed at Autumn

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

Table 1.6: Impact of business rate measures

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

Source: HMT calculations.

4.6 Supporting the self-employed

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

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

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

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

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

The rapid growth of the digital and sharing economy means it is becoming easier for more and more people to become 'micro-entrepreneurs'. However, for those making only small amounts of income from trading or property, the current tax rules can seem daunting or complex. To help make the tax position more certain and simple for these individuals, from April 2017 the Budget introduces two new £1,000 allowances for property and trading income.

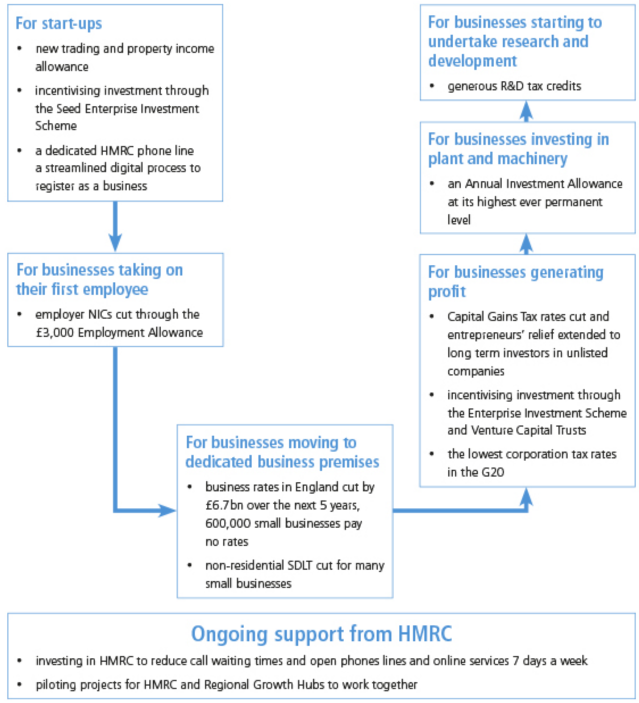
Individuals with property income or trading income below the level of allowance will no longer need to declare or pay tax on that income. Those with relevant incomes above £1,000 can benefit by simply deducting the allowance instead of calculating their exact expenses.

4.7 Cutting Capital Gains Tax

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

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

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



4.8 Simplifying and modernising business tax

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

4.9 Corporation tax loss relief

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

First, under the current system, losses carried forward can only be used by the company that incurred the loss, and not used in other companies in a group.

In addition, some losses carried forward can only be set against profits from certain types of income, for example trading losses can only be set against trading profits. This produces unfair outcomes and is out of step with the way businesses now operate. So the Budget makes these rules more flexible, benefiting over 70,000 companies.[128] For losses incurred on or after 1 April 2017, businesses will be able to use carried forward losses against profits from other income streams or from other companies within a group.

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

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

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

4.10 Stamp duty on commercial property

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

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

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

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

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

4.11 Modernising tax collection

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

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

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

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

- a 7-day a week service by 2017, with extended hours and Sunday opening on online services and the tax and tax credits phone lines, so that people and businesses have more opportunity to contact HMRC outside of working hours
- improved telephone services and reduced call waiting times by recruiting over 800 new staff into HMRC call centres
- a dedicated phone line and online forum for new businesses and self-

employed individuals to get help and support about filing and paying their taxes for the first time, and on the transition to using digital services

4.12 Simplifying the tax rules

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

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

4.13 Bringing forward corporation tax payments

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

4.14 Energy taxes

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

- abolish the CRC energy efficiency scheme (CRC) following the 2018-19 compliance year, ending a complex scheme with bureaucratic and costly administrative requirements. It will significantly streamline the business energy tax landscape by moving to a system where businesses are only charged one energy tax administered by suppliers rather than CRC participants being required to forecast energy use, buy and surrender allowances
- increase the Climate Change Levy (CCL) from 2019, to recover the revenue from abolishing the CRC in a fiscally-neutral reform, and incentivise energy efficiency among CCL-paying businesses
- rebalance CCL rates for different fuel types to reflect recent data on the fuel mix used in electricity generation, moving to a ratio of 2.5:1 (electricity:gas) from April 2019. In the longer term, the government intends to rebalance the rates further, reaching a ratio of 1:1 (electricity:gas) rates by 2025. This will more strongly incentivise reductions in the use of gas, in support of the UK's climate change targets
- keep existing Climate Change Agreement (CCA) scheme eligibility criteria in place until at least 2023, ensuring energy intensive industries remain protected. From April 2019, the CCL discount available to CCA participants will increase so that they pay no more than an RPI increase. The government will ensure that these agreements deliver on their energy efficiency goals through a DECC-led target review starting in 2016

At Budget 2014 the government capped Carbon Price Support (CPS) rates at £18 t/CO2 from 2016-17 to 2019-20 to limit competitive disadvantage to British businesses. Due to the continued low price of the EU Emissions Trading System (EU ETS), the government is maintaining the cap on CPS rates at £18 t/CO2, uprating this with inflation in 2020 21, in order to continue protecting businesses. The government will set out the long-term direction for CPS rates and the Carbon Price Floor at Autumn Statement, taking into account the full range of factors affecting the energy market.

4.15 Motoring taxes

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

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

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

4.16 Support for oil and gas

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

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

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

overall decommissioning costs, to deliver significant savings for industry and the Exchequer. If significant progress can be made, the government will explore whether decommissioning tax relief could better encourage transfers of late-life assets

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

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

4.17 Better financial services

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

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

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

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

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

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

4.18 Long term investment

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

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

4.19 Funding further investment in flood defence

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

4.20 Claims management companies

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

4.21 Ensuring companies pay their fair share of tax

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

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

4.22 Interest relief

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

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

4.23 Royalty payments

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

4.24 Hybrid mismatch arrangements

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

4.25 Offshore property developers

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

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

4.26 Tackling tax avoidance and evasion

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

4.27 Disguised remuneration

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

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

4.28 Tackling VAT evasion by overseas sellers

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

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

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

4.29 Addressing issues in the waste sector

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

4.30 Crackdown on smuggling

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

4.31 The hidden economy

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

4.32 Addressing imbalances in the tax system

4.33 Remote gambling

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

4.34 Asset managers

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

4.35 Employee Shareholder Status

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

5. Opportunity across the UK

5.1 Boosting productivity for the next generation

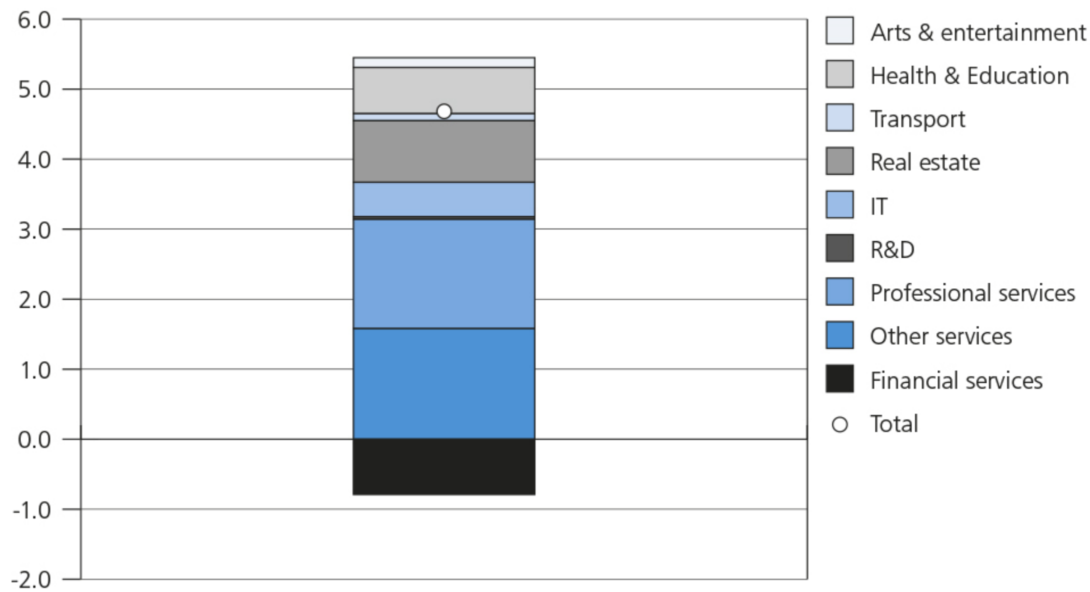
Productivity growth is the key driver of long-term increases in living standards. This Budget announces further measures to drive productivity across the UK. It continues to deliver on the government's 2015 productivity plan[147], encourages long-term investment, promotes a dynamic and competitive economy,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

5.2 Encouraging long-term investment

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

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

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



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

Table 1.7: Action to raise productivity (1)

Policy area and key evidence	Existing policies	Budget 2016 measures
Encouraging long term investment		
Business investing for the long term -An even more competitive tax system -Rewards for saving and long term investment OECD research suggests that corporate taxes are	Cut corporation tax to 18%, the lowest in the G20 Annual Investment Allowance set at £200,000, its highest ever permanent level	A £6.7 billion package of cuts and reforms to business rates Cutting Capital Gains Tax and expanding entrepreneur's relief Cutting corporation tax to 17% in 2020

the most damaging to growth		
Skills and human capital -A highly skilled workforce -World-leading universities, open to all who can benefit 16-24 year olds in England and NI still ranked in the bottom 4 of 22 countries for literacy and numeracy skills	An apprenticeship levy to fund more high quality apprenticeships Protected the core schools budget Removed HE student numbers cap	All schools in England academies by 2022 Accelerating the move to fairer funding for schools Review of post 16 maths Northern Powerhouse Schools Strategy
Economic infrastructure -A modern transport system-Reliable and low carbon energy-World-class digital infrastructure UK investment as a share of GDP has been in the lowest 25% of OECD countries for 48 of the last 55 years	Over £100bn infrastructure investment this Parliament National Infrastructure Commission to improve long term planning A Roads Fund from 2020-21 to provide certain long term investment	Green light to Crossrail 2, and High Speed 3 between Leeds and Manchester New National Infrastructure Commission studies on 5G and the Cambridge-Milton Keynes-Oxford corridor
Ideas and Knowledge -High-quality science and innovation New ideas are central to long run growth and there is a robust link between R&D spending and productivity	Protected science funding in real terms £6.9bn for research infrastructure by 2021	Funding for doctoral loans Making the UK a centre for driverless vehicles
Promoting a dynamic economy		
Flexible, fair markets -Planning freedoms, more houses to buy -A higher pay, lower welfare society -More people able to work and progress A productive economy	Introduced a new National Planning Policy Framework Doubled the affordable housing budget at SR2015 A new National Living Wage	Launching a £1.2bn Starter Homes Land Fund Supporting areas to establish new settlements Highest ever National Minimum Wage (for under 25s)

ensures work always pays and uses land efficiently		
Productive finance -Financial services that lead the world in investing for growth Financial services generated £58 billion in net exports in 2014 and facilitate investment in the wider economy	Launched the British Business Bank Boosted competition in the banking market and encouraged new entrants to ensure a better deal for SMEs	Over £250m Midlands Engine Investment Fund Help to Grow will support over £200m of finance in the next 2 years, from spring 2016
Openness and competition -Competitive markets with less regulation -A trading nation open to international investment Improvements in competition in the 80s and 90s accounted for up to 20% of industry productivity growth in the decade to 2005	Committed to cut £10 billion of red tape this Parliament Published "A Better Deal" with measures to open up markets Helped make the UK the number 1 destination in Europe for FDI projects	Consulting on improving choice and competition in legal services and increasing transparency of local authority procurement A goal to halve turnaround times for accessing trade finance
Resurgent cities -A rebalanced economy and a thriving Northern Powerhouse. Cities with fragmented governance structures have up to 6% lower levels of productivity than those that do not	Signed landmark mayoral devolution deals with Greater Manchester, Sheffield City Region, the North East, Tees Valley, Liverpool City Region and the West Midlands	£1.2bn City deal for Cardiff, and deals for East Anglia, West of England and Greater Lincolnshire A Thames Estuary 2050 Growth Commission

(1) All sources can be found in the accompanying sources document

5.3 National Infrastructure Commission

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

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

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

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

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

an assessment of how the UK can become a world leader in 5G deployment, and how it can take early advantage of the potential benefits of 5G services. This review will include a case study of the south-west of England

- proposals for unlocking growth, housing and jobs in the Cambridge-Milton Keynes-Oxford corridor – the commission will report on the strategic infrastructure priorities needed to generate further growth and maximise the potential of this corridor, which encompasses some of the UK's fastest-growing and most productive cities

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

5.4 Transport and infrastructure

5.5 Roads

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

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

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

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

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

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

5.6 Rail

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

As set out above, the government is investing in rail by giving the green light to

Crossrail 2, supported by £80 million to help fund development, and to High Speed 3 between Leeds and Manchester to bring journey times to around 30 minutes.

5.7 Flood defences

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

5.8 Smart and low carbon energy

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

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

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

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

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

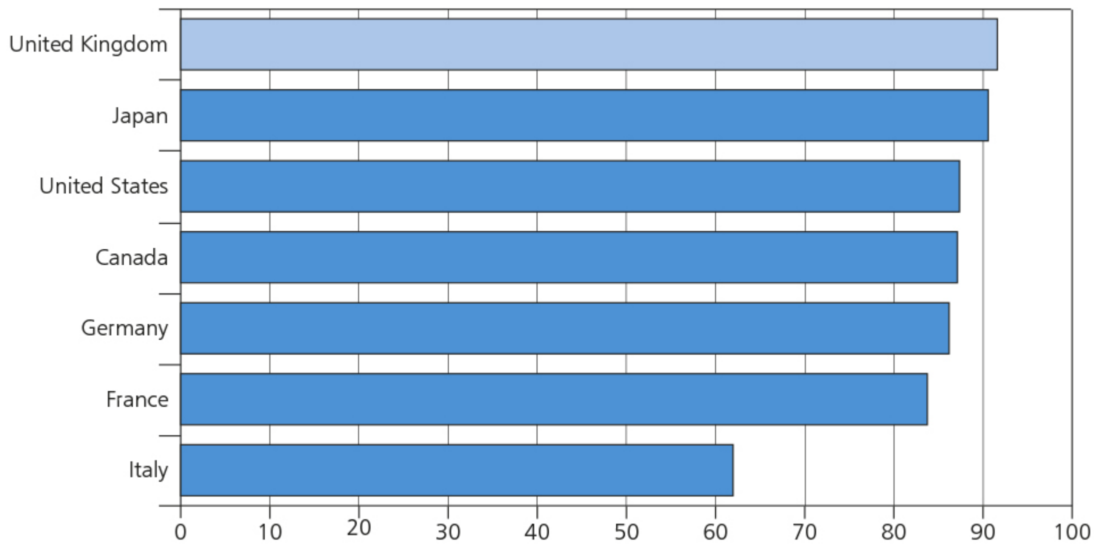
At Autumn Statement 2015, the government announced a competition to identify the best value small modular nuclear reactor (SMR) in the UK. This will pave the way to build one of the world's first SMRs. Budget 2016 announces the launch of the first stage of this competition, which will generate a list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

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

5.9 Supporting the digital economy

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

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



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

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

- establish a new Broadband Investment Fund, in partnership with private sector investors, to support the growth of alternative broadband networks by providing greater access to finance
- deliver a 5G strategy in 2017, based on an assessment by the National Infrastructure Commission of how the UK can become a world leader in 5G
- establish a panel of leading experts, chaired by Kathryn Parsons, to shape the £20 million Institute for Coding competition

- provide up to £5 million to develop options for an authoritative address register that is open and freely available – making wider use of more precise address data and ensuring it is frequently updated will unlock opportunities for innovation

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

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

5.10 Response to the Independent Review of Economic Statistics

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

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

5.11 Investing in creative industries

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

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

5.12 Competitive markets

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

- mobile – even when a handset has been paid off, some operators still charge customers to unlock it. At Autumn Statement 2015, the government challenged the industry to do better; since then operators have committed to unlocking many more of their customers' handsets for free. Unlocking handsets currently costs consumers an estimated £48 million a year[159]

- government procurement – the public sector can drive competition via open procurement practices. The government wants to ensure the £60 billion local authorities spend to procure services[160] is done in an efficient and competitive way. The government will consult on new rules requiring local authorities to be transparent about the cost of the in-house services they provide, and whether there could be savings from using competitive external providers
- legal services – where competitive pricing can make some of the biggest decisions in life, from buying a house to setting up a business, easier. The government will launch a consultation shortly on how to reduce regulatory barriers so that new providers can provide legal advice

5.13 Stronger and more focused economic regulators

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

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

- drive efficiency, by working with economic regulators to review the business case for co-locating and sharing back office functions across regulators, reporting by summer 2016

6. A devolution revolution

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

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

6.1 Devolution across the UK

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

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

6.2 Northern Ireland

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

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

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

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

6.3 Scotland

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

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

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

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

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

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

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

6.4 Wales

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

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

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

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

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

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

6.5 English Devolution

6.6 Devolution deals

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

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

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

6.7 Local growth

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

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

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

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

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

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

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

Figure 3: New investment across the United Kingdom

6.8 Northern Powerhouse

As set out by the Chancellor in 2014, the Northern Powerhouse is the government's vision for the North of England. It is built on the solid economic theory that while the individual cities and towns of the North are strong, if they are enabled to pool their strengths, they could be stronger than the sum of their parts. It means investing in better transport to connect up the North;

backing strengths in science and innovation; investing in culture, housing and the quality of life to make the North a magnet for new businesses and talented people; and devolving powers and budgets and creating powerful new elected mayors who will give people in northern cities and towns a strong voice.

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

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

6.9 Transport

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

- giving the green light to High Speed 3 between Leeds and Manchester, committing to reduce journey times to around 30 minutes, in line with the recommendation by the National Infrastructure Commission. £60 million will be provided to develop plans for both the Leeds-Manchester route by 2017 and to improve transport connections between cities of the North
- accelerating the upgrade of the M62 to a four-lane smart motorway. The government will provide an extra £161 million on top of the existing road programme to bring forward by 2 years the upgrade between junction 10-12 Warrington to Eccles, and to accelerate work on junction 20-25 Rochdale to Brighouse

- developing the future transformation of east-west road connections, including a new Trans-Pennine tunnel under the Peak District between Sheffield and Manchester, as well as options to enhance the A66, A69 and the north-west quadrant of the M60. The government will allocate £75 million, including to develop a business case for these schemes by the end of the year
- accelerating the development of other critical road projects in the North, including Lofthouse and Simister Island junctions, capacity enhancements to the M1 at junctions 35a-39 Rotherham to Wakefield, and delivering on the commitment to begin upgrades to the M56 at junctions 6-8 south of Manchester in this Parliament
- improving the North's major rail stations. To take forward the commission's recommendations, the government will allocate a further £4 million to support the development of High Speed 2 Growth Strategies for Manchester Piccadilly, Manchester Airport and Leeds stations

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

6.10 Devolution

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

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

6.11 Northern Powerhouse Schools Strategy

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

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

6.12 Business, innovation and science

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

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

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

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

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

6.13 Flooding

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

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

6.14 Arts and culture

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

- commits a further £13 million to Hull UK City of Culture 2017. This includes £5 million towards the refurbishment of Hull New Theatre and £8 million to ensure there is a lasting cultural legacy in Hull
- provides £5 million support to the Shakespeare North project to establish a new theatre in Knowsley, subject to business case approval and planning permission being granted
- provides £500,000 to Welcome To Yorkshire for an international marketing campaign for the Tour de Yorkshire 2016. The government also supports plans to bid to host the Rugby League World Cup in the Northern Powerhouse
- provides £1 million support to S1 Artspace to create an arts complex subject to planning permission being granted
- invites bids from northern cities and towns to host the Great Exhibition of the North in 2018
- considers the case to support the creation of 'International Screen School Manchester', to increase the skilled workforce for the screen-based media sector in the Northern Powerhouse

6.15 LIBOR

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

6.16 Figure 4: Northern Powerhouse Timeline

2015-16 Key Project Starts:

- £220m upgrade to M6 J16-19 between Crewe and Knutsford
- Construction of the £230m A6 to Manchester Airport relief road
- Phase one of the Leeds Flood Alleviation Scheme
- Key Project Completions
- Electrification of railway between Manchester and Liverpool
- £120m M1 J39-42 Smart Motorway between Wakefield and Leeds
- Construction of the £300m Liverpool2 deep water terminal at Seaforth

2016-17 Key Project Starts:

- Construction of £200m New Polar Research Vessel, Birkenhead
- New rail franchises for TransPennine Express and Northern start 1 April 2016
- £100m improvement to A19/A1058 Coast Road Junction in Newcastle
- £75m development of improvements to M60, Northern TransPennine links (A66 and A69) and TransPennine tunnel between Manchester and Sheffield
- Key Project Completions:
- £192m upgrade to A556 Knutsford to Bowdon
- Carrington Power Station enters operation, after a £620m construction

2017-18 Key Project Starts:

- ESIOS – Energy Subsurface Test Centre, Chester
- National Centre for Ageing Science and Innovation, Newcastle
- Smart Motorway on the M62 J10-12 (Manchester – Warrington)
- £13m Hull UK City of Culture 2017
- Key Project Completions:
- £380m of improvement works on the A1 Leeming to Barton
- £210m Smart Motorway on M60 J8 – M62 J20
- Graphene Engineering and Innovation Centre, Manchester
- Cognitive Computing Research Centre, Cheshire (Hartree Phase III)
- Plans produced for High Speed 3 between Leeds and Manchester to reduce journey times to around 30 minutes
- National College of High Speed Rail, Doncaster

2018-19 Key Project Starts:

- Ouse and Foss flood defence schemes in York, and phase two of the Leeds Flood Alleviation Scheme
- Publish 2nd Roads Investment Strategy (2020-25), which could include TransPennine tunnel and upgrades to northern TransPennine roads and M60
- Comprehensive upgrades to the TransPennine rail route, paving the way for High Speed 3
- Key Project Completions:
- Tees Renewable Energy Plant and £190-200m Energy Works in Hull
- Great Exhibition of the North 2018

2019-20 Key Project Starts:

- Upgrades to the A5036 Princess Way and M56 J6-8 Smart Motorway (Manchester Airport – A556)
- Smart Motorway on the M62 J20-25 (Leeds – Manchester)
- Upgrades to the A1 north of Ellingham
- M62/M606 Chain Bar in Bradford
- Key Project Completions:
- M62 J10-12, M60 J24-27 & J1-4 South of Manchester Smart Motorway
- Sir Henry Royce Institute for Advanced Materials, Manchester

- National Institute for Smart Data Innovation, Newcastle

6.17 Midlands Engine for Growth

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

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

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

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

- put Midlands Connect on a statutory footing by the end of 2018 to create a sub-national transport body for the Midlands. This will support Midlands Connect in developing and implementing a long-term Midlands Transport Strategy following the £5 million of funding the government committed at Summer Budget 2015
- develop Midlands Connect's priority strategic roads schemes in this Parliament. The government will carry out development work on four major

roads in the Midlands: upgrades to the M1 to provide a continuous smart motorway from London to Yorkshire, improvements to the A46 Newark bypass and its junction with the A1, upgrading the single carriageway link on the A45 Stanwick to Thrapston, and upgrading the M42 and M5 around Birmingham to a four lane smart motorway

- launch the Local Majors Fund. This competitive fund will offer the opportunity for local areas to bid for funding for large local transport projects such as the Carrington Bridge
- allocate £11 million during 2016-2017 to fill around 214,000 potholes
- allocate £1 million to expand car parking facilities at Market Harborough rail station

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

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

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

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

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

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

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

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

6.18 East of England

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

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

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

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

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

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

6.19 South West

In 2015, employment grew faster in the South West than in any other region.[177] At the end of 2015 the South West had the lowest unemployment rate of any region, and has seen the fastest business growth since 2010 outside London.[178] To drive productivity and support growth, the government is announcing a package of measures to devolve further powers to the West of England, improve transport and connectivity, and support tourism in the region.

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

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

The government will support the interim report of the Peninsula Rail Task

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

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

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

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

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

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

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

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

6.20 London

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

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

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

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

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

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

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

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

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

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

6.21 South East

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

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

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

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

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

7. Policy decisions

Chapter 1 explains how the measures announced in this Budget advance the government's long-term economic plan. This chapter provides a brief description of all Budget policy decisions. There are decisions on tax measures, National Insurance contributions (NICs), measures that affect

Annually Managed Expenditure (AME), changes to Departmental Expenditure Limits (DEL) and other policy measures. Unless stated otherwise, measures in this chapter are measures announced at this Budget. The tables in this chapter set out the cost or yield of all Budget policy decisions with a fiscal impact in the years up to 2020-21.

7.1 Fiscal impacts of Budget policy decisions

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

Table 2.1 shows the cost or yield of all new Budget 2016 decisions with a direct effect on public sector net borrowing. This includes tax measures, changes to allocated DEL and measures affecting AME, including the total fiscal impact of the measures affecting the welfare cap.

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 'Budget 2016 policy costings' published alongside this Budget.

Table 2.1: Budget 2016 policy decisions (1)

	Head	£ million				
		2016-17	2017-18	2018-19	2019-20	2020-21 (2)
Spending and						

Efficiency							
1	Resource spending adjustment	Spend	0	0	0	+3,500	-
2	Capital spending: accelerate investment plans (3)	Spend	0	-760	-970	+1,585	+150
3	Public Service Pensions: update to discount rate	Spend	0	0	0	+1,970	+2,005
Personal Tax and Savings							
4	Personal Allowance: increase to £11,500 in April 2017	Tax	0	-1,665	-1,945	-1,945	-1,985
5	Higher Rate Threshold: increase to £45,000 in April 2017	Tax	0	-365	-595	-565	-600
6	Lifetime ISA and raise ISA limit to £20,000	Spend	*	-170	-330	-590	-850
7	Savings: remove withholding tax obligations	Tax	0	-260	-45	-100	-120
8	Financial Advice Markets Review: increase tax relief on employer provided pension advice	Tax	0	-10	-10	-5	*

Childhood Obesity and Education							
9	Soft Drinks Industry Levy	Tax	0	0	+520	+500	+455
10	Education: doubling the school sports premium	Spend	0	-110	-190	-190	-
11	Education: longer school day and breakfast clubs	Spend	-5	-85	-250	-350	-
12	Education: full academisation and accelerate transition to National Funding Formula	Spend	-75	-260	-195	-110	-
13	Education: Northern Powerhouse	Spend	-10	-25	-25	-20	-
14	Student Loans: postgraduate loans for part-time and distance learning	Spend	0	0	0	+5	+5
Business Tax							
15	Business Rates: permanently double the Small Business Rate Relief and extend thresholds	Tax	0	-1,575	-1,410	-1,420	-1,460
16	Business Rates: increase threshold for higher	Tax	0	-125	-110	-110	-115

	multiplier to £51,000						
17	Business Rates: switch from RPI in April 2020	Tax	0	0	0	0	-370
18	Corporation Tax: reduce to 17% in April 2020	Tax	0	0	0	-120	-945
19	Corporation Tax: restrict relief for interest	Tax	0	+920	+1,165	+995	+885
20	Corporation Tax: withholding tax on royalties	Tax	+210	+165	+115	+120	+125
21	Corporation Tax: extend scope of hybrid mismatch rules	Tax	+15	+265	+255	+215	+200
22	Corporation Tax: reform loss relief	Tax	0	+395	+415	+295	+255
23	Corporation Tax: further restrict use of banks' pre-2015 losses	Tax	+330	+520	+465	+375	+315
24	Corporation Tax: implement agreed patent box nexus approach	Tax	0	+15	+25	+35	+45
25	Corporation Tax: extend first year allowance and lower emission thresholds for business cars	Tax	0	0	+5	+35	+80

26	Corporation Tax: defer bringing forward payment for large groups for two years	Tax	0	-6,000	-3,850	+5,965	+3,600
27	Stamp Duty Land Tax for non-residential property: reform freehold and leasehold premium regime to slice and increase leasehold rate over £5m	Tax	+385	+515	+535	+560	+590
Enterprise							
28	Capital Gains Tax: reduce basic rate to 10% and main rate to 20% excluding residential property and carried interest	Tax	-105	-630	-605	-670	-735
29	Entrepreneurs Relief: extend to long-term investors in unlisted shares	Tax	*	+5	-25	-40	-60
30	Capital Gains Tax: lifetime limit under Employee Shareholder Status	Tax	0	0	0	+10	+35
31	Capital Gains Tax: extend reliefs	Tax	-45	-20	-40	-40	-40
32	Self Employed: abolish Class 2	Tax	0	0	-355	-360	-360

	NICs						
33	Sharing Economy: £1,000 allowance for both trading and property income	Tax	0	-15	-235	-195	-200
Energy and Environment							
34	Oil and Gas: abolish Petroleum Revenue Tax and reduce Supplementary Charge to 10%	Tax	-165	-265	-225	-155	-200
35	North Sea Seismic Survey	Spend	-15	0	0	0	-
36	Business Energy: abolish Carbon Reduction Commitment and offsetting increase to Climate Change Levy	Tax	0	0	0	+425	+35
37	Carbon Price Support Rate: cap at £18/tCO_2 in April 2019 and uprate in April 2020	Tax	0	0	0	0	+25
38	Corporation Tax: update technologies with access to enhanced capital allowances	Tax	*	+5	+5	+5	+5
Avoidance, Evasion,							

Imbalances, and Operational Measures							
39	Disguised remuneration: tackling historic and new schemes	Tax	+100	+335	+645	+1,235	+215
40	Off-payroll working: transfer liability to public sector employers	Tax	0	+265	+65	+105	+120
41	Loans to participators: align rates with dividend higher rate	Tax	+15	+80	+80	+70	+65
42	Removing employer tax advantage of different forms of remuneration: pay-offs over £30,000	Tax	0	+45	+420	+470	+485
43	Offshore Property Developers: tackle avoidance and evasion	Tax	+130	+435	+550	+640	+520
44	Stamp Duty Land Tax on additional properties: exemptions	Tax	+45	+55	+60	+65	+70
45	Corporation Tax: removing the renewals allowance	Tax	+5	+5	+5	+5	+5
46	Value Added	Tax	0	+65	+130	+315	+365

	Tax: tackling overseas trader evasion						
47	Value Added Tax: extend reverse charge to electronic communications services	Tax	+115	+105	+90	+75	+60
48	Gambling Duties: reform treatment of freeplays	Tax	-20	+45	+90	+100	+110
49	Asset Managers: reform treatment of performance awards	Tax	+15	+210	+115	+90	+65
50	Border Force: Illicit Tobacco Strategy	Tax	-5	+20	+25	+30	+45
51	Landfill Tax: tackling waste crime	Tax	0	+5	+10	+20	+30
52	Tax Free Childcare and Employer Supported Childcare: updated roll-out and grandfathering	Tax	+20	-35	-155	-120	-85
53	DWP and HMRC operational and policy measures	Spend	-35	-50	+5	+45	+30
Duties							
54	Fuel Duty: freeze in April 2016	Tax	-440	-435	-445	-445	-450

55	Alcohol Duty: freeze for beer, spirits and cider	Tax	-85	-85	-85	-85	-85
56	Heavy Goods Vehicles: freeze VED and Road User Levy	Tax	-5	-5	-5	-5	-5
57	Hand-rolling Tobacco: increase by RPI+5%	Tax	+10	+10	+10	+10	+10
58	Aggregates Levy: freeze rates	Tax	-5	-5	-5	-5	-5
59	Package Recycling Target: reform	Tax	+5	+10	+5	0	-5
Local Growth							
60	Flood Defence and Resilience: additional investment	Spend	-80	-200	-205	-205	-
61	Insurance Premium Tax: increase by 0.5%	Tax	+80	+200	+205	+205	+210
62	City Deals	Spend	-145	-60	-10	-10	-
63	Smart Motorways: M62	Spend	*	*	-75	-115	-
64	Office for National Statistics: Bean Review	Spend	-5	-10	0	0	-
65	Enterprise Zones: extend enhanced	Tax	0	0	0	0	-5

	capital allowances						
66	Cathedral repairs fund	Spend	-5	-5	0	0	-
67	Additional cultural investment	Spend	-25	-30	-15	-15	-
68	Other local growth measures	Spend	-5	-5	-10	-5	-
Previously announced measures							
69	Local Government Assets: receipts flexibility	Spend	+100	+250	+380	+380	+190
70	Help to Save	Spend	0	0	0	-20	-70
71	Education: mentoring for disadvantaged pupils	Spend	-5	-5	-5	-5	-
72	Right to Buy: pilots	Spend	0	-35	-35	-5	0
73	Personal Independence Payments: aids and appliances	Spend	+15	+590	+1,190	+1,300	+1,280
74	Pay to Stay: introduce taper and make voluntary for housing associations	Spend	0	+260	+205	+260	+305
75	Social Rent downrating: one year deferral for supported	Spend	-15	-20	-20	-25	-25

	housing						
76	Benefit Cap: exemption for recipients of carers and guardians allowance	Spend	-10	-20	-20	-20	-20
77	Local Housing Allowance: implement for new tenancies from April 2017	Spend	0	0	-60	-25	-15
	TOTAL POLICY DECISIONS		+285	-7,550	-4,770	+13,915	+4,175
	Memo: TOTAL POLICY DECISIONS (excluding the impact of CT payment date measure) (4)		+285	-1,550	-920	+7,950	+575
	Total tax policy decisions (excluding the impact of CT payment date measure) (4)		+645	-960	-470	+330	-2,760
	Total spending policy decisions		-360	-590	-450	+7,620	+3,335

*negligible

(1) Costings reflect the OBR's latest economic and fiscal determinants.

(2) At Spending Review 2015, the government set departmental spending plans for RDEL for years up to 2019-20. RDEL budgets have not been set for most departments for 2020-21. Given this, RDEL figures are not set out for 2020-21.

(3) This measure is fiscally neutral over the scorecard period. Figures do not sum to zero due to

rounding.

(4) This measure delays the introduction of a new corporation tax payment schedule for larger groups. As it defers the policy, rather than changing it, its effect over the scorecard period is broadly neutral.

Table 2.2: Measures announced at Spending Review and Autumn Statement 2015 or earlier that will take effect from April 2016 or later (1,2)

		Head	£ million				
			2016-17	2017-18	2018-19	2019-20	2020-21
Measures announced at Spending Review and Autumn Statement 2015							
a	Apprenticeship Levy (funding employer apprenticeship scheme)	Tax	0	+2,675	+2,780	+2,885	+3,000
b	Business Rates: small business relief extension	Tax	-730	+90	+20	0	0
c	Enterprise Zones	Tax	*	-10	-15	-15	-5
d	Stamp Duty Land Tax: higher rates on additional properties	Tax	+630	+695	+750	+805	+855
e	Stamp Duty Land Tax: bringing forward payments	Tax	0	+105	+10	+10	+10

f	Capital Gains Tax: reduce payment window for residential property	Tax	0	0	0	+930	+220
g	Temporary accommodation: impact of new funding mechanism	Spend	0	+225	+235	+245	+260
h	Renewable Heat Incentive: capping costs and improving value for money	Spend	+75	+175	+300	+480	+705
i	Landfill Communities Fund: reform	Tax	+20	+20	+20	+20	+20
j	Company Car Tax: retain the diesel supplement until 2021	Tax	+270	+270	+270	+265	+270
k	Insurance Premium Tax: reform to motor insurance claims rules	Tax	0	-35	-45	-55	-55
l	Stamp Duty Reserve Tax: options abuse	Tax	+35	+40	+40	+40	+45
m	Company distributions: preventing avoidance	Tax	*	+30	+20	+15	+15
n	General Anti-Abuse Rule: penalties	Tax	+10	+20	+25	+5	+5
o	Making Tax Digital: reducing errors through	Tax	0	0	+10	+310	+625

	record keeping						
p	Fraud, error and debt: DWP and HMRC changes	Spend	+80	+130	+90	+115	+100
q	Universal Credit: uprate Minimum Income Floor with National Living Wage	Spend	*	+10	+60	+125	+185
r	Housing Benefit: limit social sector rates to the equivalent private sector rate	Spend	0	0	+265	+335	+390
s	Housing Benefit and Pension Credit: limit temporary absence	Spend	+25	+20	+15	+10	+10
t	Childcare: revised eligibility criteria	Spend	0	+45	+75	+90	+105
u	Pensions automatic enrolment: align with start of tax year	Tax	0	+385	+440	-10	-10
v	Pension Credit Savings Credit: freeze	Spend	+140	+140	+140	+135	+130
Measures announced at Summer Budget 2015							
w	Personal allowance: increase to £11,000 in 2016-17, with	Tax	-1,060	-1,170	-1,145	-1,150	-1,220

	equal gains to higher rate taxpayers						
x	Higher Rate Threshold: increase to £43,000 in 2016-17	Tax	-95	-185	-175	-185	-195
y	Inheritance Tax: £1m couples allowance from 2020 through new main residence nil-rate band phased in from 2017	Tax	0	-295	-675	-775	-830
z	Pensions tax relief: restrict for gross income over £150,000 from 2016-17	Tax	+260	+425	+900	+1,180	+1,280
aa	Rent-a-room relief: increase to £7,500	Tax	-10	-10	-10	-10	-10
ab	Childcare: 30 hour entitlement for working parents of 3 and 4 year olds	Spend	0	-375	-665	-690	-705
ac	Corporation Tax: reduce to 19% from 2017-18, and 18% from 2020-21	Tax	-10	-685	-1,755	-2,070	-2,880
ad	Employment Allowance: increase by £1,000 from 2016-17	Tax	-635	-680	-695	-715	-715
ae	Dividends tax: abolish credit, introduce new £5,000	Tax	+2,540	-795	+1,185	+2,090	+1,980

	allowance, and increase effective rates by 7.5pp						
af	Residential property: restrict finance relief to basic rate, phase from 2017	Tax	0	0	+225	+435	+670
ag	Residential property: reform wear and tear allowance	Tax	0	+205	+150	+170	+170
ah	VED: reform for new cars purchased from 2017, hypothecated to roads fund from 2020-21	Tax	+300	+155	+640	+850	+1,300
ai	Non-domiciles: abolish permanent status	Tax	0	-20	+395	+310	+310
aj	Non-domiciles: IHT on UK residential property	Tax	-5	+30	+90	+60	+70
ak	Employment Allowance: withdraw from single person companies	Tax	+70	+75	+80	+85	+90
al	Tax Motivated Incorporation: reduction due to dividend tax reform	Tax	+210	+375	+515	+650	+795
am	Indirect tax: overseas insurance	Tax	+5	+5	+5	+5	+5

an	Large Business: enhanced compliance	Tax	+40	+175	+345	+480	+635
ao	Specialist Personal Tax: enhanced compliance	Tax	+5	+40	+110	+195	+280
ap	Wealthy: enhanced compliance	Tax	-65	+40	+175	+245	+265
aq	Hidden Economy	Tax	+15	+120	+200	+255	+275
ar	Local compliance resource	Tax	+15	+135	+355	+630	+895
as	Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17	Spend	0	+505	+1,755	+3,470	+3,580
at	Benefit cap: reduce to £20,000, and £23,000 in London	Spend	+80	+235	+255	+305	+360
au	Limit child element to 2 children for new births in tax credits and new claims in UC	Spend	0	+360	+795	+1,200	+1,585
av	Remove family element in tax credits and UC, and the family premium in Housing Benefit, for new claims	Spend	+110	+230	+405	+540	+645

aw	Reduce work allowances in UC	Spend	+120	+1,225	+2,225	+2,850	+3,190
ax	Reduce income rise disregard in tax credits	Spend	+90	+145	+155	+95	+55
ay	End automatic entitlement for out-of-work 18-21 year olds	Spend	0	+25	+35	+40	+40
az	Reduce social sector rents by 1% each year for 4 years from 2016-17	Spend	+590	+1,180	+2,140	+3,185	+3,165
ba	Pay to stay: higher income social housing tenants to pay market rents	Spend	0	+20	-190	-165	-205
bb	Limit backdating awards to 4 weeks	Spend	+10	*	*	*	0
bc	Support for Mortgage Interest: change from welfare payment to loan; maintain capital limit at £200,000	Spend	-30	-35	+265	+245	+245
bd	Align Work-Related Activity Group rate with JSA for new claims	Spend	0	+30	+180	+345	+450
be	UC parent conditionality from when youngest child turns 3	Spend	0	*	*	+30	+30
bf	Fraud, error &	Spend	+45	+25	+10	+5	0

	debt: tax credits changes						
bg	TV Licence: BBC funding for over-75s	Spend	0	0	+185	+425	+725
Measures announced at March Budget 2015							
bh	Personal Allowance: increase to £10,800 in 2016-17 and to £11,000 in 2017-18 with full gains to higher rate taxpayers	Tax	-1,150	-2,195	-2,410	-2,460	-2,505
bi	Savings Tax: allowance and ISA flexibility	Tax	-1,320	-565	-600	-635	-675
bj	Annuities: secondary market	Tax	0	+485	+475	-150	-145
bk	Pensions: lifetime allowance to £1m from 2016-17, and index with inflation from 2018-19	Tax	+245	+370	+505	+550	+570
bl	Employment intermediaries: travel and subsistence (umbrella companies)	Tax	+155	+175	+160	+145	+130
bm	Tobacco: enforcement	Tax	+5	+10	+10	+10	+10
bn	Accelerated Payments:	Tax	+135	+195	+75	-35	-110

	extension						
bo	Restricting EEA jobseekers' access to Universal Credit	Spend	+5	+10	+15	+15	0
bp	DWP Fraud and Error: strategic use of RTI to prevent fraud in pension credit and HB	Spend	+15	+30	+35	+40	+40
bq	Affordable housing: Housing Benefit impact	Spend	0	0	-5	-20	-20
br	Company car taxation: 3ppt increase in 2019-20	Tax	0	0	0	+315	+320
bs	Income Tax: extending farmers' profits averaging period to 5 years	Tax	-15	-30	-35	-35	-35
Measures announced at Autumn Statement 2014							
bt	Employer NICs: abolish for apprentices under 25	Tax	-105	-110	-120	-125	-130
bu	Peer-to-peer lenders: bad debt relief	Tax	-10	-15	-15	-25	-30
bv	Corporation tax: hybrids	Tax	+15	+70	+85	+90	+90
bw	Corporation tax: accounting	Tax	+5	+85	+215	-45	-45

	treatment of credit losses						
bx	Income tax: salary sacrifice and expenses, including umbrella companies	Tax	+85	+65	+55	+60	+60
by	Office of Tax Simplification: review of expenses	Tax	-5	-10	-10	-10	-10
bz	HMRC Operational Measures	Tax	+280	+390	+155	+165	+160
ca	Peer-to-peer lenders: withholding tax regime	Tax	0	+35	0	+15	+25
cb	Universal Credit: supporting 85% of childcare costs	Spend	-10	-185	-285	-320	-290
cc	Bereavement benefits reform	Spend	0	-55	-40	-10	+20
cd	Work allowances: maintain current level in 2017-18	Spend	0	+60	+115	+145	+145
Measures announced at Budget 2014							
ce	Carbon Price Floor: limit disparity between UK and EU to £18 from 2016-17	Tax	-340	-615	-870	-1,030	-1,185
cf	Company Car Tax: continuing	Tax	0	+210	+425	+445	+455

	to increase by 2ppt in 2017-18 and 2018-19						
cg	Tax Credits debt: increasing recovery rate	Tax	+80	+50	+30	+10	+5
Measures announced at Autumn Statement 2013							
ch	Alcohol fraud wholesaler registration	Tax	+15	+245	+235	+215	+190
ci	HMRC: extending online services	Tax	0	+45	+55	+55	+55
Measures announced at Spending Round 2013							
cj	Pension Credit: abolish assessed income periods	Spend	+5	+20	+50	+75	+100
Measures announced at Budget 2013							
ck	Contracting out NICs: public sector employers	Tax	+2,740	+2,740	+2,815	+2,885	+2,975
cl	Contracting out NICs: public sector employees	Tax	+1,125	+1,125	+1,160	+1,185	+1,225

cm	Contracting out NICs: private sector employers	Tax	+1,210	+1,145	+1,075	+1,020	+965
cn	Contracting out NICs: private sector employees	Tax	+495	+470	+440	+420	+395

* Negligible

(1) Costings reflect the OBR's latest economic and fiscal determinants.

(2) Costings reflect the fact that after Summer Budget 2015 the Government balance sheet now includes Housing Associations.

7.2 Public Spending

Table 2.3 sets out the path for Total Managed Expenditure (TME), Public Sector Current Expenditure (PSCE), and Public Sector Gross Investment (PSGI) to 2020-21.

The government has decided to take action in response to global economic uncertainty. This Budget sets out that the government will find a further £3.5 billion of savings from public spending in 2019-20, building on the plans set out at Spending Review 2015. To inform future spending decisions and the delivery of these savings, the government is launching an efficiency review. After the public finances move into surplus in 2019-20, total departmental resource spending will grow in line with inflation from 2019-20 to 2020-21. Specific departmental budgets for 2020-21 will be set out at the next Spending Review. (1)

The government prioritises capital investment, and has set out plans to surpass its commitment to invest £100 billion in the UK's infrastructure by 2020-21. As part of this, the government is now accelerating around £1.5

billion of capital investment in its priorities, where faster delivery is possible. This includes funding for housing, transport and flood defence schemes, and will allow the government to make quicker progress with delivering its long-term solutions to long-term problems. (2)

Table 2.3: Total Managed Expenditure (1)

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

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

(2) In 2016-17 the Scottish Government's block grant has been adjusted by £5.5bn to reflect the

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

7.3 Departmental Expenditure Limits

Spending Review 2015 announced departmental spending allocations for 2016-17 to 2019-20. Capital budgets were also allocated for 2020-21 but resource budgets were only set for some departments in that year, with the rest to be set at the next Spending Review. Tables 2.4 and 2.4a show the departmental totals set at Spending Review 2015 with adjustments to reflect policy announcements at this Budget.

Table 2.4: Departmental Resource Budgets (Resource DEL excluding depreciation)

	£ billion				
	Estimate	**Plans**			
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Resource DEL excluding depreciation (1)					
-Defence	27.6	27.7	28.5	29.1	30.0
-Single Intelligence Account	1.9	1.8	2.0	2.1	2.2
-Home Office	10.6	10.7	10.6	10.6	10.6
-Foreign and Commonwealth Office	1.7	1.0	1.0	1.0	1.0
-International Development	7.2	9.1	9.3	10.7	10.4
-Health (inc. NHS)	113.1	115.6	118.7	121.3	124.1
-Work and Pensions	6.2	6.1	6.3	5.9	5.4
-Education	53.3	54.6	55.9	57.0	57.7

-Business, Innovation and Skills	13.1	13.4	12.3	11.7	11.5
-Transport	2.0	2.0	2.1	2.2	1.8
-Energy and Climate Change	1.4	0.9	1.0	1.0	0.9
-Culture, Media and Sport	1.2	1.2	1.2	1.2	1.1
-DCLG Communities	2.5	1.5	1.4	1.3	1.2
-DCLG Local Government	10.8	9.6	8.2	6.9	6.2
-Scotland (2)	25.7	20.6	26.5	26.6	26.7
-Wales	12.8	13.0	13.3	13.3	13.4
-Northern Ireland	10.0	9.8	9.9	9.9	10.0
-Justice	6.8	6.6	6.3	5.8	5.7
-Law Officers Departments	0.6	0.5	0.5	0.5	0.5
-Environment, Food and Rural Affairs	1.6	1.7	1.6	1.5	1.4
-HM Revenue and Customs	3.3	3.6	3.4	3.2	2.9
-HM Treasury	0.1	0.2	0.2	0.1	0.1
-Cabinet Office	0.6	0.6	0.6	0.5	0.6
-Small and Independent Bodies	1.6	1.5	1.5	1.5	1.5
-Reserves	0.0	3.6	3.6	3.7	4.2
-Adjustment for Budget Exchange (3)	0.0	-0.1	0.0	0.0	0.0
-Adjustment for planned efficiency savings	0.0	0.0	0.0	0.0	-3.5
Total Resource DEL excluding depreciation	315.8	316.6	325.7	328.6	327.5
OBR allowance for shortfall	-0.7	-0.5	-0.5	-1.0	-0.5
OBR resource DEL excluding depreciation forecast	315.1	316.1	325.2	327.6	327.0

(1) Resource DEL excluding depreciation is the Treasury’s primary control total within resource

budgets and the basis on which Spending Review settlements were made.

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

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

Table 2.4a: Departmental Capital Budgets (Capital DEL)

	£ billion					
	Estimate	**Plans**				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Capital DEL						
-Defence	7.6	7.3	7.5	7.8	8.1	8.7
-Single Intelligence Account	0.4	0.4	0.4	0.4	0.5	0.5
-Home Office	0.4	0.5	0.5	0.4	0.4	0.4
-Foreign and Commonwealth Office	0.1	0.1	0.1	0.1	0.1	0.1
-International Development	2.2	2.7	3.2	2.8	3.1	3.6
-Health (inc. NHS)	3.7	4.8	4.8	4.8	4.8	4.8
-Work and Pensions	0.2	0.3	0.4	0.3	0.2	0.2
-Education	4.9	5.2	4.7	4.9	3.8	4.6
-Business, Innovation and Skills	2.6	3.2	2.3	1.8	1.6	1.6
-Transport	6.0	6.3	7.8	9.1	11.3	12.4
-Energy and Climate Change	2.3	2.4	2.5	2.4	2.3	2.8
-Culture, Media and Sport	0.3	0.4	0.4	0.4	0.3	0.2

-DCLG Communities	3.9	4.5	4.4	4.7	3.6	4.8
-DCLG Local Government	0.0	0.0	0.0	0.0	0.0	0.0
-Scotland	2.9	3.2	3.2	3.2	3.4	3.5
-Wales	1.5	1.5	1.5	1.6	1.7	1.7
-Northern Ireland	0.8	1.1	1.1	1.2	1.2	1.2
-Justice	0.3	0.7	0.7	0.7	0.4	0.1
-Law Officers Departments	0.0	0.0	0.0	0.0	0.0	0.0
-Environment, Food and Rural Affairs	0.5	0.6	0.7	0.6	0.5	0.5
-HM Revenue and Customs	0.2	0.2	0.2	0.2	0.2	0.2
-HM Treasury	-0.7	0.1	0.1	0.1	0.1	0.0
-Cabinet Office	0.0	0.0	0.0	0.0	0.0	0.0
-Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1	0.1
-Reserves	0.0	1.0	1.3	1.3	1.2	1.1
-Capital spending not in budgets(1)	0.0	0.0	0.0	0.0	0.0	3.0
-Adjustment for Budget Exchange(2)	0.0	-0.3	0.0	0.0	0.0	0.0
Total Capital DEL	40.3	46.2	48.1	49.0	48.9	56.2
Remove CDEL not in PSGI(3)	-3.8	-5.0	-4.9	-3.6	-3.6	-3.6
Allowance for shortfall	-0.9	-2.0	-2.2	-2.5	-2.3	-
Public Sector Gross Investment in CDEL	35.6	39.2	40.9	42.9	43.0	52.6

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

(2) Departmental budgets in 2016-17 include amounts carried forward from 2015-16 through Budget Exchange, which will be voted at Main Estimates. It is assumed that these increases will be offset at

Supplementary Estimates in future years so are excluded from spending totals.

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

7.4 Devolved Administrations

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

7.5 Financial Transactions

Some policy measures do not directly affect public sector net borrowing in the same way as conventional spending or taxation. These include financial transactions that directly affect only the central government net cash requirement (CGNCR) and public sector net debt. Table 2.5 shows the effect of the financial transactions announced at this Budget on CGNCR.

Table 2.5: Financial Transactions (1)

	£ million					
Financial transactions	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
i Doctoral loans	0	0	0	-50	-115	-185
ii Extension of Masters loans eligibility	0	-10	-20	-20	-25	-30
TOTAL POLICY DECISIONS	0	-10	-20	-70	-140	-215

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

7.6 Asset sales

Bank share sales – The government will continue to return its financial assets to the private sector through launching a retail sale in 2016-17 and fully exiting its stake in Lloyds Banking Group and raising up to £25 billion from its stake in RBS over the course of this Parliament.

UKAR future asset sales – UK Asset Resolution have been exploring the possibility of a major sales programme of Bradford & Bingley (B&B) mortgages. This programme of sales will be designed to raise sufficient proceeds for B&B to repay the £15.65 billion debt to the Financial Services Compensation Scheme (FSCS) and for the FSCS to repay its corresponding loan from the Treasury. Any sales will be subject to market conditions and ensuring value for money.

7.7 Public sector pensions

Public service pensions SCAPE discount rate – The government has reviewed the discount rate used to set employer contributions to the unfunded public service pension schemes. The discount rate is being set at 2.8% and employers will pay higher contributions to the schemes from 2019-20 as a result. (3)

Local Government Pension Scheme: British Wealth Funds – The government will support proposals by local administering authorities to establish both a small number of British Wealth Funds by combining Local Government Pension Scheme assets into much larger investment pools by 2018, and a national Local Government infrastructure investment platform.

7.8 Charities

The use of banking fines – The government has committed £45 million of banking fines over the next 4 years to support military charities and other good causes, including:

- Air Ambulance Northern Ireland £4.5 million – to help establish a Helicopter Emergency Medical Service in Northern Ireland
- National Mesothelioma Centre £5 million – to establish a centre of research in the fight against mesothelioma, which is directly affecting Service Veterans
- University Hospital Southampton Charity £2 million matched funding – to help build a dedicated Paediatric Emergency and Trauma Department
- Central Manchester University Hospitals Charity £1.1 million – to build a dedicated helicopter landing pad to reduce transfer times for critical care patients
- Sheffield Children's Hospital Charity £700,000 – to complete fundraising for a fully digitally intraoperative 3T MRI scanner to treat children with brain tumours
- Birmingham Children's Hospital Charity £700,000 – to support the 'Eye Believe' and 'Star' appeals, for children with rare diseases and undiagnosed medical conditions
- Hostage UK £100,000 – to improve support to British hostages and their families
- Rescue Global £2.5 million – to provide rapid global disaster response support utilising former Service personnel
- Samaritans £3.5 million – to provide first response help and bespoke support services to current Service personnel, Veterans, and their families
- Royal British Legion Industries £2.7 million – to support the delivery of specialist nursing care to Veterans through flexible care suites and a day care facility
- Royal British Legion Industries £958,000 – to deliver intensive employment

support to long term unemployed Veterans across the UK

- Recruit For Spouses £316,000 – to assist Service spouses back into work
- CAIS Wales, Change Step Veteran Services £500,000 – to deliver a referral pathway for Veterans in Wales
- NSPCC £1.84 million – to fund NSPCC Service Centres in Tidworth and Catterick Garrison Towns, to provide support with the particular challenges of Service life
- Military Wives Choirs £328,000 – to fund the ‘Sing, Share and Support’ project
- Confederation of Service Charities (Cobseo) £450,000 – to allow Cobseo to represent 250 charities within the Military Charity Sector through to 2020
- National War Memorial Park, New Zealand £350,000 – to complete fundraising for a ‘British Presence’ memorial in Wellington, New Zealand
- Promenade for Peace £20,000 – to contribute to the construction of a commemorative walkway at Sword Beach, Normandy, commemorating D-Day 1944
- Commonwealth War Memorial, Dover £500,000 – to initiate a memorial of names commemorating the 1.7 million Commonwealth lives lost in WW1 and WW2
- Royal British Legion £1.5 million matched funding – to commemorate RAF Bomber Command and the 55,296 lives lost in WW2
- Marine Society and Sea Cadets £2.25 million – to replace ageing sailing dinghies, to benefit over 150,000 cadets, throughout the UK, over the next 10 years
- Miriam Hyman Memorial Trust £82,000 – to deliver a project for teachers across the UK, dealing with the issues of extremism and terrorism
- Cadet Forces Qualifications £3.3 million – to deliver nationally recognised qualifications and supporting training for Cadet Forces personnel
- Scottish Cadets ‘Linked Detachments’ £500,000 – to support seven Cadet ‘Linked Detachments’ in Scottish schools until 2020
- We’ll Meet Again £200,000 – to establish a permanent interactive WW2 museum in Lincolnshire, delivering a unique learning experience to children across the region
- The Scottish Submarine Trust £659,000 – to establish a Museum of the Submarine Service in Scotland
- Bletchley Park Trust £1 million – to establish a major new exhibition of the Turing-Welchman Bombe, which helped to break the Enigma cipher in

WW2

- Brooklands Museum £1 million – to complete fundraising for the Brooklands Aircraft Factory & Race Track Revival Project and to inspire future generations
- British Mercantile Marine Memorial Collection £1.23 million – to establish a unique collection of international maritime art in Hull
- Helensburgh Leisure Facility £5 million – to co-fund a new leisure facility for use by the local community and military personnel and their families based at HM Naval Base CLYDE

Tampon Tax Fund for women's charities – The government is committing £12 million of funding to support a range of good causes benefitting women, including:

- Birth Companions £90,000 – to provide support to women in prison and the community through pregnancy, birth and early parenting, in London and Peterborough
- Breast Cancer Care £1 million – to scale up their support services to women recovering from breast cancer
- Jo's Cervical Cancer Trust £650,000 – to launch the 'Eradicate Cervical Cancer' campaign targeted at increasing levels of screening
- Ovarian Cancer Action £300,000 – to fund research into a pioneering ovarian cancer prevention strategy
- Girlguiding £1 million – to develop, implement and evaluate a renewed Youth Programme and revitalise their national framework
- Pause £500,000 – to expand their current programme nationwide, enabling women to make choices about their future and reduce the number of children being removed into care
- White Ribbon Campaign £265,000 – to deliver the biggest campaign in Europe aimed at encouraging men and boys to challenge violence against women and girls
- Standing Together Against Domestic Violence £311,000 – to create a Health Alliance for Domestic Abuse and develop innovative work identifying risks within the mental health setting
- Karma Nirvana £449,000 – to extend the hours of a helpline to support victims of honour based violence and forced marriage and provide guidance to professionals tackling it

- Muslim Women's Network UK £114,000 – to expand their specialist and culturally sensitive service to Muslim women and girls from diverse backgrounds suffering or at risk of abuse
- Southern Domestic Abuse Service £190,000 – to provide support to victims of domestic abuse in South East Hampshire
- Greater Manchester Women Offender Alliance £375,000 – to secure the development of their innovative approach to working with women offenders and those at risk of offending across the region
- Street Talk £81,000 – to support women trying to exit street based prostitution and provide additional services in partnership with Trust – the drop in centre for vulnerable women in Lambeth
- One25 £65,000 – to part-fund its holistic person-centred work which benefits women who are trapped in, or vulnerable to, street sex work in the Bristol region
- women@thewell £120,000 – to provide women with a credible exit strategy from prostitution
- The Magdalene Group £123,000 for its Doorway Women's Service, a front-line service empowering women in Norfolk to make healthy lifestyle choices and exit prostitution
- Women's Fund for Scotland £600,000 – to run a funding programme to target small grassroots women's organisations across Scotland
- Action for Children Swansea SAIL project £497,000 – to provide young mothers and mothers to be that are going through care proceedings with advocacy and emotional support
- Parenting NI £118,000 – to empower mothers to develop the skills for managing the behaviour of their children using appropriate, non-violent means

Within this funding the government has also committed to the following grant-making partnerships to disburse tampon tax funding to a range of grassroots women's organisations, in recognition of the high number of applications received from such organisations across the country:

- Comic Relief – to create a funding partnership of £4 million (including £1 million of match funding) to drive awareness of women's issues and fund exceptional and varied partners to deliver

Rosa Fund for Women – a £2.2 million 'Small Grants Fund' for local grassroots organisations that will be run by Rosa, the only UK-wide Fund exclusively for women and girls

7.9 Health

Extension of defibrillator grant scheme – The government will extend the defibrillator grant scheme with a further £1 million.

Child prosthetics – The government will invest £1.5 million in sports prosthetics for children and create a fund to develop innovative prosthetics for the NHS.

War Pensions and Social Care – The government will exempt war pension payments made to injured veterans from the social care means test in England from April 2017.

7.10 Personal tax

7.11 Income tax and National Insurance contributions

7.12 Rates, thresholds and allowances

Personal allowance increase – The government will increase the income tax personal allowance from £11,000 in 2016-17 to £11,500 in 2017-18. (Finance Bill 2016) (4)

Higher rate threshold increase – The government will increase the higher rate threshold from £43,000 in 2016-17 to £45,000 in 2017-18. The NICs Upper Earnings Limit will also increase to remain aligned with the higher rate threshold. (Finance Bill 2016) (5)

Applying ‘English Votes for English Laws’ to income tax – Following agreement of the fiscal framework with the Scottish Government, the government will legislate to separate the income tax rates that apply to savings (the savings rates), from those that apply to non-savings, non-dividends income (the main rates). The former will apply across the UK and the latter will be devolved to Scotland from April 2017. It will also create a default rate of income tax on non-savings, non-dividends income that will apply to, but is not limited to, trustees and non-residents. (Finance Bill 2016)

Abolishing Class 2 National Insurance contributions (NICs) – The government will abolish Class 2 NICs from April 2018. The government will publish its response to the recent consultation on benefit entitlement for the self-employed in due course. This will set out details of how the self-employed will access contributory benefits after Class 2 is abolished. (NICs Bill) (32)

Employment Allowance – Employers who hire an illegal worker face civil penalties from the Home Office. The government will build on this deterrant by removing a year’s employment allowance from those receiving civil penalties, starting in 2018.

Property and trading income allowances – From April 2017, the government will introduce a new £1,000 allowance for property income and a £1,000 allowance for trading income. Individuals with property income or trading income below £1,000 will no longer need to declare or pay tax on that income. Those with income above the allowance will be able to calculate their taxable profit either by deducting their expenses in the normal way or by simply deducting the relevant allowance. (Finance Bill 2017) (33)

Taxation of termination payments – From April 2018, the government will tighten the scope of the income tax exemption for termination payments to prevent manipulation. Termination payments over £30,000 which are subject to income tax will also be subject to employer National Insurance contributions. The government will undertake a technical consultation on tightening the scope of the exemption. (Finance Bill 2017 and NICs Bill) (42)

Amendments to finance costs restriction for landlords – As announced at Summer Budget 2015 and legislated for in Finance (No. 2) Act 2015, relief for finance costs on residential properties will be restricted to the basic rate of income tax, gradually introduced from 6 April 2017. Finance Bill 2016 amends the landlords finance cost restriction legislation, to clarify that beneficiaries of deceased persons' estates are entitled to the basic rate tax reduction and to ensure that the basic rate tax reduction is applied and calculated as intended. (Finance Bill 2016)

Reform of the wear and tear allowance – As announced at Summer Budget 2015, from April 2016 the government will replace the Wear and Tear Allowance with a new relief that allows residential landlords to deduct the actual costs of replacing furnishings. (Finance Bill 2016)

Northern Ireland welfare top-ups tax exemption – The government will legislate at a later stage of the Finance Bill to exempt from income tax the payments intended to top-up non-taxable welfare benefits that the Northern Ireland Executive intends to fund from within its block grant. (Finance Bill 2016)

Sporting testimonials – As announced at Autumn Statement 2015, from April 2017 all income from sporting testimonials and benefit matches for employed sportspersons will be liable to income tax. An exemption of up to £100,000 will be available for employed sportspersons with income from sporting testimonials that are not contractual or customary. (Finance Bill 2016)

Bad debt relief for peer-to-peer (P2P) industry – As announced at Autumn Statement 2014, the government will allow tax relief on bad debts incurred on P2P loans against other P2P income. (Finance Bill 2016)

Extending farmers averaging period – As announced at Autumn Statement 2015, from April 2016 farmers will have the choice of averaging their profits for income tax purposes over 2 years or 5 years. (Finance Bill 2016)

Netherlands Benefit Act for Victims of Persecution 1940-1945 – As announced at Autumn Statement 2015, the government will legislate to exempt from income tax certain pension and annuity payments made by the Netherlands government, payable to victims of national-socialist and Japanese aggression during World War II. This exemption will take effect from April 2016. (Finance Bill 2016)

7.13 Taxation of benefits and expenses

Employer provided pensions advice – The government will legislate to increase the tax and NICs relief available for employer-arranged pensions advice from £150 to £500. The new exemption will ensure that the first £500 of any advice received is eligible for the relief. It will be available from April 2017. (8)

Salary sacrifice – The government is considering limiting the range of benefits that attract income tax and NICs advantages when provided as part of salary sacrifice schemes. However, the government's intention is that pension saving, childcare, and health-related benefits such as Cycle to Work should continue to benefit from income tax and NICs relief when provided through salary sacrifice arrangements.

Simplification of the administration of tax on employee benefits and expenses – The government will introduce a package of measures to further simplify the tax administration of employee benefits and expenses by:

- extending the voluntary payrolling framework to allow employers to account for tax on non   cash vouchers and credit tokens in real time from April 2017
- consulting on proposals to simplify the process for applying for and agreeing PAYE Settlement Agreements
- consulting on proposals to align the dates by which an employee has to make a payment to their employer in return for a benefit-in-kind they receive to 'make good'
- legislating to ensure that if there is a specific statutory provision for

calculating the tax charge on a benefit-in-kind this must be used (Finance Bill 2016 and Finance Bill 2017)

Trivial benefits-in-kind – As previously announced, the government will introduce a statutory exemption from income tax for qualifying trivial benefits-in-kind costing £50 or less. The exemption will remove the charge to income tax or Class 1A National Insurance contributions (NICs) with effect from 6 April 2016. A corresponding disregard for Class 1 NICs will take effect later in the year. (Finance Bill 2016)

Travel and subsistence expenses rules – In September 2015 the government published a discussion document aimed at modernising the tax rules for travel and subsistence (T&S). The government has analysed responses and concluded that, although complex in parts, the current T&S rules are generally well understood and work effectively for the majority of employees and has decided not to make further changes to the T&S rules at this time.

Employment intermediaries and relief for travel and subsistence – As announced at March Budget 2015, the government will introduce legislation in Finance Bill 2016 to restrict tax relief for home to work travel and subsistence expenses for workers engaged through an employment intermediary. This will bring the rules into line with those that apply to employees. (Finance Bill 2016)

7.14 Other personal tax changes

Off payroll working in the public sector – From April 2017 the government will make public sector bodies and agencies responsible for operating the tax rules that apply to off-payroll working through limited companies in the public sector. The rules will remain unchanged for those working in the private sector. The government will consult on a clearer and simpler set of tests and online tools. (Finance Bill 2017) (40)

Dividends tax – As announced at Summer Budget 2015, the government will abolish the Dividend Tax Credit from April 2016 and introduce a new

Dividends Allowance of £5,000 a year. The new rates of tax on dividend income above the allowance will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. (Finance Bill 2016)

Loans to participators – The government will increase the loans to participators tax rate from 25% to 32.5%, keeping it aligned with the higher rate of tax charged on dividend income. The new rate will apply to loans made or benefits conferred by close companies on or after 6 April 2016. (Finance Bill 2016) (41)

Close company loans to participators: partial exemption for charities – As announced at Spending Review and Autumn Statement 2015, following consultation the government will legislate so that a tax charge is not applied to loans or advances made by close companies to charity trustees for charitable purposes. This will apply to qualifying loans or advances that are made on or after 25 November 2015. (Finance Bill 2016)

Non-Domicile taxation – The government is undertaking a major reform to non domicile taxation. As announced at Summer Budget 2015, from April 2017 non-UK domiciled individuals (non-doms) will be deemed UK domiciled for all tax purposes after they have been UK resident for 15 of the past 20 tax years. Additionally, individuals who were born in the UK and who have a UK domicile of origin will revert to their UK domiciled status for tax purposes whilst resident in the UK. The government will also legislate to charge inheritance tax on all UK residential property indirectly held through an offshore structure from 6 April 2017. As set out at Summer Budget 2015, non-doms who have a non-UK resident trust set up before becoming deemed domiciled in the UK will not be taxed on income and gains retained in the trust. The government will legislate all non-dom reforms in Finance Bill 2017. Budget 2016 confirms that non-doms who become deemed-domiciled in April 2017 can treat the cost base of their non-UK based assets as being the market value of that asset on 6 April 2017. Individuals who expect to become deemed UK domicile under the 15 out of 20 year rule will be subject to transitional provision with regards to offshore funds to provide certainty on how amounts remitted to the UK will be taxed. (Finance Bill 2017) (31)

Gift Aid digital – As announced at March 2015 Budget, the government will legislate to give intermediaries a greater role in administering Gift Aid. (Finance Bill 2016)

Venture capital schemes: energy generation – As announced at Spending Review and Autumn Statement 2015, the government will exclude all remaining energy generation activities from the Enterprise Investment Scheme, the Seed Enterprise Investment Scheme and Venture Capital Trusts with effect from 6 April 2016, as well as from Social Investment Tax Relief when enlarged. (Finance Bill 2016)

Venture capital schemes – The government will make technical clarifications to the Enterprise Investment Scheme and Venture Capital Trusts to ensure that the legislation introduced by the Finance (No.2) Act 2015 works as intended. (Finance Bill 2016)

Employee share schemes: simplification of the rules – As announced at Spending Review and Autumn Statement 2015, the government will make a number of technical changes to simplify the tax-advantaged and non-tax-advantaged employee share scheme rules. (Finance Bill 2016)

Disguised remuneration schemes – The government will introduce a package of measures to tackle the current and historic use of disguised remuneration schemes, which are used to avoid income tax and NICs. Legislation will be included in Finance Bill 2016 which will prevent a relief in the existing legislation from applying where it is used as part of a tax avoidance scheme from Budget day (16 March 2016). The government will hold a technical consultation on further changes to the legislation which will be included in a future Finance Bill. This will include a new charge on loans paid through disguised remuneration schemes which have not been taxed and are still outstanding on 5 April 2019. HMRC have published a technical note explaining these changes alongside Budget. (Finance Bill 2016 and Finance Bill 2017) (39)

7.15 Taxation on savings and pensions

Lifetime ISA and ISA limit – A new Lifetime ISA will be available from April 2017 for adults under the age of 40. They will be able to contribute up to £4,000 per year, and receive a 25% bonus from the government. Funds, including the government bonus, from the Lifetime ISA can be used to buy a first home at any time from 12 months after the account opening, and be withdrawn from age 60. The overall annual ISA subscription limit will be increased to £20,000 from 6 April 2017. (6)

Pensions tax consultation – The government has published a summary of responses to the consultation Strengthening the incentive to save: a consultation on pensions tax relief.

Help to Save – Individuals in low income working households will be able to save up to £50 a month into a Help to Save account and receive a 50% government bonus after two years. Account holders can then choose to continue saving under the scheme for a further two years. The scheme will be open to all adults in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage or those in receipt of Working Tax Credits. Accounts will be available no later than April 2018. (70)

Technical amendments to support Pension Freedom and Choice Reforms – The government will consolidate pension flexibilities to ensure that these are working as intended, including by:

- re-aligning the tax treatment of serious ill-health lump sums with lump sum death benefits, so that they can be paid tax-free (when the provider is content to do so) when someone aged under 75 has less than a year to live but has already accessed their pension
- making serious ill health lump sums taxable at an individual’s marginal rate when paid in respect of individuals aged 75 and over
- legislating to convert dependants’ flexi-access drawdown accounts to nominees’ accounts when dependants turn 23, so they do not have to take their funds as a lump sum taxed at 45%

- legislating to allow defined contribution pensions already in payment to be paid as a trivial commutation lump sum, where total pension savings would be under £30,000
- making top ups to fund dependants' death benefits authorised payments
- removing unnecessary legislation relating to charity lump sum death benefits (Finance Bill 2016)

Unfunded Employment Retirement Benefit Schemes – Following the informal consultation announced at Autumn Statement the government will keep this issue under review.

Reduction of Pensions Lifetime Allowance – As announced at Budget 2015, the Lifetime Allowance will reduce from £1.25 million to £1 million, effective from April 2016. (Finance Bill 2016)

Automatic deduction of savings income tax – The government will change the tax rules so that interest from Open-Ended Investment Companies, authorised unit trusts, investment trust companies and peer to peer loans may be paid without deduction of income tax from April 2017. (Finance Bill 2017) (7)

ISAs: tax advantages during the administration period – The government will legislate to allow the ISA savings of a deceased person to continue to benefit from tax advantages during the administration of their estate and will set out further plans for introducing this measure in 2016, following technical consultation with ISA providers. (Finance Bill 2016)

Personal savings allowance – As announced at March Budget 2015, the government will introduce a personal savings allowance from 6 April 2016 to remove tax on up to £1,000 of savings income for basic rate taxpayers and up to £500 for higher rate taxpayers. Additional rate taxpayers will not receive an allowance. (Finance Bill 2016)

Dependant Scheme Pensions – As announced at Autumn Statement 2015, the government will reduce significantly the number of calculations that need to take place to determine whether a dependants' scheme pension exceeds the authorised limit. Following consultation there are further reductions to the number of calculations that need to be carried out. The changes will take effect from 6 April 2016. (Finance Bill 2016)

Bridging Pensions – The pensions tax rules on bridging pensions will be aligned with Department for Work and Pensions legislation following the introduction of a single tier pension from 6 April 2016. (Finance Bill 2016)

Pension Dashboard – The government will ensure the industry designs, funds and launches a pensions dashboard by 2019. A pensions dashboard is a digital interface where an individual can view all their retirement savings in on place.

7.16 Inheritance tax

Objects granted exemption from Estate Duty – The government will introduce a number of technical amendments to the current legislative framework for Estate Duty to ensure the legislation works in line with the publicly stated policy objective. (Finance Bill 2016)

Undrawn pension funds in drawdown pensions – As announced at Spending Review and Autumn Statement 2015, the government will legislate to ensure a charge to inheritance tax will not arise when a pension scheme member designates funds for drawdown but does not draw all of the funds before death. This will be backdated to apply to deaths on or after 6 April 2011. (Finance Bill 2016)

Residence nil-rate band – downsizing – As announced at Summer Budget 2015, the government will legislate to ensure that the residence nil-rate band will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 where assets are passed on death to direct descendants. (Finance Bill 2016)

Compensation and ex-gratia payments for victims of persecution during the World War II era – As announced at Spending Review and Autumn Statement

2015, the government will legislate Extra Statutory Concession F20, which gives an inheritance tax exemption in respect of certain compensation and ex-gratia payments for World War II claims. The legislation will also extend the scope of the existing concession to include a payment made under a recently created compensation scheme known as the Child Survivor Fund and allow the Treasury to add additional payments from particular schemes in the future. The legislation will apply to deaths on or after 1 January 2015. (Finance Bill 2016)

7.17 Employment

National Minimum Wage rates – Following the recommendations of the Low Pay Commission, the government will increase the National Minimum Wage rates from October 2016. This includes:

- a 3.7% increase in the rate for 21 to 24 year olds (from £6.70 to £6.95 per hour)
- a 4.7% increase in the rate for 18 to 20 year olds (from £5.30 to £5.55 per hour)
- a 3.4% increase in the rate for 16 to 17 year olds (from £3.87 to £4.00 per hour)
- a 3.0% increase in the rate for apprentices (from £3.30 to £3.40 per hour)
- a 12.1% increase in the accommodation offset (from £5.35 to £6.00 a day)

Alignment of the National Minimum Wage and National Living Wage cycles – The government will align the National Minimum Wage and National Living Wage cycles so that both rates are amended in April each year. This will take effect from April 2017.

Shared Parental Leave – The government will consult in May 2016 on how to extend Shared Parental Leave and Pay to working grandparents, options for streamlining the system and the potential to make better use of digital technology.

7.18 Welfare

Support for the Self-employed on Working Tax Credit and Universal Credit – The government will provide self-employed Working Tax Credit claimants with access to business support and extend the mentoring support offered on the New Enterprise Allowance scheme to self-employed Universal Credit claimants. The government will also trial face-to-face support from Jobcentre Advisors for self-employed Working Tax Credit claimants, with a view to national roll out if successful. (53)

Improving support for ESA Work Related Activity Group claimants – As announced by Department for Work and Pensions' Ministers in Parliament, the government will fund an additional £15 million in each year from 2017-18 to help Employment and Support Allowance claimants placed in the Work Related Activity Group and Universal Credit Limited Capability for Work claimants pay for the additional costs of preparing for work; improve the process for reassessing claimants placed in the Work Related Activity Group with deteriorating conditions; and remove the 52 week work time limit on Permitted Work rules for claimants in the Work Related Activity Group from April 2017. (53)

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

Allocation of Summer Budget funding for additional disability employment support – The government announces that it is accepting the recommendations of an expert-led taskforce on how to provide £330 million of additional funding for disabled claimants allocated at Summer Budget. This will include a new, tailored peer support offer to offered shared experiences and support to disabled people, and bespoke employment support directed at key priority groups, such as young people and those suffering from mental health conditions.

The household benefit cap – From Autumn 2016, the government will introduce exemptions for recipients of Guardians Allowance, Carer's Allowance and the carers element of Universal Credit from the household benefit cap, which caps the amount of benefits out-of-work working-age families can receive at £20,000, and at £23,000 in Greater London. (76)

Capping Housing Benefit in the social rented sector – The date from which new or renewed tenancies in the social sector will be subject to the cap on Housing Benefit at the relevant Local Housing Allowance rate will be deferred for supported accommodation – from April 2016 to April 2017 – to enable the government to complete a review of supported accommodation. (77)

Housing Benefit and Pension Credit: limiting temporary absence – The government will delay the ending of the payments of Housing Benefit and Pension Credit to claimants who travel outside of Great Britain for longer than 4 weeks consecutively. This will now come into force in May 2016.

Ensuring disability benefits are better targeted – As announced by the Secretary of State for Work and Pensions, the government will ensure that support for disabled people is focused on those with the greatest need, including by:

- changing the way that entitlement to Personal Independence Payment is determined – a reduction in the number of assessment points awarded for needing to use an aid or appliance to carry out two of the 'daily living' activities assessed. This will take effect for new cases and re-assessments from January 2017. (73)
- altering the arrangements for terminally ill claimants migrating from DLA to PIP – this change means that those claimants who are granted a greater award under PIP will get that higher award from the date of the decision, rather than remaining on their DLA award for the standard four week waiting period
- considering the case for long-term reform of disability benefits and services that is fair for the taxpayer and for those with disabilities or health conditions

Phased rollout of Tax-Free Childcare, with Employer-Supported Childcare remaining open to new entrants until April 2018 – The government will introduce Tax-Free Childcare in early 2017. As announced by Treasury Ministers in the passage of the Childcare Payments Act 2014, Tax-Free Childcare will be gradually rolled out to children under 12, in a managed way. Parents of the youngest children will be able to enter the scheme first and it will be open to all eligible parents by the end of 2017. The existing scheme, Employer-Supported Childcare, will remain open to new entrants until April 2018 to support the transition between the schemes. (52)

ESA and PIP presenting officers – The government will increase the number of presenting officers in attendance at Employment and Support Allowance and Personal Independence Payments tribunal hearings from 2017, to support the tribunal in making the right decision. (53)

7.19 Fraud, error and debt

Extending the use of Real Time Information to reduce fraud and error in benefits – The government will expand the use of HMRC's Real Time Information (RTI) on earnings to prevent and correct overpayments in Jobseeker's Allowance, Employment Support Allowance and Income Support. This builds on the wider use of RTI announced at the March Budget 2015, on Housing Benefit and Pension Credit. (53)

Application to Scotland of HMRC's set-off debt collection powers – Following consultation announced at Spending Review and Autumn Statement 2015, the government will legislate to ensure that HMRC's ability to offset and collect debt owed to it against its outgoing payments covers Scotland as well as the rest of the UK, as intended in Finance Act 2008. (Finance Bill 2016)

Insolvency analytics – The government intends to develop HMRC's predictive analytics capability to identify emerging insolvency risk. This will enable it to target debt recovery action to minimise its losses when taxpayers become insolvent. The government will seek expert external support in summer 2016.

Extension of the HMRC debtor and creditor interest rate to Scotland, Northern Ireland and National Insurance Contribution taxation debt – The government will extend section 52 of the Finance Act to ensure consistent rates of interest apply across the UK on taxation and National Insurance contribution related debts payable by HMRC and to HMRC following a judgement or order. (Finance Bill 2016)

7.20 Business tax

7.21 Corporate tax

Corporation tax to 17% in 2020 – The government will reduce the corporation tax rate to 17% for the Financial Year commencing 1 April 2020. (Finance Bill 2016) (18)

Corporation tax payment dates – At Summer Budget 2015 the government announced it would bring forward corporation tax payment dates for those companies that have taxable profits over £20 million, so that these companies will be required to pay tax in instalments in the third, sixth, ninth and twelfth months of the year. The government will delay the introduction of the new payment schedule by two years, so it will apply to accounting periods starting on or after 1 April 2019. The new rules, including the new commencement date, will be legislated later this year. (26)

Corporation tax: R&D tax credits – The government will end Vaccine Research Relief when its State aid approval runs out on 31 March 2017. (Finance Bill 2016)

Corporation tax: R&D tax credits – The government will amend legislation for the SME R&D tax credit scheme to ensure that it continues to work as intended after the previous large company scheme ends on 31 March 2016.

(Finance Bill 2016)

Corporation tax: museums and galleries tax relief – The government will introduce a new tax relief for museums and galleries from 1 April 2017 following a consultation over summer 2016. The relief will be available for temporary and touring exhibition costs. (Finance Bill 2017)

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

Consultation on how to expand the support that can be given to grassroots sports through the corporation tax system – The government will launch a consultation on how to expand support that can be given to grassroots sport through the corporation tax system.

Capital allowances: business cars – The government will extend the 100% First Year Allowance (FYA) for businesses purchasing low emission cars for a further three years to April 2021. From April 2018 the carbon dioxide emission threshold below which cars are eligible for the FYA will be reduced from 75 grams/kilometre to 50 grams/kilometre. From April 2018, the government will reduce the carbon dioxide emission threshold for the main rate of capital allowances for business cars from 130 grams/kilometre to 110 grams/kilometre. The government will review the case for the FYA and the appropriate business cars emission thresholds from 2021 at Budget 2019. (25)

Business Premises Renovation Allowance – The government confirms that the Business Premises Renovation Allowance will expire on 31 March 2017 for corporation tax and 5 April 2017 for income tax as legislated in Finance Act 2012.

Plant and machinery: lease accounting changes – The government will publish a discussion document in spring 2016 with options for change to the tax treatment of leases of plant and machinery in response to the International Accounting Standards Board's new lease accounting standard (IFRS 16).

Large Business: Requirement to publish tax strategies – At Summer Budget 2015, the government announced new measures to improve large business tax compliance, with a consultation over the summer to refine the detail of the measures. Following consultation, the government will introduce new measures to improve large business tax compliance, including a new requirement that large businesses publish their tax strategies and special measures powers to tackle a minority of large businesses that persistently engage in aggressive tax planning. (Finance Bill 2016)

Offshore property developers – This measure ensures that profits from trading in UK land are always subject to UK tax by introducing specific rules to tax the full amount of such profits whether or not the person to whom they arise is UK resident. Legislation for this measure will be introduced at a later stage of Finance Bill 2016, following a brief consultation. (Finance Bill 2016) (43)

Non-resident UK property development taskforce – Alongside the new legislation, HMRC will create a new taskforce to ensure tax on these profits is effectively collected by identifying and investigating offshore businesses which try to avoid paying tax. (43)

Royalty withholding tax – The government will change the deduction of tax at source regime to bring all international royalty payments arising in the UK within the charge to income tax, unless those taxing rights have been given up under a double taxation agreement or the EU Interest and Royalties Directive. This brings the UK more into line with international practice. The reform has three parts:

- UK withholding tax will apply to a wider definition of royalty payments
- the UK will create a domestic anti-treaty abuse provision which will prevent, for instance, royalty payments being paid to tax havens without deduction of tax via the use of conduit companies
- the UK will ensure that withholding tax will apply to payments that are attributable to a UK permanent establishment, even if the payment of the royalty is not made from the UK (Finance Bill 2016) (20)

Tax deductibility of corporate interest expenses – Following initial consultation, the government will introduce rules for addressing base erosion and profit shifting through interest expenses from 1 April 2017 in line with the OECD recommendations. The new rules will limit the tax relief that large multinational enterprises can claim for their interest expenses. More information is included in the government's Business Tax Roadmap published at Budget. (Finance Bill 2017) (19)

Addressing hybrid mismatches – Following consultation, the government will introduce rules for addressing hybrid mismatch arrangements from 1 January 2017. The new rules will prevent multinational enterprises avoiding tax through the use of certain cross-border business structures or finance transactions. (Finance Bill 2016) (21)

Patent Box – Compliance with new international rules – The government will modify the operation of the Patent Box to comply with a new set of international rules created by the OECD, making the lower tax rate dependant on, and proportional to, the extent of research and development expenditure incurred by the company claiming the relief. This will come into effect on 1 July 2016. (Finance Bill 2016) (24)

Transfer pricing administration – The government will consult on whether to introduce secondary adjustment rules into the UK's transfer pricing legislation. The rules would address the underlying cash benefit from incorrect transfer pricing and encourage broader compliance with the transfer pricing legislation.

Updating the transfer pricing guidelines – The government will legislate for the revisions to the OECD Transfer Pricing Guidelines ('Guidelines') that were agreed as part of the OECD BEPS project. This will be done by updating the link between the UK transfer pricing rules and the Guidelines, so that interpreting the application of the UK rules will be done by reference to the revised Guidelines. (Finance Bill 2016)

Corporation tax: reform of loss relief – The government will introduce two reforms from April 2017. First, the current streaming rules will be made more flexible so that losses arising on or after 1 April 2017 will be useable, when carried forward, against profits from other income streams or other companies within a group. Second, from 1 April 2017, companies will only be able to use losses carried forward against up to 50% of their profits above £5 million. For groups, the £5 million allowance will apply to the group. These changes will not apply to the North Sea ring-fenced corporation tax regime. The government will consult on the design of the reforms in 2016, and will legislate for the measure in 2017. (Finance Bill 2017) (22)

Repeal of the Renewals Allowance – The government will withdraw the Renewals Allowance, which provides traders and property businesses with tax relief for the cost of replacing tools. The changes ensure that tax relief for expenditure incurred on replacement of tools will be obtained under the same rules as those which apply to other capital equipment. Businesses can claim tax relief under the normal capital allowance regime or, in the case of residential landlords, for the cost of replacing domestic items such as furnishings and appliances. (Finance Bill 2016) (45)

Asset managers' performance linked rewards – The government will legislate to determine when performance awards received by asset managers may be taxed as capital gains. An award will be subject to income tax, unless the underlying fund undertakes long term investment activity. (Finance Bill 2016) (49)

Authorised Contractual Schemes – The government will consult later this year on measures to streamline the tax rules for investors in Authorised Contractual Schemes and reporting requirements.

Trading income received in non-monetary form – The government will introduce legislation to ensure that trading receipts in non-monetary form are brought into account for tax purposes at their full value. (Finance Bill 2016)

Company distributions – As announced at the Spending Review and Autumn Statement 2015, the government will amend the Transactions in Securities rules and introduce a Targeted Anti-Avoidance Rule in order to prevent opportunities for income to be converted to capital in order to gain a tax advantage. The government will respond to the consultation on company distributions in March 2016. (Finance Bill 2016)

Capital allowances and leasing – As announced at the Spending Review and Autumn Statement 2015, the government will amend legislation to counter two types of avoidance involving capital allowances and leasing, with effect from 25 November 2015. These changes will prevent companies from artificially lowering the disposal value of plant and machinery for capital allowances purposes, and make any payment received for agreeing to take responsibility for tax deductible lease related payments subject to tax as income. (Finance Bill 2016)

Partnership taxation: Proposals to clarify tax treatment – The government will launch a consultation on how partnerships calculate their tax liabilities. This consultation will include a number of areas where the taxation of partnerships could be seen as uncertain, including an issue highlighted by the Office of Tax Simplification's partnerships review.

Securitisation and annual payments – The government is making a legislative change to allow it to amend regulations to clarify the tax treatment of 'residual payments' made by securitisation companies, confirming that they can be paid without withholding tax. The revised regulations will be developed as part of wider ongoing consultation with industry to update and modernise the tax regime for UK securitisation companies. (Finance Bill 2016)

Bank losses restriction – The government will further restrict the proportion of a banking company's annual taxable profit that can be offset by pre-April 2015 carried-forward losses from 50% to 25% from 1 April 2016. This restriction will remain subject to a £25 million allowance for building societies and an exemption for losses incurred by new-entrant banks. (Finance Bill 2016) (23)

Banking companies: excluded entities – The government will amend the definition of an investment bank used in bank-specific legislation to ensure that this is targeted as intended.

Life insurance taxation – As announced at Budget 2016, the government will change the current tax rules for part surrenders and part assignments of life insurance policies to prevent excessive tax charges arising on these products. The government will consult later this year on alternatives to the current rules with a view to legislating in Finance Bill 2017.

Insurance Linked Securities – The government is consulting on proposals for a new, competitive framework for Insurance Linked Securities (ILS) business, including the supervision, corporate structure and taxation of ILS vehicles. The Bank of England and Financial Services Bill, which is currently before Parliament, contains a power to make regulations which will facilitate ILS business. Finance Bill 2016 will include a power to make regulations for the tax treatment of ILS at the level of issuers and the investor. The government will then consult on new regulations, which will be finalised by the end of 2016. (Finance Bill 2016)

Life insurance policies (Personal Portfolio Bonds) – The government will consult later this year on changes to the categories of assets that life insurance policyholders can choose to invest in without giving rise to an annual tax charge under the personal portfolio bond legislation.

Insurance companies carrying on long term business – amendments to Finance Act 2012 – The government will amend the corporation tax rules introduced by Finance Act 2012 to ensure the regime works as intended in relation to the treatment of intangible fixed assets debits, deemed income and trading losses in certain specific circumstances. (Finance Bill 2016)

Stamp Duty and Stamp Duty Reserve Tax Deep In The Money Options (DITMOs) – As announced at Spending Review and Autumn Statement 2015, shares transferred to a clearance service or depositary receipt issuer as a result of the exercise of an option will now be charged the 1.5% higher rate of stamp duty based on either their market value or the option strike price, whichever is higher. This will prevent avoidance using DITMOs, which are options with a strike price significantly below (for call options) or above (for put options) market value. Share transfers made other than to a clearance service or depositary receipt issuer as a result of exercising an option will be unaffected. The change will apply to options which are entered into on or after 25 November 2015 and exercised on or after 23 March 2016. (Finance Bill 2016)

Related party rules – partnerships and transfers of intangible assets – The government will amend the intangible fixed asset rules to clarify the tax treatment on transfers of assets to partnerships. It will ensure that partnerships cannot be used in arrangements that seek to obtain a tax relief for their corporate members in a way that is contrary to the intention of the regime. (Finance Bill 2016)

Loan relationships – taxation of corporate debt and derivative contracts – The government will legislate to update the tax rules for company debt and derivative contracts to ensure they interact correctly with new accounting standards in three specific circumstances. (Finance Bill 2016)

Reform of the Substantial Shareholdings Exemption – As part of the Business Tax Roadmap, the government will consult on possible reform of the Substantial Shareholdings Exemption for corporate capital gains.

7.22 Business rates

Business rates: indexation – The government will change the annual uprating of business rates in England from the Retail Prices Index to the main measure of inflation, currently the Consumer Price Index, from 1 April 2020. (17)

Small Business Rate Relief (SBRR): doubling – The government will permanently double SBRR in England from 1 April 2017. (15)

Small Business Rate Relief: thresholds – The government will raise the SBRR threshold in England to rateable values of up to £12,000 tapering to £15,000 from 1 April 2017. (15)

Business rates: standard multiplier – The government will raise the threshold at which business rates bills in England are calculated using the standard multiplier to properties with rateable values of £51,000 and above from 1 April 2017. (16)

Business rates: public lavatories – The government will allow local authorities in England to use their discretionary relief powers to support publicly owned public lavatories from 1 April 2018.

Business rates: local newspapers – The government will introduce a £1,500 business rates discount for office space occupied by local newspapers in England, up to a maximum of one discount per local newspaper title and per hereditament, and up to state aid limits, for 2 years from 1 April 2017.

Business rates: long-term review – The government will publish a summary of the responses received as part of the long-term review of business rates in England in March 2016.

Business rates: modernisation – The government will work with local authorities in England to standardise business rates bills by 1 April 2017, ensure that all ratepayers can receive bills and make payments online by 1 April 2017 and ensure that all local authority billing and collection systems link with HMRC digital tax accounts by 2022.

Business rates: valuation reform – The government will aim to introduce more frequent (at least 3 yearly) revaluations of properties in England for business rates purposes and will publish a discussion paper in March 2016 outlining options to deliver this.

100% Business Rates Retention – The government will pilot approaches to 100% retention of business rates with Liverpool City Region, Greater Manchester and the Greater London Authority. This offer is also available to other city regions that have ratified their devolution deals.

7.23 Oil and gas taxes

Zero-rating Petroleum Revenue Tax – The government will permanently reduce the rate of Petroleum Revenue Tax from 35% to 0%, taking effect for chargeable periods ending after 31 December 2015. (Finance Bill 2016) (34)

Reducing the Supplementary Charge – The government will reduce the rate of the Supplementary Charge from 20% to 10% with effect from 1 January 2016. (Finance Bill 2016) (34)

Extension of ‘relevant income’ for the Investment Allowance and Cluster Area Allowance – The government will give HMRC a new power to extend the definition of ‘relevant income’ for the cluster area and investment allowances by secondary legislation. The government intends to allow tariff income to activate the allowance to encourage investment in infrastructure. (Finance Bill 2016)

Relief for decommissioning expenditure – The government confirms that companies will be able to access tax relief on their costs when they retain decommissioning liabilities for an asset after a sale. HMRC will publish a technical note that clarifies the interpretation of existing legislation.

Amendments to the anti-avoidance provisions in the onshore, cluster area and investment allowances – The government will amend the onshore, cluster area, and investment allowances to update the conditions which disqualify expenditure, incurred on the acquisition of an asset in certain circumstances, from generating allowance. (Finance Bill 2016)

Tax deductibility of corporate interest expense (oil and gas ring-fence) – The government will consult further on the application of the new interest restriction rules to ensure that existing commercial arrangements within the ring-fence are not adversely affected.

7.24 Indirect taxes

7.25 Alcohol and tobacco

Alcohol duty rates – The duty rates on beer, spirits and most ciders will be frozen this year. The duty rates on most wines and higher strength sparkling cider will increase by RPI from 21 March 2016. (Finance Bill 2016) (55)

Alcohol strategy – The government is publishing a new alcohol strategy, setting out its ambition to modernise the alcohol taxes to tackle fraud and reduce burdens on alcohol businesses. Consultations on reform of procedures for the collection of alcohol duty, and on the feasibility and impacts of specific anti-fraud measures will follow in 2016.

Tobacco duty rates – As announced at Budget 2014, duty rates on all tobacco products will increase by 2% above RPI inflation. Duty on hand-rolling tobacco will also increase by an additional 3% above this rate, to 5% above RPI. These changes will come into effect from 6pm on 16 March 2016. (Finance Bill 2016) (57)

Minimum Excise Tax – Following the earlier consultation, the government will introduce a Minimum Excise Tax on cigarettes. (Finance Bill 2017)

Heated tobacco products – The government will consult on the tax treatment of heated tobacco (heated tobacco does not include e-cigarettes) later this year.

Tobacco fraud sanctions – Following the publication of the refreshed anti-illicit tobacco strategy last year HMRC will consult on strengthening sanctions to tackle tobacco fraud.

Control of raw tobacco – As announced at March Budget 2015, legislation will be introduced in Finance Bill 2016 to introduce an approval scheme for users and dealers in raw tobacco. This will require those carrying out a 'controlled activity' in relation to raw tobacco to be approved by HMRC. (Finance Bill 2016)

Border Force Tobacco Smuggling Enforcement – The government will invest £31 million from 2016-17 to 2019-20 in a new group of Border Force officers and intelligence officials who will specialise in seizures of illicit tobacco being smuggled into the UK and prevent over £100 million of tobacco tax evasion.

(50)

7.26 VAT

VAT: consultation on penalty for participating in VAT fraud – The government will consult on a new penalty for participating in VAT fraud in spring 2016. Subject to the consultation, the intention is to legislate in Finance Bill 2017.

VAT: tackling online fraud in goods – VAT representatives and online marketplace liability – The government will legislate to provide HMRC with strengthened powers for directing the appointment of a VAT representative and greater flexibility in respect of seeking a security, and enable HMRC to hold an online marketplace jointly and severally liable for the unpaid VAT of an overseas business that sells goods in the UK via the online marketplace's website. (Finance Bill 2016) (46)

VAT: Fulfilment House Due Diligence Scheme – The government has published a consultation on the 'fit and proper' standards that fulfilment houses will need to meet in order to operate. Fulfilment houses will have an obligation to register and maintain accurate records once online registration opens in 2018. They will also have to provide evidence of the due diligence they have undertaken to ensure overseas clients are following VAT rules. The consultation will be used to minimise as far as possible any costs for legitimate businesses. (46)

VAT: international engagement with the EU and OECD – The government will continue to engage with international bodies in order to explore international solutions to VAT fraud, including looking at alternative mechanisms for the collection of VAT.

VAT: revalorisation of the VAT registration and deregistration thresholds – From the 1 April 2016 the VAT registration threshold will increase from £82,000 to £83,000 and the deregistration threshold from £80,000 to £81,000.

VAT: reverse charge on 'airtime' services – With effect from 1 February 2016, the government introduced an anti-fraud measure to prevent Missing Trader Intra-Community fraud on wholesale supplies of electronic communications services. This was done by Treasury Order which was laid before the House on 11 January 2016. (47)

DCMS extension of museum VAT refund eligibility – The government will broaden the eligibility criteria for the VAT refund scheme for museums and galleries. DCMS today publish guidance on the new criteria, which will enable support to a wider range of free museums from across the UK.

VAT refunds for shared services – As announced at Autumn Statement 2014, the government will legislate to enable named non-departmental and similar bodies to claim a refund of the VAT they incur as part of a shared service arrangement used to support their non-business activities, to encourage public bodies to share back-office services, where this results in efficiencies of scale. (Finance Bill 2016)

VAT: Isle of Man charities – The government will legislate to ensure charities subject to the jurisdiction of the High Court of the Isle of Man are capable of qualifying for UK VAT charity reliefs. (Finance Bill 2016)

7.27 Insurance Premium Tax

Insurance Premium Tax (IPT) – The standard rate of IPT will be increased from 9.5% to 10% with effect from 1st October 2016. (Finance Bill 2016) (61)

7.28 Gambling Duties

Gaming Duty bands revalorisation – The government will increase Gaming Duty bands in line with RPI for accounting periods starting on or after 1 April

2016. (Finance Bill 2016)

Reforming the treatment of ’freeplays’ in Remote Gaming Duty – The tax treatment of discounted and free gambling (‘freeplays’) within Remote Gaming Duty will be amended to bring it into line with General Betting Duty, to come into effect from 1 August 2017. (Finance Bill 2017) (48)

7.29 Soft drinks industry levy

Soft drinks industry levy – The government will introduce a new soft drinks industry levy to be paid by producers and importers of soft drinks that contain added sugar. The levy will be charged on volumes according to total sugar content, with a main rate charge for drink above 5 grams of sugar per 100 millilitres and a higher rate for drinks with more than 8 grams of sugar per 100 millilitres. There will be an exclusion for small operators, and we will consult on the details over the summer, for legislation in Finance Bill 2017 and implementation from April 2018 onwards. (Finance Bill 2017)

7.30 Horserace Betting

Horserace Betting Levy reform – The government has set out a timetable for replacing the current Horserace Betting Levy by April 2017. This will give British horseracing the right to funds from offshore remote betting operators.

7.31 Transport taxes

Fuel duty – The main rate of fuel duty for petrol and diesel will remain frozen at 57.95 pence per litre in 2016-2017. (54)

Fuel duty incentives for aqua-methanol – As announced at Budget 2014, the government will legislate for a reduced duty rate of 7.90 pence per litre for aqua-methanol from 1 October 2016. The impact of this incentive will be kept under review alongside other fuel duty differentials for alternatives to petrol and diesel. (Finance Bill 2016)

Fuel Benefit Charge (FBC) – From 6 April 2017, the FBC multiplier for both cars and vans will increase by RPI.

Van Benefit Charge (VBC) – From 6 April 2017 the main VBC will increase by RPI. The government will extend VBC support for zero-emission vans so that from 6 April 2016 the charge will be 20% of the main rate in 2016-17 and 2017-18, and will then increase on a tapered basis to 5 April 2022. The government will review the impact of this incentive at Budget 2018 together with enhanced capital allowances for zero-emission vans. (Finance Bill 2016)

VED: classic vehicle exemption – The government will legislate to place the classic vehicle VED exemption on a permanent basis from 1 April 2017, so that from 1 April each year vehicles constructed more than 40 years before the 1 January of that year will automatically be exempt from paying VED. (Finance Bill 2016)

Vehicle Excise Duty (VED) rates and bands – From 1 April 2016, VED rates for cars, vans, motorcycles and motorcycle trade licences will increase by RPI. (Finance Bill 2016)

HGV VED and Road User Levy rates and bands – From 1 April 2016, HGV and Road User Levy rates, including all other rates linked to the basic goods rate, will be frozen. (Finance Bill 2016) (56)

Company Car Tax (CCT) review – At Budget 2013, the government committed to review the incentives for ultra-low emission vehicles in light of market developments at Budget 2016. From 2020-21, the government will continue to base Company Car Tax on the CO_2 emissions of cars and will consult on reform of the bands for ultra-low emission vehicles (below 75 grams of carbon dioxide per kilometre) to refocus incentives on the cleanest cars.

Company Car Tax (CCT) rates – As announced at Spending Review and Autumn Statement 2015, from April 2016 the 3 percentage point differential between diesel cars and petrol cars will be retained until April 2021. (Finance Bill 2016)

Company Car Tax (CCT) rates for 2019-20 – As announced at March Budget 2015, the appropriate percentage of list price subject to tax will increase by 3 percentage points for cars emitting more than 75 grams of carbon dioxide per kilometre (gCO2/km), to a maximum of 37%, in 2019-20. There will be a 3 percentage point differential between the 0-50 and 51-75 gCO2/km bands, and between the 51-75 and 76-94 gCO2/km bands. (Finance Bill 2016)

Air Passenger Duty (APD) rates – As announced at Budget 2015, all APD rates will increase by RPI from 1 April 2016. All APD rates will increase by RPI from 1 April 2017. (Finance Bill 2016 and Finance Bill 2017)

7.32 Energy and environment taxes

Reform of business energy taxes – Following consultation on simplification of the business energy efficiency tax landscape, the government will:

- abolish the Carbon Reduction Commitment (CRC) energy efficiency scheme with effect from the end of the 2018-19 compliance year. Businesses will be required to surrender allowances for the final time in October 2019. The government will work with the devolved administrations on closure details for the reporting element of the scheme (36)
- increase the main rates of Climate Change Levy (CCL) from 1 April 2019, to cover the cost of CRC abolition in a fiscally-neutral reform and incentivise energy efficiency in CCL-paying businesses (Finance Bill 2016) (36)
- increase the CCL discount for sectors with Climate Change Agreements to compensate equivalently for the increase in CCL main rates. The CCL discount for electricity will increase from 90% to 93%, and the discount for

gas will increase from 65% to 78% from 1 April 2019. The government will retain existing eligibility criteria for Climate Change Agreement schemes until at least 2023, with a target review to include a review of the buy-out price for periods 3 and 4 starting in 2016
- rebalance the main rates of CCL for different fuel types to reflect recent data on the fuel mix used in electricity generation. In the longer term, the government intends to rebalance rates further to deliver greater energy efficiency savings, to reach a 1:1 ratio of gas and electricity rates by 2025
- consult later in 2016 on a simplified energy and carbon reporting framework for introduction by April 2019

Climate Change Levy (CCL) main rates (2017-18 and 2018-19) – CCL main rates will increase in line with RPI from 1 April 2017 and 1 April 2018. (Finance Bill 2016)

CRC energy efficiency scheme (CRC) – Allowance prices for CRC compliance years 2016-17, 2017-18 and 2018-19 will increase in line with RPI

Climate Change Levy (CCL) exemption on renewably-sourced electricity – As announced at Autumn Statement 2015, a transitional period for electricity suppliers to apply the CCL exemption on renewably-sourced electricity generated before 1 August 2015 will end on 31 March 2018. (Finance Bill 2016)

Carbon Price Support rates – As previously announced, the government will continue to cap Carbon Price Support (CPS) rates at £18/tCO2 to 2019-20. For 2020-21, the cap will be maintained in real terms and set at £18/tCO2 plus RPI. This will continue to protect business competitiveness. The government will set out the long-term direction for CPS rates and the Carbon Price Floor at Autumn Statement 2016. (Finance Bill 2018) (37)

Aggregates Levy rate 2016-17 – The Aggregates Levy rate will remain frozen at £2 per tonne in 2016-17, to support the construction sector. (58)

Aggregates Levy utilities exemption – The government will consult on a new exemption from the Aggregates Levy for aggregate which is an unavoidable by-product of laying pipes for utilities, with a view to legislating in Finance Bill 2017.

Landfill Tax rates – The standard and lower rates of Landfill Tax will increase in line with RPI, rounded to the nearest 5 pence, from 1 April 2017 and again from 1 April 2018. (Finance Bill 2016)

Landfill Tax: clarifying scope – HMRC will consult later this year on the definition of a taxable landfill disposal, with the intention of changing the definition in Finance Bill 2017. This change aims to bring clarity and certainty to the tax without affecting its intended scope.

Landfill Tax: tackling waste crime – Additional funding will be made available over the next five years for HMRC to increase compliance activity across the waste supply chain, enabling the government to better tackle waste crime. (51)

Changes to the Landfill Communities Fund – At Autumn Statement 2015, the government announced reforms to the Landfill Communities Fund, including simplification of record-keeping requirements and changes to the scheme's objectives. The scheme's regulator, ENTRUST, will publish guidance shortly setting out the requirement for landfill operators to make a greater contribution to the fund from April 2016.

Enhanced Capital Allowances (ECAs): energy-saving and water-efficient technologies – The list of designated energy-saving and water-efficient technologies qualifying for an ECA will be updated during summer 2016, subject to State aid approval. (38)

Packaging recycling targets – The government will legislate later in 2016 to reduce statutory plastic packaging recycling targets for 2016 and 2017, to reduce the burden on business. The government will also set new recycling targets for glass and plastic packaging for 2018, 2019 and 2020. For plastic, the existing target will be reduced to 49% for 2016 and then increased by 2% each year to 2020, to 57%. For glass, the existing target of 77% will be maintained until 2017 and then increased by 1% each year to 2020, to 80%.

(59)

7.33 Property taxes

Stamp Duty Land Tax: additional properties – As announced at Spending Review and Autumn Statement 2015, the government will introduce higher rates of SDLT on purchases of additional residential properties from 1 April 2016. The higher rates will be 3 percentage points above the current SDLT rates. Following consultation, there will be no exemption from the higher rates for significant investors. Purchasers will have 36 months rather than 18 months to claim a refund of the higher rates if they buy a new main residence before disposing of their previous main residence. Purchasers will also have 36 months between selling a main residence and replacing it with another without having to pay the higher rates. A small share in a property which has been inherited within the 36 months prior to a transaction will not be considered as an additional property when applying the higher rates. (Finance Bill 2016) The government will provide £60 million to enable community-led housing developments in rural and coastal communities, including through Community Land Trusts, where the impact of second homes is particularly acute. The South West will receive around £20 million of this funding. (44)

Stamp Duty Land Tax: application to certain authorised property funds – As announced at Spending Review and Autumn Statement 2015, the government will introduce a seeding relief for Property Authorised Investment Funds (PAIFs) and Co-ownership Authorised Contractual Schemes (CoACSs) and make changes to the SDLT treatment of CoACSs investing in property so that SDLT does not arise on the transactions in units. These changes will take effect from the date Finance Bill 2016 receives Royal Assent. (Finance Bill 2016)

Annual Tax on Enveloped Dwellings (ATED) and 15% rate of Stamp Duty Land Tax: scope of reliefs – As announced at Spending Review and Autumn Statement 2015, the government will extend the reliefs available from ATED and the 15% higher rate of SDLT to equity release schemes (home reversion plans), property development activities and properties occupied by employees from 1 April 2016. (Finance Bill 2016)

Stamp Duty Land Tax (SDLT): reform of non-residential rates – The government will change the calculation of SDLT on freehold and leasehold premium non-residential transactions so the rates apply to the portion of the purchase price within each band. The government will also amend the rates and thresholds so that the portion of the transaction value up to £150,000 is charged at a rate of 0%, the portion between £150,001 and £250,000 is charged at a rate of 2%, and the portion over £250,000 is charged at a rate of 5%. SDLT on non-residential leasehold rent transactions, where the rates already apply to the portion of the purchase price within each band, will be reformed to include a new 2% rate for leasehold transactions with a Net Present Value over £5 million. These changes will take effect on and after 17 March 2016. (Finance Bill 2016) (27)

7.34 Capital Gains Tax

Capital Gains Tax – The government will reduce the higher rate of Capital Gains Tax (CGT) from 28% to 20% and the basic rate from 18% to 10%. The 28% and 18% rates will continue to apply for carried interest and for chargable gains on residential property. These changes will take effect for disposals made on or after 6 April 2016. (Finance Bill 2016) (28)

Capital Gains Tax entrepreneurs' relief: extension to long-term investors – The government will extend entrepreneurs' relief (ER) to external investors in unlisted trading companies. The new rules will apply to newly issued shares purchased on or after 17 March 2016, providing they are held for a minimum of 3 years from 6 April 2016, and subject to a separate lifetime limit of £10 million of gains. (Finance Bill 2016) (29)

Capital Gains Tax entrepreneurs' relief: associated disposals – The government will allow ER to be claimed on a disposal of a privately-held asset when the accompanying disposal of business assets is to a family member.

These changes will take effect for disposals made on or after 18 March 2015. (Finance Bill 2016) (31)

Capital Gains Tax entrepreneurs' relief: goodwill on incorporation – The government will allow ER to be claimed, subject to certain conditions, on gains on the goodwill of a business when that business is transferred to a company controlled by five or fewer persons or by its directors. These changes will take effect for disposals made on or after 3 December 2014. (Finance Bill 2016) (31)

Capital Gains Tax entrepreneurs' relief: joint ventures and partnerships – The government will allow ER to be claimed in some cases involving joint ventures and partnerships where the disposal of business assets does not meet the existing 5% minimum holding conditions. These changes will take effect for disposals made on or after 18 March 2015. (Finance Bill 2016)

Capital Gains Tax entrepreneurs' relief: review of the definition of a trading company – The government will review the definition of a trading company for ER purposes to ensure that it operates effectively.

Employee Shareholder Status – The government will introduce an individual lifetime limit of £100,000 on gains eligible for Capital Gains Tax exemption through the Employee Shareholder Status. This limit will apply for arrangements entered into on or after 17 March 2016. (Finance Bill 2016) (30)

Capital Gains Tax for non-UK residents disposing of UK residential property – As announced at Spending Review and Autumn Statement 2015, the government will amend the CGT computations required by non-residents on the disposal of UK residential property by removing, with retrospective effect from 6 April 2015, a double charge that occurs in some circumstances and correcting an omission with effect from 25 November 2015. The government will also prescribe with effect from 6 April 2015 two specific circumstances where a return is not required and give HM Treasury powers to add, amend or remove circumstances and make consequential provision. The government will also add CGT to the list of taxes that the government may collect on a provisional basis. (Finance Bill 2016)

7.35 Avoidance and evasion

7.36 Tax evasion and compliance

2016-17 compliance yield target – The government has set HMRC a compliance yield target for 2016-17 of £27 billion.

Tackling the Hidden Economy: Conditionality – The government will consult, over the summer, on the principle of making access to licenses or services for businesses conditional on them being registered for tax. This will include consideration of what services or licenses could be conditional on registration, and ways to minimise burdens on business.

Tackling the Hidden Economy: Tougher sanctions – The government will consult, over the summer, on new sanctions on those who repeatedly and deliberately participate in the hidden economy, including penalties and monitoring of repeat offenders.

Tackling the Hidden Economy: Access to data held by Money Service Businesses – The government will consult, over the summer, on new powers to enable HMRC to gather data held by Money Service Businesses for tax compliance purposes. This is ahead of potential legislation in Finance Bill 2017.

Tackling the hidden economy: Access to data held by online intermediaries and operators of digital wallets – Following an announcement made at Summer Budget 2015, the government will now legislate in Finance Bill 2016 to extend HMRC's powers to obtain data from online intermediaries and electronic payment providers to find those operating in the hidden economy. (Finance Bill 2016)

A new criminal offence for tax evasion – As announced at Spending Review and Autumn Statement 2015, the government will introduce a new criminal offence that removes the need to prove intent for the most serious cases of failing to declare offshore income and gains. (Finance Bill 2016)

New civil penalties for offshore tax evaders – As announced at Spending Review and Autumn Statement 2015, the government will increase civil penalties for deliberate offshore tax evasion, including the introduction of a new penalty linked to the value of the asset on which tax was evaded and increased public naming of tax evaders. (Finance Bill 2016)

New civil penalties for those who enable offshore evasion – As announced at Spending Review and Autumn Statement 2015, the government will introduce civil penalties for those who enable offshore tax evasion, including public naming of those who have enabled the evasion. (Finance Bill 2016)

A requirement to correct past offshore tax non-compliance – The government will introduce a new legal requirement to correct past offshore non-compliance within a defined period of time with new sanctions for those who fail to do so. (Finance Bill 2017)

7.37 Other tax avoidance

Tackling marketed tax avoidance – The government will:

- consider the case for clarifying what constitutes reasonable care in avoidance penalty cases
- consider options to address the issue of those who “enable” tax avoidance schemes
- consult during the summer on updating the VAT Disclosure of Schemes Regime (VADR), including by extending coverage to other indirect taxes and by alignment with the Disclosure of Tax Avoidance Schemes regime

Serial Avoiders – As announced at Spending Review and Autumn Statement

2015 and following consultation, the government will now legislate in Finance Bill 2016 to introduce tough new measures for those who persistently enter into tax avoidance schemes that are defeated by HMRC. These include: a special reporting requirement and a penalty on those whose latest return is inaccurate due to use of a defeated scheme; publication of these avoiders' names; and, for those who persistently abuse reliefs, restrictions on their access to certain tax reliefs for a period. We are also strengthening the Promoters of Tax Avoidance Schemes (POTAS) regime, by bringing in promoters whose schemes are regularly defeated by HMRC. (Finance Bill 2016)

General Anti-Abuse Rule (GAAR) – The government will legislate to introduce a new penalty of 60% of tax due to be charged in all cases successfully tackled by the GAAR, and make small changes to the GAAR procedure to improve its ability to tackle marketed avoidance schemes. (Finance Bill 2016)

7.38 Tax administration and simplification

Office of Tax Simplification Income Tax and National Insurance contributions (NICs) alignment review – The government welcomes the OTS's report on income tax and NICs alignment and will respond in due course.

State aid information – The government will allow HMRC to collect additional data from businesses on certain tax reliefs and allowances. This will help the UK improve the monitoring of tax State aids and compliance with State aid guidelines. (Finance Bill 2016)

HMRC customer service – The government is investing £71 million to make it quicker and easier for individuals and small businesses to deal with HMRC. Customers will be able to contact HMRC quicker and at a time convenient to them, with improved call waiting times, a new secure email service, and phone lines and Webchat open 7 days a week from April 2017. HMRC will also introduce new measures to provide help and support for businesses, including a dedicated phone service and online forum for new businesses and self-employed individuals. (53)

Clarification of Time Limits for Self-Assessment – Following consultation announced at Spending Review and Autumn Statement 2015, the government will legislate to clarify the time allowed for making a self-assessment return. It will make clear that the time limit is 4 years from the end of the relevant tax year. There are transitional arrangements for the years 2013-14, 2014-15 and 2015-16. Returns for these years will have time limits of 5 April in the years 2018, 2019 and 2020 respectively. (Finance Bill 2016)

Simple Assessment – Following the consultation announced at Spending Review and Autumn Statement 2015, the government will legislate to provide a new power to allow HMRC to make an assessment of a person's Income Tax and Capital Gains Tax liability without them first being required to complete a self-assessment return and where it has sufficient information about that individual to make the assessment. (Finance Bill 2016)

Making Tax Digital – From 2018 businesses, self-employed people and landlords who are keeping records digitally and providing regular digital updates to HMRC will be able to adopt pay-as-you-go tax payments. This will enable them to choose payment patterns that suit them and better manage their cash flow. The government will also explore options to simplify the tax rules for these groups. The government will consult on these measures in 2016 alongside publishing detailed proposals for other elements of the Making Tax Digital programme announced previously. (Finance Bill 2017)

Office of Tax Simplification (OTS) – The government will establish the OTS on a statutory basis as a permanent office of HM Treasury from April 2016. (Finance Bill 2016)

Office of Tax Simplification small companies review – The government has received the OTS's review of small companies and will accept or consider nearly all of its recommendations including that the OTS continues to develop the design for a look-through taxation system and a new simple business model that protects the assets of the self-employed.

Office of Tax Simplification next reviews – The government will commission the OTS to review the impacts of moving employee NICs to an annual, cumulative and aggregated basis and moving employer NICs to a payroll basis. It will also commission the OTS to review the options to simplify the computation of corporation tax. The Terms of Reference for both reviews will be published shortly.

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

Amendment to Customs and Exercise Management Act (CEMA) – The government intends to legislate in a future finance bill to clarify the powers HMRC has when stopping or searching a vehicle suspected of containing goods liable to forfeiture. (Finance Bill 2016)

Amendment to CEMA schedules – Following consultation, announced at Spending Review and Autumn Statement 2015, the government will legislate to amend the CEMA to clarify existing provisions concerning the seizure and detention of goods. (Finance Bill 2016)

Prosecuting authorities for proceedings under the CEMA – Following announcement at Spending Review and Autumn Statement 2015, the government will legislate to amend the Customs and Excise Management Act 1979 to clarify the prosecuting authorities in Scotland and Northern Ireland for offences under the customs and excise acts. This will ensure that time limits for starting proceedings apply only to the correctly identified prosecuting authorities.

7.39 Financial Services

Claims management regulation – The government will establish a tougher regulatory regime for claims management companies (CMCs) including by introducing a Senior Managers Regime, requiring reauthorisation of all CMCs and transferring supervisory responsibility from the Ministry of Justice to the FCA. The dates for the transfer will be announced in due course.

Women in Financial Services review – Jayne-Anne Gadhia, CEO of Virgin Money, will publish her review into the representation of women in senior managerial roles in the financial services industry on 22 March.

Basic bank accounts: designation and market share data reporting – The government will legally require nine banks to offer basic bank accounts to help people access basic banking services. The government has also committed to publish basic bank account market share data for the first time in autumn 2016.

Competition in UK retail financial services – The government will continue to pursue more proportionate capital requirements for small banks and building societies in the EU; work with the PRA/FCA New Bank Start-up Unit to promote the authorisation of new banks; and ensure Bacs takes action to further improve the Current Account Switch Service.

Finance Platforms Regulations: designation – The government intends to designate Bizfitech, Funding Options and Funding XChange under the Small and Medium Sized Business (Finance Platforms) Regulations 2015, to help match SMEs that have been rejected for finance by designated banks with alternative finance providers.

Credit Information Regulations: designation – On 1 April 2016 the government will formally designate the banks and credit reference agencies required to share credit data under the Small and Medium Sized Business (Credit Information) Regulations 2015.

Amendments to the Limited Partnership Act applied to Collective Investment Schemes – The government will introduce a final package of amendments to the Limited Partnership Act to make it a more competitive vehicle for unauthorised funds. The government will publish its response to the consultation on 24 March 2016, and will implement the amendments in legislation in due course.

Financial Advice Market Review (FAMR) – In line with FAMR's recommendations the government will:

- increase the tax and NICs relief available for employer-arranged pension advice from £150 to £500 from April 2017 – this will ensure that the first £500 of any advice received is eligible for the relief (8)
- consult on introducing a Pensions Advice Allowance over summer 2016, this will allow people to withdraw £500 tax free before the age of 55 from their defined contribution pension to redeem against the cost of financial advice – the exact age at which people can do this will be determined by consultation
- consult on amending the definition of regulated advice in the existing Regulated Activities Order to bring it in line with that of the Markets in Financial Instruments Directive – this would mean that regulated advice is based upon a personal recommendation

Public Financial Guidance Review – The government will restructure the statutory financial guidance providers – the Money Advice Service, The Pensions Advisory Service and Pension Wise – to ensure that consumers can access the help they need to make effective financial decisions. The new delivery model will direct more funding to the front line and focus support on areas of greatest consumer need. It will include:

- a new pensions guidance body, to make sure that consumers can get all their pensions questions answered in one place, at all stages of their lives
- a new, slimmed down money guidance body charged with identify gaps in the financial guidance market and commissioning providers to fill these gaps to ensure that consumers can access the debt advice and money guidance they need

7.40 Regional and Devolution

7.41 English Regions

Devolution deals – The government is announcing new devolution deals with Greater Lincolnshire, East Anglia, and the West of England and further devolution deals with Greater Manchester and Liverpool City Regions. (62)

Local government asset recipets flexibility – As announced at Autumn Statement and Spending Review 2015, local authorities will have the flexibility to spend capital recipets from asset sales on the revenue costs of reform projects, subject to the conditions set out in DCLG’s direction of 11th March 2016. (69)

Single Pot Allocation – The government is announcing that existing mayoral devolution deals will receive ‘single pot’ funding settlements, giving them flexible un-ringfenced budgets to spend on local priorities.

Ministry of Justice relocation – The Ministry of Justice is moving jobs out of Whitehall. By the middle of this Parliament the Ministry of Justice will establish a major programme to create substantial centres of expertise outside the capital.

Additional work coaches in Birmingham – There are currently 100 additional work coaches in Birmingham who work with businesses to match workers with apprenticeships, training opportunities and skilled jobs. This scheme will continue until 2017.

7.42 Scotland, Wales and Northern Ireland

Cardiff Capital region deal – The government has announced a £1.2 billion deal with the Welsh Government and the 10 local authorities forming the Cardiff Capital Region. The government will contribute £375 million in additional funding over 20 years towards an investment fund, in addition to

£125 million already committed to the electrification of the Valley Lines as part of the South East Wales Metro project. (62)

Swansea Bay City region deal – The government will open negotiations with the Welsh Government and local partners on a potential City Deal for Swansea Bay City Region.

Edinburgh City Deal – The government will open negotiations with local partners on a potential City Deal for Edinburgh and South East Scotland.

Enhanced Capital Allowances for the Enterprise Zone at Coleraine, Northern Ireland – The government will legislate to offer enhanced capital allowances within the Northern Ireland Executive’s pilot Enterprise Zone at Coleraine.

Enhanced Capital Allowances for a proposed Enterprise Zone at Port Talbot, Wales – The government will support proposals for an Enterprise Zone at Port Talbot by offering enhanced capital allowances to investors within that Zone, subject to agreement with the Welsh Government on the boundaries within which ECAs will be available.

7.43 Supply side reform of the economy

7.44 Education and skills

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

Doctoral loans – From 2018-19, the government will introduce doctoral loans of up to £25,000 to any English student who can win a place at a UK university but doesn’t receive a research council living allowance. (i)

Master’s loans – The government will extend the eligibility of master’s loans to include three-year part-time courses with no full-time equivalent. (14, ii)

Lifetime learning – The government will review gaps in support for lifetime learning, including for flexible and part-time study, and bring together information about the wages of graduates of different courses and financial support for further and higher education to ensure people can make informed decisions.

Apprenticeship levy – As announced at Autumn Statement and Spending Review 2015, the government will introduce the apprenticeship levy in April 2017. It will be set at a rate of 0.5% of an employer’s paybill and will be paid through PAYE. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means the levy will only be paid on any paybill in excess of £3 million. (Finance Bill 2016) The government will apply a 10% top-up to monthly funds entering apprenticeship levy payers’ digital accounts in England from April 2017.

Longer school day – The government will provide up to £285 million a year to give 25% of secondary schools increased opportunity to extend their school day. (11)

Expand breakfast clubs – Starting from September 2017, the government will provide £10 million funding to expand the number of healthy breakfast clubs. (11)

Every school an academy – The government expects all schools to become academies by 2020, or to have an academy order in place in order to convert by 2022. (12)

National Funding Formula for schools – Subject to consultation, the government’s aim is for 90% of schools who will gain funding increases to receive the full amount they are due by 2020. (12)

Northern Powerhouse Schools Strategy – The government will invest £20 million a year to raise education standards across the Northern Powerhouse. This will be achieved by:

- bringing in support from proven leaders and outstanding schools in neighbouring areas to mentor weaker schools (13)
- boosting funding available for turnaround activity in coasting and vulnerable schools (13)
- fast-tracking the best local schools to become Teaching Schools and the best local heads to become National Leaders of Education (13)
- providing funding to establish a Northern branch of the New Schools Network and investing to expand the best academy chains and develop new sponsors in the North (13)
- Sir Nick Weller leading a report into transforming education across the Northern Powerhouse (13)

Double primary school PE and sport premium – From September 2017 the government will increase the primary school PE and sport premium funding from £160 million per year to £320 million per year. (10)

Post-16 maths – The government will ask Professor Sir Adrian Smith to review how to improve the study of maths from 16 to 18.

Mentoring – The government will provide £14 million over the Spending Review period to deliver a mentoring scheme for disadvantaged young teenagers. (71)

7.45 Culture and sport

Investing in culture and sport – The government will support culture and sport, including by providing:

- £1 million to support S1 Artspace to create an arts complex in Sheffield, subject to planning permission being granted (67)

- £5 million to support Shakespeare North, a new theatre in Knowsley, subject to business case and planning permission being granted (67)
- £5 million to support the refurbishment of Hull New Theatre and £8 million to create a lasting cultural legacy in Hull (67)
- £1 million to support the transformation of Drapers' Hall into a multi-purpose music venue in Coventry (67)
- £620,000 to support Being Brunel, the National Brunel Project in Bristol
- £2 million to support the refurbishment of the Hall for Cornwall, subject to planning permission being granted (67)
- £500,000 towards a marketing campaign to promote the Tour de Yorkshire 2016 to overseas visitors (67)

Great Exhibition of the North – Building on the announcement of £20 million funding at the Autumn Statement and Spending Review 2015, the government is inviting bids from northern cities and towns to host the Great Exhibition of the North.

First World War Centenary cathedral repairs fund and English Churches and Cathedrals Sustainability Review – The government will provide £20 million across 2016 17 and 2017-18 to extend the First World War Centenary cathedral repairs fund. A review into sustaining England's churches and cathedrals will be set up to assess maintenance and repair pressures and examine how the sector can become more financially sustainable. (66)

The British Library: St Pancras redevelopment – The government supports the British Library's ambition to develop land to the north of its St Pancras site, subject to a full business case.

Rugby Football League World Cup – The government supports plans to bid to host the Rugby Football League World Cup in 2021.

International Screen School Manchester – The government will consider the case to support the creation of International Screen School Manchester at Manchester Metropolitan University.

Royal College of Art – The government will help to fund an expansion of the

Royal College of Art in Battersea with £54 million funding to 2021-22. (67)

Dundee V&A – The government will contribute £5 million to the museum's fundraising campaign. (67)

Lloyd George Museum – The government confirms £27,000 of funding per year from 2017-18 to 2019-20 towards the Lloyd George Museum in north Wales.

New Cumnock – The government will contribute £150,000 towards local regeneration projects. (67)

7.46 Transport and infrastructure

Roads Investment Strategy 2 – The government is launching the process for setting the Second Roads Investment Strategy, which will determine road investment plans for the period from 2020-21 to 2024-25.

Highways England Innovation Strategy – The government and Highways England will:

- carry out trials of driverless cars on the Strategic Road Network by the end of 2017
- launch a consultation on reducing regulatory barriers in summer 2016
- establish a £15 million 'connected corridor' from London to Dover to enable vehicles to communicate wirelessly with infrastructure
- trial truck-platooning on strategic roads
- start the first trials of comparative fuel price signs on the M5 between Bristol and Exeter by Spring 2016

South West rail resilience – The government will provide £5 million for the development of options for improving the resilience of the rail line between Exeter and Newton Abbot (via Dawlish), once the current study by Network Rail concludes.

Northern rail improvements – The government will take forward the recommendations from the National Infrastructure Commission and allocate £60 million to develop options for High Speed 3 between Leeds and Manchester, as well as options for improving other major city rail links. The government will also allocate £4 million to develop High Speed 2 Growth Strategies for Manchester Piccadilly, Manchester Airport and Leeds stations as part of an integrated long-term plan for High Speed 3.

Northern roads improvements – The government will accelerate the development of the Lofthouse and Simister Island junctions, capacity enhancements to the M1 at junctions 35a-39 Rotherham to Wakefield, and deliver on the commitment to begin upgrades to the M56 at junctions 6-8 south of Manchester in this Parliament.

Accelerating improvements to the M62 – The government will provide an additional £161 million to Highways England to accelerate the delivery of two major projects to upgrade the M62 to a four-lane smart motorway between junction 10-12 Warrington to Eccles and junction 20-25 Rochdale to Brighouse. (63)

Northern road studies – The government will allocate £75 million to Highways England to further develop the case for a potential Trans-Pennine tunnel between Sheffield and Manchester, as well as options to enhance the A66, A69 and the north-west quadrant of the M60.

Large major transport projects – The government will provide £151 million to fund new river crossings at both Lowestoft and Ipswich (subject to final business case approval), and is now inviting further bids for the £475 million Local Majors Fund announced at Autumn Statement and Spending Review 2015.

Crossrail 2 – The government will provide £80 million which, together with a contribution from London, will allow Crossrail 2 to proceed to the next stage with the aim of depositing a Hybrid Bill within this Parliament.

Severn crossing tolls – After the existing concession on the Severn River Crossings ends in 2018, the government will, subject to consultation, halve tolls. The government will also evaluate the costs and benefits for developing a free-flow barrier-free tolling system.

Pothole Action Fund – The government is setting out how the Pothole Action Fund will be allocated across England in 2016-17, with £50 million allowing local authorities to fill nearly a million potholes.

Modernising rail stations – The government is announcing the allocation of £16 million funding to improve rail station facilities at Market Harborough, St Albans, Redhill, Newbury, High Wycombe, Exeter St Davids, Weston-Super-Mare, and Cheltenham Spa.

Midlands Connect – Midlands Connect will be established as a statutory sub-national transport body with statutory duties by the end of 2018.

Midlands roads – The government will carry out feasibility work on 4 major roads in the Midlands in this Parliament: upgrades to the M1 to provide a continuous smart motorway from London to Yorkshire, improvements to the A46 Newark bypass and its junction with the A1, upgrading the single carriageway link on the A45 Stanwick to Thrapston and upgrading the M42 and M5 around Birmingham to four lane smart motorway running.

Shaw Report into Network Rail – The government welcomes the recommendations of the Shaw Report into Network Rail and will respond in full later this year.

Financing London transport infrastructure via land value uplift – The government invites Transport for London to bring forward detailed proposals on how it could capture a proportion of future land value increases around proposed local infrastructure projects funded by the public sector, in order to provide a source of financing to support the construction of such projects.

Outer London Infrastructure Fund – The government will provide £5 million to establish a fund to support smaller local infrastructure projects in outer London boroughs in 2017/18.

New junction on the M4 – The government will provide £500,000 to South Gloucestershire council to fund a study into a new junction 18a on the M4 to link with the Avon ring road A4174.

National Infrastructure Delivery Plan – The government will shortly publish a National Infrastructure Delivery Plan, setting out details of over £100 billion of public sector investment in infrastructure across this Parliament.

National Infrastructure Pipeline – The government will continue to update the National Infrastructure Pipeline, showing forward projections of planned public and private investment.

Growth corridors – The government has asked the National Infrastructure Commission to develop proposals for unlocking growth, housing and jobs in the Cambridge–Milton Keynes–Oxford corridor. The commission will produce a final report for Autumn Statement 2017.

5G – The government has asked the National Infrastructure Commission to consider by the end of 2016 what the UK needs to do to become a world leader in 5G infrastructure deployment, and to ensure that the UK can take early advantage of the potential benefits of 5G services.

National Shipbuilding Strategy – The government has appointed Sir John Parker to lead the national ship building strategy, which was confirmed in the Strategic Defence and Security Review 2015. He will report by Autumn Statement 2016.

7.47 Housing and planning

Garden villages and towns – To support areas that want to establish garden villages the government will:

- provide capacity support for Local Authorities
- introduce new legislation that will speed up and simplify the process for delivering new settlements
- announce planning incentives to support areas seeking to bring forward new settlements, in return for commitments to significant housing delivery

Moving to a more zonal planning system – The government will bring forward measures to enable a more zonal and 'red line' planning system.

Speeding up the process for assessing housing need – The government intends to accelerate the preparation and adoption of Local Plans. The government welcomes the report by the local plans expert group and will consult on the recommendations.

Local Plans – Following the ongoing consultation on the delivery of Local Plans by 2017, the government will set out later this year details of measures to encourage the production of Local Plans. As recommended by the Local Plans Expert Group report, which is published today, the government will also look at the scope to reduce the weight of outdated plans in decision-making. The government will consult on the other recommendations made by the Group until 27 April 2016.

'Building Up' – Following the consultation on building up in London and to help increase densities on brownfield land and reduce the need to 'build out', the government will consult with city regions on extending similar powers as part of devolution deals.

Streamlining the use of planning conditions – To minimise delays caused by the use of planning conditions the government intends to:

- legislate to ensure that pre-commencement planning conditions can only be used with the agreement of the developer
- review the process of deemed discharge for conditions, to ensure it is effective and its use maximised

Transparency of the land market – The government will consult on proposals to increase transparency in the property market, including by improving the visibility of information relating to options to purchase or lease land.

Secretary of State planning decisions – The government will set statutory 3 month deadlines for Secretary of State decisions on called-in applications and recovered appeals to prevent time-delays on decisions on infrastructure, housing and regeneration projects.

Stations regeneration – The Homes and Communities Agency will work in partnership with Network Rail and Local Authorities to bring forward land around stations for housing, commercial development and regeneration, and will announce proposals for specific sites shortly.

Compulsory Purchase Order reforms – The government will consult on a second wave of Compulsory Purchase Order reforms with the objective of making the Compulsory Purchase Order process clearer, fairer and quicker.

Mobile Communications Infrastructure – Following a call for evidence published alongside the Productivity Plan, the government will announce details of greater freedoms and flexibilities in England to support the deployment of mobile infrastructure.

Private Rented Sector (PRS) Guarantee – The government will extend the PRS guarantee scheme until December 2017 to encourage long term institutional investment in the private rented sector.

Starter Homes – The government will launch the Starter Homes Land Fund prospectus today. This prospectus invites Local Authorities to access the £1.2 billion of funding to remediate brownfield land to deliver Starter Homes.

Investment in low-cost homeownership – The government will explore options for encouraging private investment in low-cost homeownership, including the scope to use guarantees.

Help to Buy: Shared Ownership – The government will launch the Help to Buy: Shared Ownership Prospectus in April. The prospectus will invite private developers to come forward and bid for funding to build Shared Ownership homes.

Local Authority land – Local Authorities will collaborate with central government on a local government land ambition, working with their partners to release land with capacity for at least 160,000 homes, helping to support the government's policy of regenerating council housing estates. The government will continue to work with the sector to look for opportunities to go further, with a view to raising the ambition.

Brent Cross – The government has approved the full business case for a new Thameslink station at Brent Cross.

Homelessness – To support vulnerable rough sleepers off the streets and to help those who are recovering from homelessness, the government will:

- invest £100 million to deliver low-cost 'second stage' accommodation places for rough sleepers leaving hostel accommodation and domestic abuse victims and their families moving on from refuges
- invest £10 million over two years in initiatives to support and scale-up innovative ways to prevent and reduce rough sleeping, particularly in London, building on the success of the No Second Night Out initiative
- double funding for the Rough Sleeping Social Impact Bond announced at the Spending Review, from £5 million to £10 million, to drive innovative ways of tackling entrenched rough sleeping, including through 'Housing First' approaches
- help rough sleeping EU migrants to return to their home countries

Right to Buy pilot – As announced at Autumn Statement, the government is piloting the Right to Buy with five housing associations, to inform the design of the final scheme. (72)

Homeownership – The government will explore ways to extend homeownership to social tenants who cannot afford to take advantage of existing schemes.

Pay to Stay taper – The government will introduce a taper within Pay to Stay, so that rents rise gradually above the minimum income thresholds of £40,000 in London and £30,000 outside of London. (74)

Making Pay to Stay voluntary for housing associations – As announced as part of the government's deregulatory strategy for the housing association sector, Pay to Stay will be implemented on a voluntary basis by housing associations. (74)

Social rent reduction deferral for supported housing – As announced on 27 January, the 1% annual reduction in social rents announced at the Summer Budget will not apply to supported housing in 2016-17. (75)

7.48 Local growth

Further allocation of the Local Growth Fund – The government will conclude a further round of Growth Deals with Local Enterprise Partnerships.

Old Oak Common –The government has agreed a Memorandum of Understanding with the Old Oak and Park Royal Development Corporation on the transfer of government owned assets to the Development Corporation.

Snow Hill regeneration – The government will provide £2 million to support Greater Birmingham and Solihull Local Enterprise Partnership to develop a regeneration masterplan for Birmingham's Snow Hill district.

Thames Estuary 2050 Growth Commission – The government has asked Lord Heseltine to lead a Commission to develop a long-term vision and delivery plan for the Thames Estuary region.

Enhanced Capital Allowances in Enterprise Zones – The government will ensure that all Enterprise Zones are able to offer Enhanced Capital Allowances for eight years from the establishment of relevant sites. (Finance Bill 2016) (65)

New Enterprise Zones and extensions – The government will create a new Cornwall MarineHub Enterprise Zone following the transfer of Wave Hub (a wave energy testing facility) to Cornwall Council. The government will also extend the Sheffield City Region Enterprise Zone subject to necessary approvals and agreements, and create new Enterprise Zones at Brierley Hill and Loughborough and Leicester subject to business case.

Wave Hub – The government is transferring ownership of Wave Hub, the world's largest wave energy testing facility, to Cornwall Council, and providing around £15 million to develop the facility as part of a new MarineHub Enterprise Zone.

Coastal Communities Fund Round 4 – The government will open the next round of the Coastal Communities Fund for applications this summer.

Local Enterprise Partnership Small Business Representative – The government will require all Local Enterprise Partnerships to have a nominated Small Business Representative on their Board.

Crematoria – The government is today launching a consultation on crematoria provision and facilities to assess whether they are fit for purpose and sensitive to the needs of all users and faiths. The consultation will run until 26 May.

7.49 Digital

Independent Review of Economic Statistics – The government will invest in a new hub for data science and a centre for excellence in economic measurement in line with the recommendations of Professor Sir Charles Bean's Independent Review of Economic Statistics. (64)

Public sector spectrum – The government will make available 750MHz of valuable public sector spectrum in bands under 10GHz by 2022, of which 500MHz will be made available by 2020.

5G strategy and tool – The government will deliver a 5G strategy in 2017, based on the National Infrastructure Commission assessment of how the UK can become a world leader in 5G. The government will also support the development of a network planning tool, to be trialed in Bournemouth. (67)

Broadband Investment Fund – The government will, in partnership with the private sector, establish a new Broadband Investment Fund. The fund will operate on a commercial basis to support the growth of alternative network developers by providing greater access to finance.

Digital standards in construction – The government will develop the next digital standard for the construction sector – Building Information Modelling 3 – to save owners of built assets billions of pounds a year in unnecessary costs, and maintain the UK’s global leadership in digital construction.

Ultrafast broadband grant scheme – The government will distribute £14.5 million in grants to extend ultrafast broadband coverage in the south west.

Open address data – The government will provide up to £5 million to develop options for an authoritative address register that is open and freely available.

Institute for Coding – The government will establish a panel of leading experts to help shape the £20 million Institute for Coding competition.

7.50 Science and innovation

Birmingham STEAMhouse – The government will invest £14 million in STEAMhouse subject to approved business case, a creative innovation centre in Digbeth, Birmingham, bringing together arts and culture with science, technology, engineering and maths to drive innovation. (68)

Quadram Institute – The government will contribute £50 million to a new world-leading centre for food and health research at the Norwich Research Park.

Science and Innovation Audits – Greater Manchester and East Cheshire, Edinburgh and the Lothians, South West England and South East Wales, Sheffield City Region and Lancashire LEP and the Midlands will benefit from the first wave of science and innovation audits. Audits will to help map the regions research and innovation strengths and identify areas of potential global competitive advantage.

Compound Semiconductor Catapult – The government will invest £50 million up to 2020-21 to establish a new Compound Semiconductor Applications Catapult in Wales.

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

Aerospace R&D funding – The government is awarding over £16 million, matched by industry, to companies and research organisations in the Midlands to support aerospace R&D.

Low emission vehicles – The government, through the Office for Low Emission Vehicles and Innovate UK, is awarding £38 million of grants across the UK, matched by industry, for collaborative R&D into low emission vehicles.

National Institute for Smart Data Innovation – The government will invest £15 million in the National Institute for Smart Data Innovation in Newcastle, subject to approved business case. This new facility will bring together industry, the public sector and universities to create the skills, ideas and resources needed to exploit the opportunities offered by Smart Data. (68)

7.51 Energy and environment

Seismic funding – The government will provide a further £20 million of funding for seismic surveys, as announced by the Prime Minister in January, to support exploration of new discoveries. (35)

Shale Wealth Fund and community benefits – The government will consult later this year on the priorities and delivery models for the Shale Wealth Fund, and how it can be deployed in local communities and the North as a whole.

Flood defence package – Flood defence and resilience funding will be increased by more than £700 million by 2020-21, funded by a 0.5% increase in the standard rate of Insurance Premium Tax. In addition to this, the government will spend a further £130 million on repairing transport infrastructure damaged by Storms Desmond and Eva. (60)

Support for renewable electricity – The government will auction up to £730 million support for offshore wind and other less established renewable technologies this parliament for projects generating electricity in 2021 to 2026. The first auction will offer £290 million of support.

NIC energy study – Following the National Infrastructure Commission's report Smart Power:

- the government will allocate at least £50 million for innovation in energy storage, demand side response and other smart technologies over the next 5 years
- Ofgem will consult on opening up the £100 million Network Innovation Competition to better enable innovation by non-licensed companies from 2017
- the government has increased its ambition for greater electricity interconnection by 80%, now supporting at least an additional 9GW of interconnection

Small Modular Reactors – The government is launching the first stage of a competition to identify a small modular nuclear reactor (SMR) to be built in the UK, and will publish an SMR delivery roadmap later this year. It will also allocate at least £30m of funding for R&D in advanced nuclear manufacturing.

7.52 Markets and regulation

Competition in legal services – The government will shortly consult on reforms to improve choice and competition in legal services by making it easier for new providers to enter the market.

Unlocking of mobile phones – The government is committed to consulting this year on ending the practice of handset locking for customers outside any initial contract period. The government welcomes voluntary commitments, but also stands ready to consult on legislative options if necessary.

Transparency in local authority services – The government will consult on new rules requiring Local Authorities to be transparent about the cost of the in-house services they provide.

Competition in rail – The government welcomes the CMA's report on increasing competition in railways and will work with the CMA to explore how their recommendations could potentially be implemented as part of the wider reform programme arising from the Shaw Report.

Protections for the smallest businesses acting as consumers – The government is consulting on measures to ensure that the smallest businesses – including sole traders – understand their rights and have the protections they need when they are acting as consumers.

Improving the home buying process – The government will shortly publish a call for evidence looking at the process of buying a home.

Trigger points to promote switching – The government will shortly publish the first of two reports, compiled by research firm GFK-NOP, into the role that key trigger points can play in empowering consumers.

7.53 Stronger and more focused economic regulators

Ofgem E-Serve – To ensure that Ofgem can focus on its core functions of economic regulation and promoting effective competition in the energy market, Ofgem's E-Serve functions will be split off from Ofgem.

Energy delivery landscape – The Department of Energy & Climate Change will take steps to improve the customer experience and coherence of its consumer policy delivery. DECC are committed to consolidating their delivery providers and will set out the future of consumer facing functions including those currently undertaken by E-Serve at Autumn Statement 2016.

Ofgem's statutory duties – The government intends to amend the statutory duties of Ofgem to ensure that wherever appropriate it considers competition levers first. This work will take into account the conclusions of the Competition and Markets Authority (CMA)'s Energy Market Investigation.

Role of the Competition and Markets Authority – The Competition and Markets Authority (CMA) will:

- enhance its Annual Concurrency Report on the operation of the concurrency arrangements between the CMA and the sectoral regulators to improve competition in the regulated sectors. In future, the report will cover new regulations put in place during the year which might significantly affect competition and innovation. It will also propose areas where changes to regulation might allow competition and innovation to work better
- include an estimate of the impact of its contribution to competition enforcement cases led by sector regulators in its published performance monitoring benefit to cost ratios

Reducing regulatory burdens – Ofwat will work with the water and sewerage industry to simplify and streamline water companies' licences in order to reduce regulation and facilitate deregulatory changes in future. Ofgem and DECC will review energy supply licence conditions to ensure they are as clear as possible, provide appropriate protections for consumers and do not act as a barrier to new companies entering the market, expanding or innovating.

Energy code reform – The government intends to legislate to license industry code administrators and give Ofgem more power to set strategic direction and intervene to deliver essential changes to codes quickly and ensure that customers get a better deal. This work will take into account the conclusions of the Competition and Markets Authority (CMA)'s Energy Market Investigation.

Innovation spaces in energy – Ofgem will consult in spring 2016 on providing innovation spaces for experimentation, giving more regulatory certainty for innovative approaches and products to be trialled within the existing regulatory framework.

Co-location and sharing back office functions – The government will work with economic regulators to review the business case and implementation issues around co-locating and sharing back office functions across regulators, reporting by summer 2016.

7.54 Access to finance

British Business Bank – The government confirms up to £1 billion of commitments to support small businesses to access the finance that they need to grow by:

- agreeing with LEPs in the Midlands and the British Business Bank to establish a Midlands Engine Investment Fund to invest in local SMEs, subject to final funding arrangements
- launching the first transactions from the British Business Bank's Help to Grow programme from spring 2016
- extending the British Business Bank's Enterprise Finance Guarantee programme until at least 2018

Trade finance – The government will trial a streamlined approach to trade finance provision, through ending duplicated credit and other due diligence between lenders and UK Export Finance.

8. Annex A: Financing

This annex sets out details of the government's financing plans for 2016-17. Further details can be found in the 'Debt management report 2016-17', available at www.gov.uk.

8.1 Financing arithmetic

The Office for Budget Responsibility's (OBR) forecast for the 2016-17 central government net cash requirement (excluding NRAM plc, Bradford and Bingley and Network Rail) (CGNCR (ex NRAM, B&B and NR)) is £62.1 billion[184]. This measure of the government's cash requirement is used in the financing arithmetic as it reflects the forecast cash requirement of the Exchequer. The relationship between public sector net borrowing and the CGNCR (ex NRAM, B&B and NR) is set out in the OBR's March 2016 'Economic and Fiscal Outlook'.

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

The NFR for 2016-17 is projected to be £129.4 billion, reflecting:

- the forecast for the CGNCR (ex NRAM, B&B and NR) of £62.1 billion
- gilt redemptions of £69.9 billion
- a planned short-term financing adjustment of -£2.5 billion resulting from unanticipated overfunding in 2015-16
- financing for the Official Reserves of £6.0 billion

NS&I

a net contribution to financing from of £6.0 billion
- a contribution to financing from coinage of £0.2 billion

As set out in Table A.1, the NFR for 2016-17 will be met by gilt sales of £129.4 billion.

8.2 Gilt issuance by maturity, type and method

Decisions on the skew of gilt issuance are set annually with reference to the government’s debt management objective, as set out in the ‘Debt management report 2016-17’.

Auctions will remain the government’s primary method of gilt issuance. It is anticipated that in 2016-17:

- £95.9 billion (74.1% of total issuance) will be issued by auction
- a minimum of £25.5 billion (19.7% of total issuance) will be issued by syndication

The government is introducing a further issuance method, gilt tenders. These will be a form of auctioning gilts outside of the usual auction calendar. They will replace mini-tenders and sales via taps, and will be used to supplement gilt issuance through auctions and syndications.

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

- £30.4 billion of short conventional gilts (23.5% of total issuance)
- £24.8 billion of medium conventional gilts (19.2% of total issuance)
- £36.2 billion of long conventional gilts (28.0% of total issuance)
- £30.0 billion of index-linked gilts (23.2% of total issuance)

The financing plans of the Debt Management Office (DMO) include an initially unallocated portion of issuance through which gilts of any maturity or type may be issued, subject to prior notification. This unallocated portion is set at £8.0 billion (6.2% of total issuance). It is anticipated that such sales will principally take place via gilt tenders and increases in issuance through syndications. These sales will be conducted in such a way as to respond best to evolving market conditions.

8.3 Treasury bills

Treasury bills are forecast to constitute £66 billion of the total debt stock at the end of 2015-16. It is not currently anticipated that Treasury bill issuance will make a net contribution to debt financing in 2016-17. Treasury bills are also used for cash management purposes and, consistent with the degree of flexibility now granted to the DMO to use Treasury bills across year-end for cash management, an end-year target stock of Treasury bills will no longer be set. Information on the total stock of Treasury bills will continue to be published monthly on the DMO's website.

8.4 Reserves

The financing arithmetic provides for £6.0 billion of sterling financing for the Official Reserves in 2016-17. The government is planning on the basis of sterling financing for the Official Reserves at a similar level on average over the 3 years from 2017-18 up to, and including 2019-20.

8.5 National Savings and Investments

NS&I will have a net financing target of £6.0 billion in 2016-17, within a range of £4.0 and £8.0 billion

Table A.1: Financing arithmetic in 2015-16 and 2016-17

£ billion	2015-16	2016-17
CGNCR (ex NRAM, B&B and NR)	75.5	62.1
Gilt redemptions	70.2	69.9
Planned financing for the reserves	5.3	6.0
Financing adjustment carried forward from previous financial years	-13.1	-2.5
Gross financing requirement	138.0	135.6
less:		
Contribution from National Savings and Investments	11.5	6.0
Other financing (1)	0.2	0.2
Net financing requirement (NFR) for the Debt Management Office (DMO)	126.2	129.4
Financed by debt issuance:		
Gilt sales	127.7	129.4
of which:		
Short conventional	32.6	30.4
Medium conventional	25.0	24.8
Long conventional	37.2	36.2
Index-linked	32.2	30.0
Unallocated supplementary sales	0.6	8.0
Planned net contribution to financing from Treasury bills (2)	1.0	0.0
Total financing	128.7	129.4
DMO net cash position	3.0	0.5

Figures may not sum due to rounding.

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

(2) From Budget 2016 onwards, financial year-end stock levels will not be published as part of the financing arithmetic.

Source: DMO, HM Treasury, OBR and NS&I

8.6 Illustrative future gross financing requirement

Table A.2 sets out the updated illustrative gross financing requirement for the next 4 years using the OBR's March 2016 forecast for the CGNCR (ex NRAM, B&B and NR), current planned gilt redemptions, and planned financing for the reserves.

Table A.2: Illustrative gross financing requirement

	£ billion			
	2017-18	**2018-19**	**2019-20**	**2020-21**
CGNCR (ex NRAM, B&B and NR)	41.0	32.3	3.0	17.0
Gilt redemptions	79.5	67.3	93.2	85.2
Planned financing for the reserves	6.0	6.0	6.0	0.0
Illustrative gross financing requirement	126.5	105.5	102.2	102.3

Figures may not sum due to rounding.

Source: DMO, HM Treasury and OBR.

Annex B: Office for Budget Responsibility's

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