Policy paper

Autumn Budget 2017

Published 22 November 2017

Contents

1. Executive summary
2. Economy and public finances
3. Policy decisions
4. Tax
5. Productivity
6. Housing
7. Public services
8. Annex A: Financing
9. Annex B: Welfare cap
10. Annex C: Office for Budget Responsibility's economic and fiscal outlook

Print this page

© Crown copyright 2017

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 (https://www.nationalarchives.gov.uk/doc/open-government-licence/version/3) or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at https://www.gov.uk/government/publications/autumn-budget-2017-documents/autumn-budget-2017

1. Executive summary

The United Kingdom has a bright future. The fundamental strengths of the UK economy will support growth in the long term as the UK forges a new relationship with the European Union (EU). The Budget prepares for that: supporting families and business in the near term; setting a path to a prosperous, more open Britain; and building an economy that is fit for the future. It demonstrates the government's commitment to a balanced approach to managing the public finances and supporting key public services. By investing in the future, the Budget will ensure that every generation can look forward to a better standard of living than the one before and ensures young people have the skills they need to get on in life. It backs the innovators who deliver growth, helps businesses to create better, higher paid jobs and builds the homes the country needs.

The Budget sets out actions the government will take to:

- support more housebuilding, raising housing supply by the end of this Parliament to its highest level since 1970, to make homes more affordable in the long term and help those who aspire to homeownership
- prepare for exiting the EU and ensure a smooth transition by setting aside an additional £3 billion for government
- establish the UK as a world leader in new technologies such as artificial intelligence (AI), immersive technology, driverless cars, life sciences and FinTech
- give everyone the skills to succeed in the modern economy and get better paid jobs
- expand the National Productivity Investment Fund (NPIF) to support innovation, upgrade the UK's infrastructure and underpin the government's modern Industrial Strategy
- invest over £6.3 billion of new funding for the NHS to improve A&E services, reducing waiting times and improving performance for treatment after referral, and to transform and integrate patient care
- provide more support in the short term for households, reducing costs of living, and boosting wages for the low paid through the National Living Wage (NLW)

1.1 Economic context

The UK economy has shown its resilience, with solid growth over the past year and further increases in the number of people with a job. Gross domestic product (GDP) grew 1.5% in the year to the third quarter of 2017, employment remains near the record high set earlier this year and unemployment is at its lowest rate since 1975.

The Office for Budget Responsibility (OBR) now expects to see slower GDP growth over the forecast period, mainly reflecting a change in its forecast for productivity growth. It has revised down its forecast for GDP growth by 0.5 percentage points to 1.5% in 2017, then growth slows in 2018 and 2019, before rising to 1.6% in 2022.

Household spending continues to grow, having slowed since 2016 due to higher inflation caused by the depreciation of sterling. Business investment has grown moderately over the past year and net trade has started to make a positive contribution to GDP growth. Surveys of export orders in 2017 have been strong, with some reaching their highest level since 2011.

1.2 Outlook for the public finances

The government has made significant progress since 2010 in restoring the public finances to health. The deficit has been reduced by three quarters from a post-war high of 9.9% of GDP in 2009-10 to 2.3% in 2016-17, its lowest level since before the financial crisis.

The government's fiscal rules take a balanced approach to government spending, getting debt falling but also investing in our key public services like the NHS, and keeping taxes low.

Compared to the Spring Budget 2017 forecast, borrowing is significantly lower in the near term. However, over the medium term the impact of a weaker economic outlook and the measures taken at the Budget see borrowing higher than previously forecast. The OBR expects the government will meet its 2% structural deficit rule for 2020-21 two years before target, in 2018-19, and with £14.8 billion of headroom in the target year. Debt is forecast to peak at 86.5% of GDP in 2017-18, and is forecast to fall in every year thereafter to 79.1% of GDP in 2022-23.

1.3 Building an economy fit for the future

The Budget sets out a long term vision for an economy that is fit for the future – one that gives the next generation more opportunities. It is an economy driven by innovation that will see the UK becoming a world leader in new and emerging technologies, creating better paid and highly skilled jobs.

To achieve this vision, the government has already set in train a plan to boost UK productivity over the long term. A key part of this is the NPIF, launched last year to provide additional investment in housing, infrastructure, and research and development (R&D). The Budget goes further, increasing the size of the NPIF from £23 billion to £31 billion. This investment will underpin the government's modern Industrial Strategy and help raise wages and living standards. It means public investment as a proportion of GDP will reach its highest level in 30 years by 2020-21, excluding the exceptional years following the financial crisis. Further details of the government's plan will be set out in the Industrial Strategy.

Government action at this Budget to boost productivity includes:

- Transport: A £1.7 billion new transforming cities fund through the NPIF to improve connectivity and support jobs across England's great city regions
- Research and Development: The largest boost to R&D support for 40 years with a further £2.3 billion investment from the NPIF in 2021-22
- Long Term Investment: Unlocking over £20 billion of patient capital, over the next 10 years so that innovative high-growth firms can achieve their full potential
- Emerging Tech: Leading the world in developing standards and ethics for the use of data and AI, and creating the most advanced regulatory framework for driverless cars in the world
- Skills: Creating a new partnership with industry and trade unions to deliver a National Retraining Scheme, giving people the skills they need throughout life to get a well-paid job, and equipping young people with the science, technology, engineering, and maths (STEM) skills to become innovators of the future

1.4 Building the homes our country needs

The government is determined to fix the dysfunctional housing market, and restore the dream of home ownership for a new generation. The only sustainable way to make housing more affordable over the long term is to build more homes in the right places. Government action has already increased housing

supply to 217,000 in 2016-17. The Budget goes further and announces a comprehensive package which will raise housing supply by the end of this Parliament to its highest level since 1970s, on track to reach 300,000 per year, through:

- making available £15.3 billion of new financial support for housing over the next five years, bringing total support for housing to at least £44 billion over this period
- introducing planning reforms that will ensure more land is available for housing, and that maximises the potential in cities and towns for new homes while protecting the Green Belt

The Budget also announces further support for those struggling to get on the housing ladder now. The government will permanently exempt first time buyers from stamp duty for properties up to £300,000, with purchasers benefiting on homes up to £500,000.

1.5 Supporting people, businesses and the NHS

The Budget takes further steps to put the NHS on a strong and sustainable footing - both now and in the future – with £6.3 billion of additional funding. The government will invest £3.5 billion in capital by 2022-23, to ensure patients receive high quality, integrated care and improve efficiency and productivity. The government will also provide an additional £2.8 billion of resource funding to improve NHS performance and ensure that more patients receive the care they need more quickly. This is a significant first step towards meeting the government's commitment to increase NHS spending by a minimum of £8 billion in real terms by the end of this Parliament. In addition, the government is committing to funding pay awards for NHS staff on the Agenda for Change contract that are agreed as part of a pay deal to improve productivity, recruitment and retention.

The Budget prepares the UK for the future, but it also recognises there are immediate challenges caused by rising prices. The Budget will boost wages, reduce costs of living, and support businesses by:

- freezing fuel duty for the eighth year in a row, saving the average driver £160 a year, and freezing alcohol duties
- providing a further £2.3 billion of support to businesses to reduce the burden of business rates
- increasing minimum wages, equivalent to a pay rise of £600 per year for a full-time worker on the NLW, and introducing the largest increases in youth rates in 10 years
- further reducing income tax by increasing the personal allowance to £11,850 and the higher rate threshold to £46,350, in line with inflation

1.6 A fair and sustainable tax system

The government remains committed to a low tax economy, cutting taxes for both working people and businesses to help respond to short term pressures. It has secured £160 billion in additional tax revenue, and these actions have also helped the UK achieve one of the lowest tax gaps in the world at 6.0% in 2015-16. The Budget takes action so that everyone pays their fair share, including those seeking to evade or avoid tax using offshore structures. The Budget will:

- crack down on online value-added tax (VAT) evasion by strengthening and extending existing powers that make online marketplaces responsible for the unpaid VAT of their sellers
- provide Her Majesty's Revenue and Customs (HMRC) with additional resources including for new technology to further tackle avoidance and evasion risks

- increase the time limits for HMRC assessments of offshore tax non-compliance, and support new global rules to force the disclosure of certain offshore structures to tax authorities

As the UK economy evolves, the tax system needs to evolve with it, to ensure that vital public services can be funded sustainably. The Budget sets out the government's approach to ensuring that digital businesses will pay tax that is fair, given the value they generate.

1.7 Budget decisions

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

Table 1: Autumn Budget 2017 policy decisions (£ million) (1)

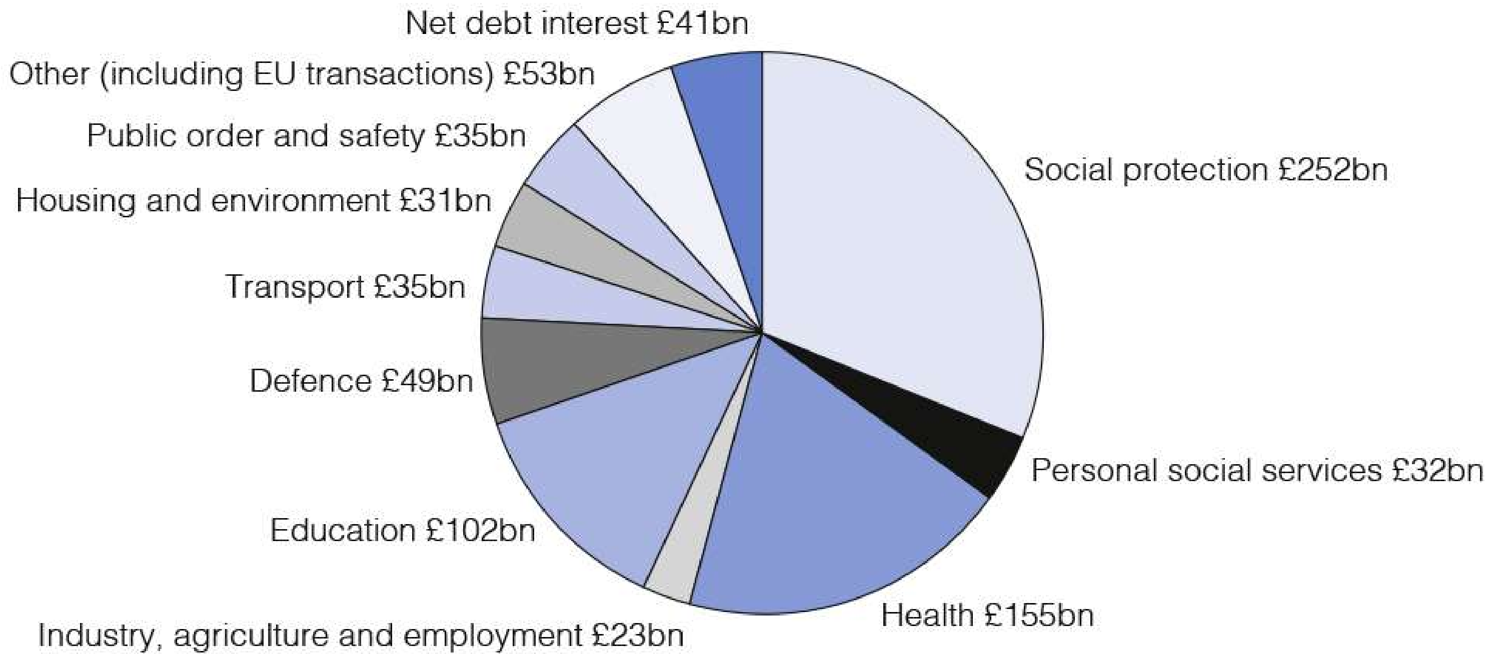
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Total spending policy decisions	-150	-4,460	-7,190	-3,625	-1,450	-1,105
Total tax policy decisions	-80	-1,585	-2,725	+310	-1,510	-1,415
Total policy decisions	-230	-6,045	-9,915	-3,315	-2,960	-2,520

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

1.8 Government spending and revenue

Chart 1 shows public spending by main function. Total Managed Expenditure (TME) is expected to be around £809 billion in 2018-2019.

Chart 1: Public sector spending 2018-19

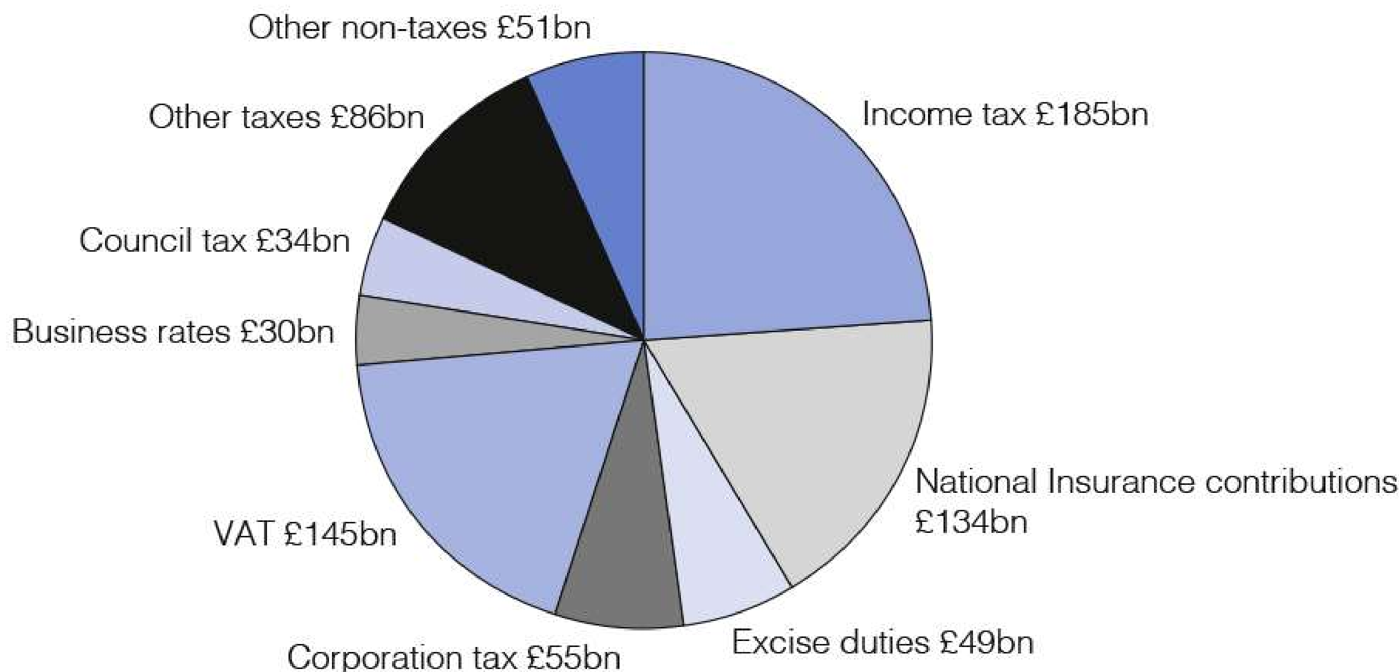


Figures may not sum due to rounding.
Illustrative allocations to functions are based on HMT analysis including capital consumption figures from the Office for National Statistics.

Source: Office for Budget Responsibility and HM Treasury.

Chart 2 shows the different sources of government revenue. Public sector current receipts are expected to be about £769 billion in 2018-2019.

Chart 2: Public sector current receipts 2018-19



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.

Source: Office for Budget Responsibility

2. Economy and public finances

2.1 Economic context

The UK economy has demonstrated its resilience over the past 18 months.[footnote 1] Gross domestic product (GDP) growth has remained solid – extending the period of continuous growth to 19 quarters. Employment has risen by 3 million since 2010 and is close to its record high, and unemployment is at its lowest rate since 1975. The increase in employment has supported prosperity across the country and income inequality is at its lowest level in 30 years.

Over the past year, higher inflation has weighed on household income, business investment has been affected by uncertainty, and productivity has been subdued. Productivity growth has slowed across all advanced economies since the financial crisis, but it has slowed more in the UK than elsewhere. The Office for Budget Responsibility (OBR) has revised down expectations for productivity growth over the forecast period compared to Spring Budget 2017. There is an opportunity, if the UK can unlock productivity growth, to increase growth, wages and living standards over the long term.

In the near term, the Budget provides support for households and businesses. Over the medium term, the government has already set in train a plan to address the UK's productivity challenge, by cutting taxes to support business investment, improving skills and investing in high-value infrastructure. The Budget goes further, building an economy that is fit for the future and ready to take advantage of new opportunities.

2.2 UK economy

The Office for National Statistics (ONS) estimates that the UK economy grew by 1.8% in real terms in 2016 and by 1.0% on a per capita basis. The ONS published revisions to the National Accounts in September. While annual GDP growth in 2016 was not revised, there were changes to the quarterly path and composition of GDP that implied a little less momentum at the end of 2016.

In 2017 GDP growth has remained solid, but slowed slightly compared to the previous year. GDP growth was 0.3% in each of the first two quarters of this year and rose to 0.4% in Q3 2017. Services output increased by 0.4% in Q3, slightly stronger than the average pace of growth in the first half of the year, but a bit slower than in 2016. Construction output decreased by 0.9% in Q3, having also fallen by 0.5% in Q2. Production output grew by 1.1% in Q3, driven mainly by manufacturing output, which also grew by 1.1%.

Household consumption underpinned growth in demand last year, growing by 2.8% in 2016, but slowed in the first half of 2017 to an average of 0.3% per quarter. Consumer confidence and retail sales point to further modest consumption growth in the third quarter of this year.

Business investment was previously estimated to have fallen by 1.5% over the course of 2016, but the latest data suggests that the decline was less marked at 0.4% in 2016. Despite the recent revisions, business investment growth remains moderate at 2.5% in the year to Q2 2017, below its average annual rate of 4.9% between 2010 and 2015. Private business surveys cite uncertainty as a factor impeding investment.

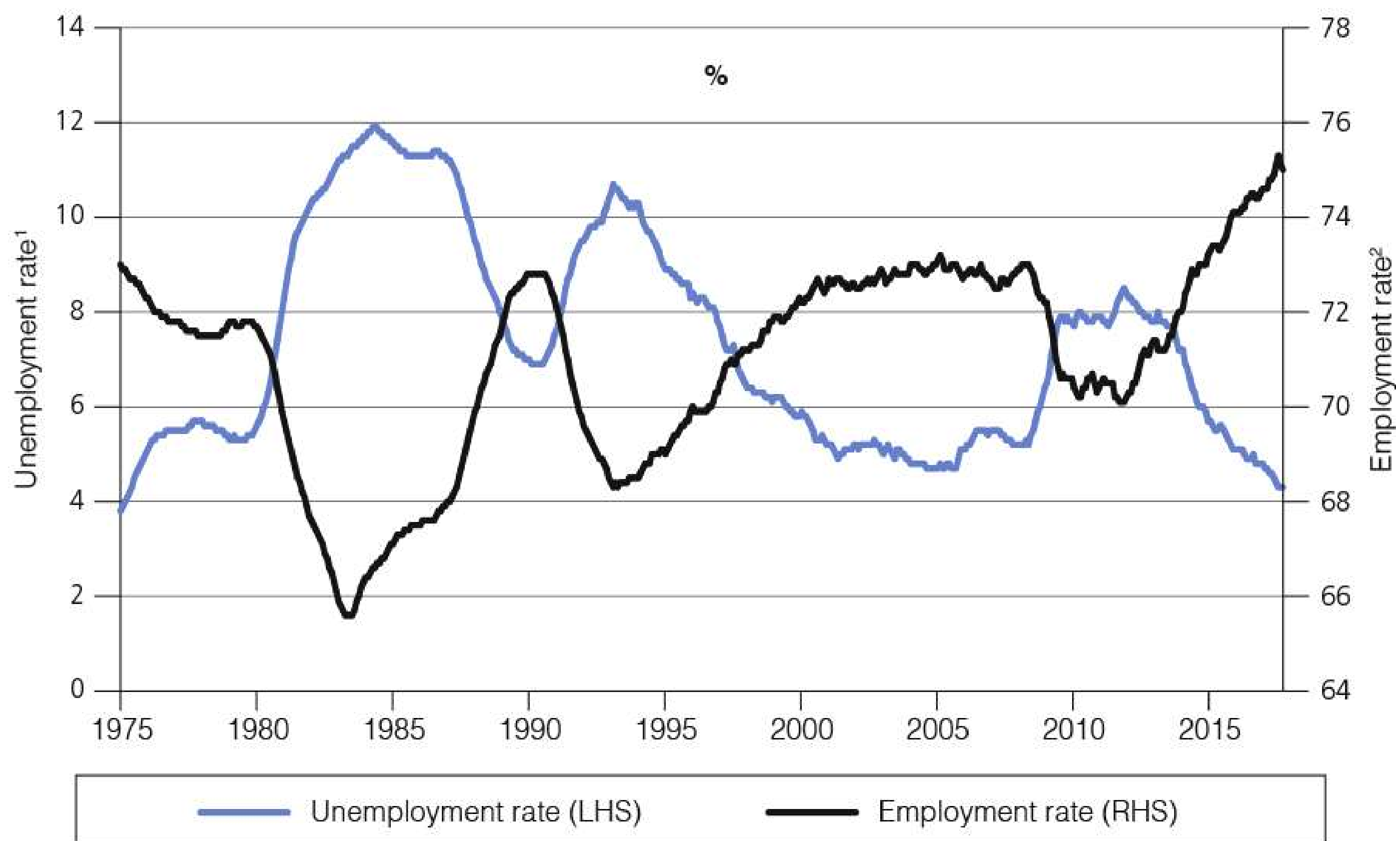
In 2016, export and import volumes grew by 1.1% and 4.3% respectively. As a result, net trade subtracted 0.9 percentage points from GDP growth in 2016. Since Q4 2016, export volumes have started to increase, rising by 4.9% in Q2 2017 on a year earlier, above import volumes growth of 3.4% over the same period. Net trade has therefore made a small positive contribution to yearly GDP growth of 0.3 percentage points in the first two quarters of 2017. Surveys indicate that in 2017 export orders have been strong, with some reporting the highest level of orders since 2011.

The ONS published revised data for the current account in September. In 2016, the current account deficit was 5.9% of GDP. The current account deficit narrowed in Q4 2016 and Q1 2017 but widened again to 4.6% of GDP in Q2 2017. The wider current account deficit was driven by a deterioration in the investment income deficit but was partially offset by a narrowing in the trade deficit.

2.3 Productivity, labour market and earnings

In 2016, UK output per hour grew by 0.2%, close to its average since 2008 of 0.1% but well below its pre-crisis trend of 2.1% in the decade before (see Box 1.1 for further details). Productivity has remained subdued this year, falling in the first two quarters, but rising in Q3, pushed up by lower total hours worked.

Chart 1.1: Unemployment and employment rates since 1975



[1] Unemployed people (aged 16+) as a percentage of the economically active population (aged 16+)
[2] Employed people (aged 16-64) as a percentage of the population (aged 16-64)

Source: Office for National Statistics

The UK labour market continues to perform well. The number of people in work has risen over the last year; the employment rate was 75.0% in the three months to September 2017, close to the record high set earlier this year; the level of female employment is close to a record high at 15 million; and over the past year, higher employment has been accounted for by rising full-time employment. The unemployment rate has continued to fall since the last Budget and now stands at 4.3% – the lowest since 1975 (Chart 1.1). Since 2010, 75% of the fall in unemployment has come from outside London and the South East. The biggest falls in unemployment rates since 2010 have occurred in Yorkshire the Humber and Wales. There are also 954,000 fewer workless households since 2010.

Box 1.1: Productivity – a long-term challenge

Productivity is the amount of output produced per hour worked. Improving productivity benefits the whole of the UK economy. It enables workers to produce more for the same number of hours worked. This in turn raises profits for companies and benefits households, as firms can pay higher wages and offer goods and services at lower prices.

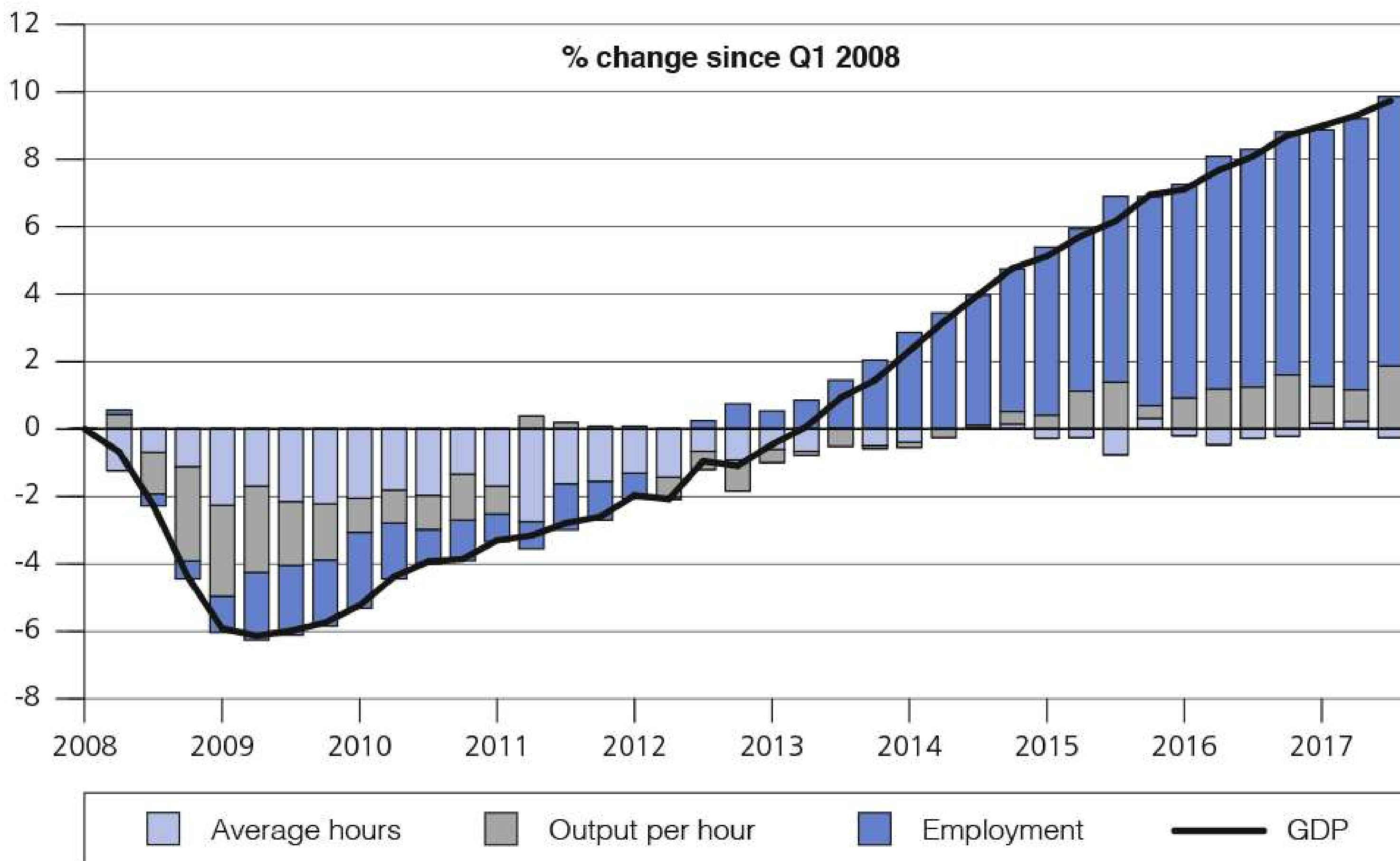
Employment has risen to near record levels in the UK, accounting for the bulk of GDP growth since 2010 (Chart 1.2), and the government has supported living standards through raising the personal allowance and introducing the National Living Wage. However, raising wages over the long term requires improvements in productivity (a).

Productivity growth has slowed around the world. In over two thirds of Organisation for Economic Co-operation and Development (OECD) countries, annual productivity growth has been at least 1 percentage point slower since 2008 than in the preceding decade. In the UK, however, the slowdown

has been more acute; productivity growth has averaged 0.1% since 2008, compared to 2.1% in the decade prior (Chart 1.3).

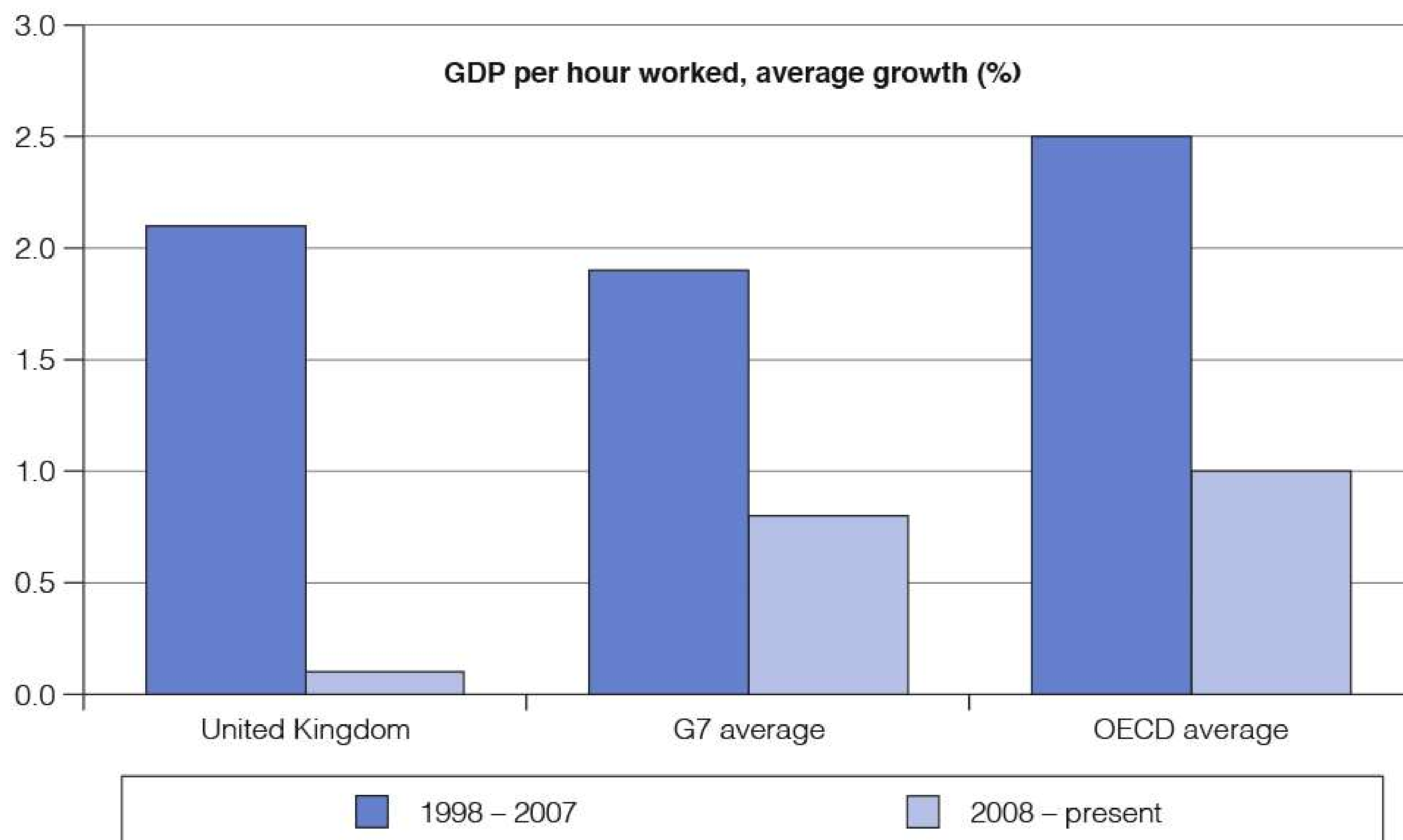
Historically, UK productivity has been below other advanced economies. This gap predates the financial crisis, but has widened since 2008. Raising productivity growth above the post-crisis average and closing the gap would generate significant improvements in living standards.

Chart 1.2: Contributions of productivity and labour to GDP growth



Source: Office for National Statistics

Chart 1.3: Average annual productivity growth



Source: Organisation for Economic Co-operation and Development

Evidence suggests the UK should prioritise upgrading infrastructure, improving skills, helping businesses to invest, and reforming the housing and planning systems (b). The government has already made significant progress: increasing public investment in infrastructure and innovation, enhancing skills and delivering a competitive tax regime to support business investment.

The Budget goes further. It invests in infrastructure and RD, ensures the UK is a world leader in new technologies, takes steps to transform lifelong learning and increases housing supply. Productivity is a long-term issue and these reforms will take time to have an impact. Taken together, they represent a significant step towards improving the UK's productivity, in order to boost wages and enhance people's living standards.

a 'Spring Budget 2017 (https://www.gov.uk/government/publications/spring-budget-2017-documents/spring-budget-2017)', HM Treasury, March 2017.

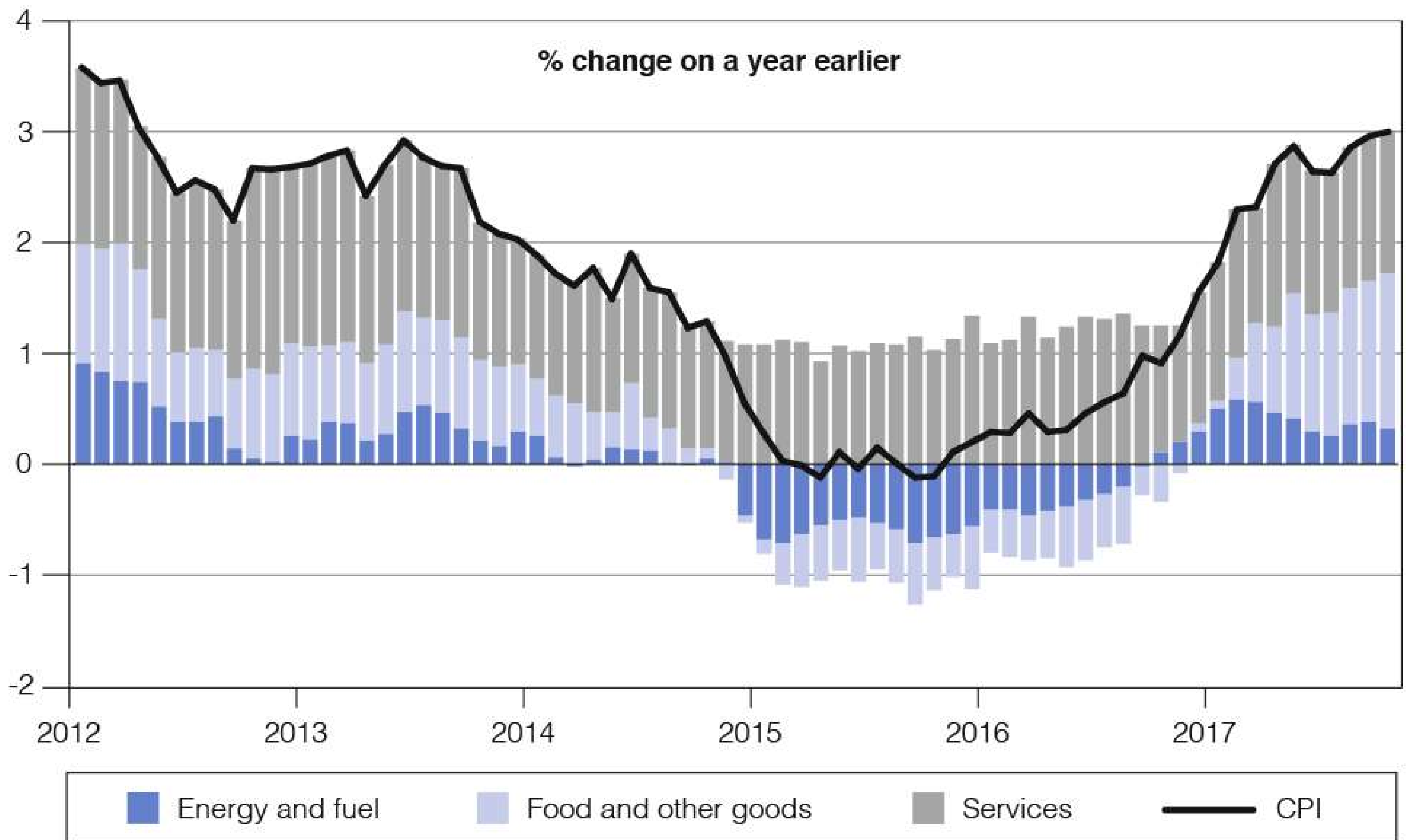
b See 'Fixing the foundations: creating a more prosperous nation (https://www.gov.uk/government/publications/fixing-the-foundations-creating-a-more-prosperous-nation)', HM Treasury and Department for Business, Innovation Skills, July 2015.

Both total pay (including bonuses) and regular pay (excluding bonuses) rose 2.2% in the three months to September compared with the same period a year earlier. Earnings growth for workers in lower paid jobs has been supported by the introduction of the NLW. The lowest earners saw their real wages grow strongly, by almost 7% in the last two years. With inflation rising, real household disposable income (RHDI) per head has fallen in recent quarters compared to a year earlier but remains 3.6% higher in Q2 2017 than at the start of 2010.

2.4 Prices

The value of sterling is little changed compared to Spring Budget 2017 in trade-weighted terms, but is around 10% below the level seen in the first half of 2016. This has fuelled an increase in inflation over the past year. Consumer Prices Index (CPI) inflation has risen from 0.9% in October 2016 to 3.0% in October this year and stands above the ten-year average of 2.4%. The increase has primarily been driven by a rise in goods price inflation, which has increased from -0.4% to 3.3% over the past year. In contrast, services price inflation has not increased materially, and remains below its long-run average.

Chart 1.4: CPI inflation



Source: Office for National Statistics and HM Treasury.

The Consumer Prices Index including owner occupiers' housing costs (CPIH)[footnote 2] became the ONS's headline measure of inflation in March 2017 and regained National Statistics status in July 2017.[footnote 3] CPIH inflation was 2.8% in October 2017 and has risen broadly in line with the trends seen in CPI inflation.

2.5 Global economy

Global growth has strengthened in the first half of 2017. The OECD estimates that GDP growth for the G20 rose to 3.6% in the year to Q2 2017, up from 3.0% in Q2 2016. Growth has also become broader-based, as activity has strengthened in the euro area and Japan, and Brazil and Russia have emerged

from recession. Growth has remained strong in China and firmed in the US. Higher global growth will benefit the UK economy. The OBR forecasts that global growth will be 3.6% in 2017 and 3.7% in 2018; these forecasts are both 0.2 percentage points higher than at Spring Budget 2017.

2.6 Economic outlook

The OBR's Autumn Budget forecast is for GDP to grow each year, with the level of employment higher than at Spring Budget 2017. The OBR has revised down its view of the outlook for trend productivity in each year of the forecast, and this has fed through to revisions to the forecast for actual GDP. Given the persistent weakness in productivity growth since the financial crisis, the OBR has revised its judgement and decided to place more weight on recent trends, although it still expects productivity growth to pick up in later years of the forecast. The OBR notes: "The outlook for potential or trend productivity growth is the most important, yet most uncertain, element of potential output growth and, indeed, of [this] forecast in general".[footnote 4] The OBR has also revised down its assessment of the sustainable rate of unemployment to 4.6% by the end of the forecast, and revised up its expectations for trend employment.

The OBR has revised down its forecast for GDP growth in 2017 to 1.5%, given slower growth than expected at the start of the year and revisions to past growth in 2016. Thereafter, slower growth is driven by the lower assumption for trend productivity. Lower GDP growth is reflected in lower consumption growth and business investment. From 2020, consumption growth picks up and GDP growth rises to 1.6% at the end of the forecast. Cumulative GDP growth is expected to be 2.1 percentage points lower over the forecast period, compared to the forecast at Spring Budget 2017. Policy measures announced in the Budget offer additional support to the economy when growth is weakest and invest in the UK's long-term productivity.

The OBR has not attempted to predict the precise outcome of negotiations with the EU. Instead, it has made broad assumptions, which have not changed since Spring Budget 2017.

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

		Forecast					
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
GDP	1.8	1.5	1.4	1.3	1.3	1.5	1.6
GDP per capita	1.0	0.9	0.8	0.7	0.7	0.9	1.0
Main components of GDP							
Household consumption (2)	2.8	1.5	0.8	1.2	1.2	1.5	1.6
General government consumption	1.1	0.3	1.0	0.7	0.5	1.0	1.0
Fixed investment	1.3	2.6	2.1	2.0	2.7	1.9	1.9
Business	-0.4	2.5	2.3	2.3	2.4	2.4	2.4

		Forecast					
	2016	2017	2018	2019	2020	2021	2022
General government	1.5	2.4	1.4	2.3	6.2	1.1	0.9
Private dwellings (3)	5.5	3.0	1.9	1.3	1.2	1.5	1.5
Change in inventories (4)	-0.2	-0.4	0.1	0.0	0.0	0.0	0.0
Net trade (4)	-0.9	0.4	0.2	0.0	0.0	0.0	0.0
CPI inflation	0.7	2.7	2.4	1.9	2.0	2.0	2.0
Employment (millions)	31.7	32.1	32.3	32.4	32.5	32.6	32.7
LFS unemployment (% rate) (5)	4.9	4.4	4.3	4.4	4.6	4.6	4.6
Productivity per hour	0.2	0.0	0.9	1.0	1.2	1.3	1.3

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 National Statistics and Office for Budget Responsibility.

2.7 Growth

GDP growth in 2017 has been revised down to 1.5%, reflecting weaker growth than expected at the start of the year and the ONS's revisions to GDP in 2016. The OBR forecasts slower growth to continue into 2018 and 2019 with GDP growth of 1.4% and 1.3% respectively, before rising to 1.6% at the end of the forecast period. Lower forecast GDP growth also reflects the ONS's latest population projections, with annual net migration lower by around 20,000; this reduces the level of GDP by around 0.2% by 2022.

Household consumption has been revised down in each year of the forecast. The OBR forecasts consumption growth of 1.5% in 2017, slowing to 0.8% in 2018, before increasing gradually to 1.6% in 2022.

The OBR has revised down the path of business investment growth relative to its forecast at Spring Budget 2017. Business investment is forecast to grow by 2.5% in 2017 and by either 2.3% or 2.4% in every other year of the forecast.

The OBR has revised up its net trade forecast for 2017 due to stronger exports growth in the first half of the year, and expects it to make a positive contribution to GDP growth of 0.4 percentage points. The net trade contribution then declines to 0.2 percentage points in 2018 and makes no contribution to growth for the rest of the forecast period. The current account deficit is expected to narrow to 4.6% in 2017 and remain at a similar level until 2020, before falling to 4.4% of GDP in the final years of the forecast.

2.8 Productivity, labour market and earnings

The OBR expects productivity to remain flat in 2017, before increasing 0.9% in 2018 and 1.0% in 2019. Productivity growth is then forecast to increase to 1.3% in later years. This compares to the Spring Budget 2017 forecast of 1.7% on average over the forecast period.

The OBR has revised down its forecast for the unemployment rate in every year. This is due to a revised judgement on the equilibrium rate of unemployment in the economy – the lowest unemployment rate which can be sustained while maintaining stable inflation. As a result, the number of people in employment is forecast to continue to increase to 32.7 million in 2022 – a further 600,000 people in work by the final year of the forecast. The unemployment rate is forecast to increase slightly over the forecast horizon as it returns to the OBR's new estimate of its equilibrium rate, remaining at 4.6% from 2020 onwards.

With a lower forecast for productivity growth the OBR expects average earnings growth of 2.3% in 2017, 2018 and 2019. It then increases to 2.6% in 2020, 3.0% in 2021 and 3.1% in 2022. The OBR expects RHDI per head to fall by 0.8% in 2017, before it then grows by 1.7% over the rest of the forecast period.

2.9 Prices

The OBR forecasts CPI inflation to peak at the end of this year, averaging 3.0% in Q4. It is then expected to ease over 2018, reaching 2.0% by the end of the year, as the effect of sterling's depreciation wanes. Inflation then remains steady around 2.0% until the end of the forecast.

2.10 Monetary policy

The Monetary Policy Committee (MPC) of the Bank of England has full operational independence to set monetary policy. Monetary policy is a critical element of the UK's macroeconomic framework which is important to maintain price stability and to support the economy.

Low and stable inflation supports living standards and provides certainty for households and businesses. This helps households and businesses make efficient decisions about saving, investment and spending. The MPC voted to raise interest rates from 0.25% to 0.5% at their November meeting.[footnote 5]

The Chancellor is responsible for setting the MPC's remit. In the Budget, the Chancellor reaffirms the symmetric inflation target of 2% for the 12-month increase in the CPI measure of inflation, which applies at all times. The government also confirms that the Asset Purchase Facility (APF) will remain in place for the financial years 2017-18 and 2018-19.

On 4 August 2016, the MPC announced a new Term Funding Scheme (TFS) and the Chancellor agreed that the total drawings of the TFS would be determined by actual usage of the scheme. In response to a request from the Governor of the Bank of England on 20 November 2017, the Chancellor authorised an

increase in the total size of the APF of £25 billion to £585 billion, in order to accommodate expected usage of the TFS.[footnote 6] This will ensure that the TFS can continue to lend central bank reserves to banks and building societies at rates close to Bank Rate during the defined drawdown window, which will close on 28 February 2018.

2.11 Public finances

The government has made significant progress since 2010 in restoring the public finances to health. The deficit has been reduced by three quarters from a post-war high of 9.9% of GDP in 2009-10 to 2.3% in 2016-17, its lowest level since before the financial crisis.[footnote 7]

Despite these improvements, borrowing and debt remain too high. The OBR forecast debt will peak at 86.5 % of GDP in 2017-18,[footnote 8] the highest it has been in 50 years.[footnote 9] In order to ensure the UK's economic resilience, improve fiscal sustainability, and lessen the burden on future generations, borrowing needs to be reduced further.

The fiscal rules approved by Parliament in January 2017 commit the government to reducing the cyclically-adjusted deficit to below 2% of GDP by 2020-21 and having debt as a share of GDP falling in 2020-21.[footnote 10] These rules will guide the UK towards a balanced budget by the middle of the next decade. The OBR forecasts that the government will meet both its fiscal targets, and that borrowing will reach its lowest level since 2001-02 by the end of the forecast period.[footnote 11] Debt as a share of GDP is forecast to fall next year and in every year of the forecast.

The rules enable the government to take a balanced approach between returning the public finances to a sustainable position while helping households and businesses, supporting our world-class public services, and investing in Britain's future.

2.12 The fiscal outlook

Compared to the Spring Budget 2017 forecast, borrowing is significantly lower in the near term, due to a combination of stronger than expected receipts, lower spending, and classification changes. Over the medium term the impact of a weaker economic outlook and the measures taken at the Budget see borrowing higher than previously forecast. As at Spring Budget 2017, debt as a share of GDP peaks in 2017-18 and then falls over the remainder of the forecast.

Borrowing in 2017-18 is £49.9 billion, £8.4 billion lower than forecast at Spring Budget 2017. Receipts are forecast to be higher by £3.1 billion, reflecting stronger outturn data for 2016-17 in income tax, National Insurance contributions, VAT, excise duties and interest and dividends receipts. Spending is forecast to be £3.1 billion lower, due to lower spending on welfare and tax litigation, and changes to the OBR's forecast for departmental spending. Classification changes, predominantly the reclassification of English Housing Associations to the private sector,[footnote 12] also reduce borrowing by £2.8 billion in 2017-18. Measures taken by the government at the Budget, and described in Chapter 2, increase borrowing by £0.7 billion in 2017-18.

Compared to Spring Budget 2017, borrowing is £12.2 billion higher by 2020-21 due to a combination of the following factors:

- Receipts are £13.0 billion lower in 2020-21 due to a weaker economic outlook, which reduces income tax, National Insurance contributions and VAT receipts.

- Public spending in 2020-21 is £0.7 billion higher than forecast at Spring Budget 2017 due to higher local authority self-financed capital expenditure and spending on Network Rail.
- Classification changes, principally the reclassification of English Housing Associations to the private sector, reduce borrowing by £5.1 billion in 2020-21.
- Measures taken by the government at the Budget, and described in Chapter 2, increase borrowing by £3.6 billion in 2020-21.

Table 1.2: Changes to the OBR's forecast for public sector net borrowing since Spring Budget 2017 (£ billion)

	2017-18	2018-19	2019-20	2020-21	2021-22
Spring Budget 2017	**58.3**	**40.8**	**21.4**	**20.6**	**16.8**
Total forecast changes since Spring Budget 2017 (1)	-9.0	-4.0	4.1	8.6	11.8
of which					
Receipts forecast	-3.1	0.4	8.4	13.0	20.6
Spending forecast	-3.1	0.9	0.8	0.7	-3.0
Accounting and classification changes	-2.8	-5.3	-5.0	-5.1	-5.8
Total effect of government decisions since Spring Budget 2017	0.7	2.7	9.2	3.6	1.5
Total changes since Spring Budget 2017	-8.4	-1.3	13.4	12.2	13.3
Autumn Budget 2017	49.9	39.5	34.7	32.8	30.1

Figures may not sum due to rounding

1 Equivalent to lines from Table 4.8, Table 4.18 and Table 4.40 of the OBR November 2017 Economic and fiscal outlook; full references available in 'Autumn Budget 2017 data sources'.

Source: Office for Budget Responsibility and HM Treasury calculations.

Borrowing as a share of GDP rises from 2.3% last year to 2.4% this year, owing primarily to timing effects and one-off factors. It then falls over the remainder of the forecast period to 1.1% of GDP in 2022-23, its lowest level since 2001-02.[footnote 13]

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

	Outturn	Forecast					
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Public sector net borrowing	2.3	2.4	1.9	1.6	1.5	1.3	1.1
Cyclically-adjusted public sector net borrowing	2.2	2.3	1.8	1.5	1.3	1.2	1.1
Treaty deficit (1)	2.3	2.4	2.0	1.8	1.6	1.6	1.2
Memo: Output gap (2)	-0.3	-0.1	-0.1	-0.2	-0.2	-0.1	0.0
Memo: Total policy decisions (3)		0.0	0.3	0.5	0.2	0.1	

1 General government net borrowing on a Maastricht basis.

2 Output gap measured as a percentage of potential GDP.

3 Equivalent to the 'Total policy decisions' line in Table 2.1.

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

Debt is forecast to peak in 2017-18 at 86.5% of GDP, and then fall in every year thereafter, reaching 79.1% of GDP in 2022-23. Public sector net debt excluding the Bank of England (PSND ex BoE) is forecast to rise from 76.9% of GDP this year to 77.1% of GDP next year, then fall in every year thereafter to 76.4% of GDP in 2022-23. Public sector net financial liabilities (PSNFL) falls in every year of the forecast, reaching 64.9% of GDP in 2022-23.

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

	Estimate (4)	Forecast					
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Public sector net debt (1)	85.8	86.5	86.4	86.1	83.1	79.3	79.1
Public sector net debt ex Bank of England (1)	79.9	76.9	77.1	77.0	76.8	76.5	76.4
Public sector net financial liabilities (2)	72.7	69.6	69.3	68.6	67.6	66.2	64.9

	Estimate (4)	Forecast					
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Treaty debt (3)	86.8	87.0	87.3	87.4	87.0	86.8	86.3

1 Debt at end of March; GDP centred on end of March.

2 Public sector net financial liabilities at end of March; 2016-17 is an experimental ONS statistic; GDP centred on end of March.

3 General government gross debt on a Maastricht basis.

4 Nominal 2017 GDP for Q3 has not yet been published therefore GDP centred on end of March is an estimate.

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

Box 1.2: The OBR's Fiscal risks report

In July 2017, the OBR published its first 'Fiscal risks report' (FRR).[footnote 14] The report provides a comprehensive assessment of risks to the public finances over the medium-to-long term. It also illustrates the potential fiscal impact of a number of these risks materialising at the same time through a fiscal stress test based on the Bank of England's annual cyclical scenario. The publication of the FRR builds on the steps that the government has taken to improve fiscal transparency, including the creation of the OBR itself, and keeps the UK at the frontier of fiscal management worldwide.

The government has made significant progress in reducing its exposure to fiscal risks. Since 2010, the government has cut the deficit by three quarters as a share of GDP, strengthened financial sector supervision to reduce the likelihood and impact of financial instability, and established a new approval regime for government guarantees and other contingent liabilities.

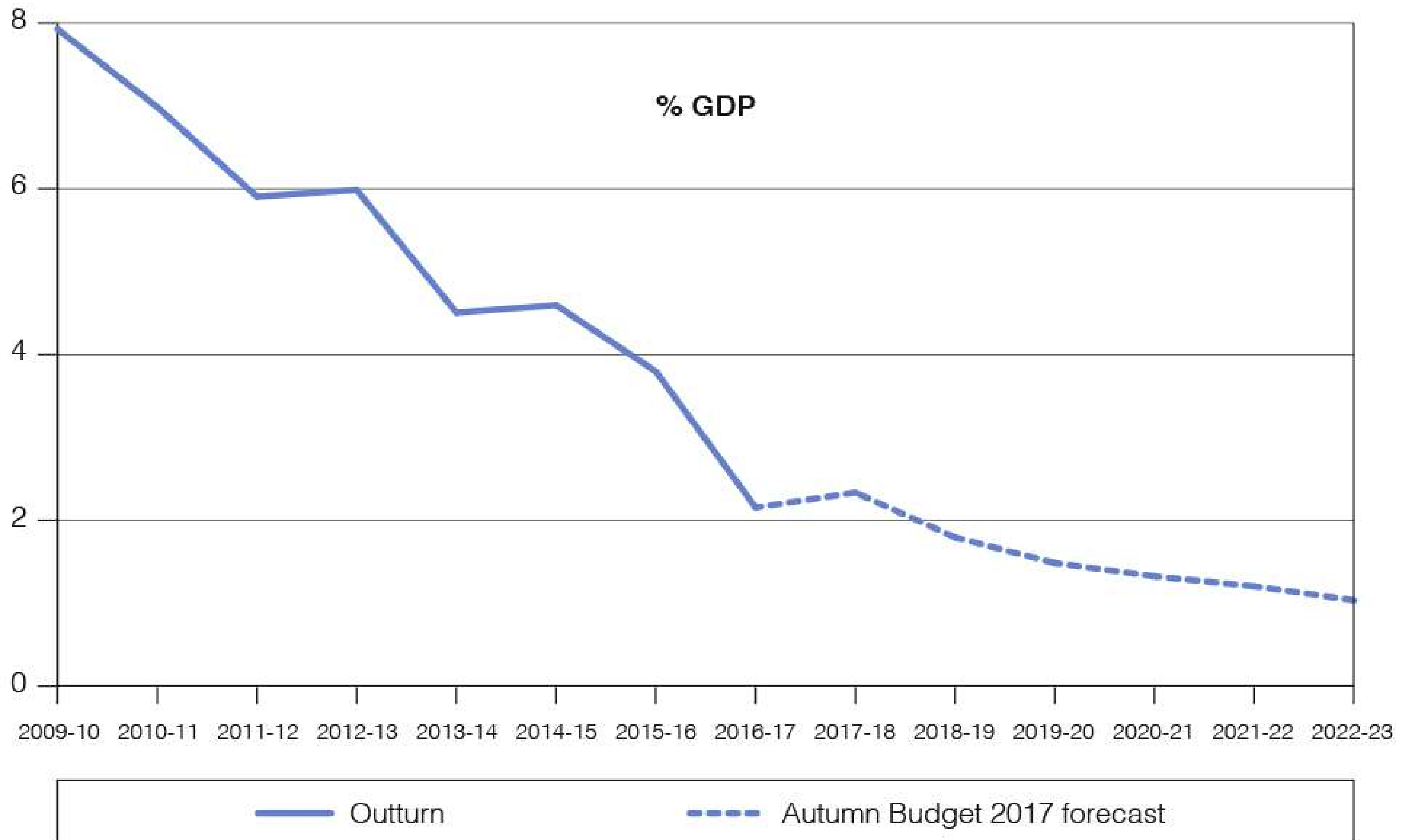
Despite this progress, the FRR shows that the UK's fiscal position remains vulnerable. Elevated levels of government debt and growing demographic pressures leave the public finances exposed to possible shocks to economic growth, inflation, and interest rates, as illustrated by the FRR's stress test scenario which saw government debt rise to 114% of GDP by 2021-22. These high levels of debt also increase the burden on future generations.

The government is committed to enhancing the UK's fiscal resilience by reducing the structural deficit to below 2% of GDP and getting debt to fall as a share of GDP by 2020-21, on course to returning the public finances to balance by the mid-2020s. The government will also take further action to mitigate the risks identified in the FRR and publish its formal response to the report by the summer of 2018.

2.13 Performance against the fiscal rules

The OBR's 'Economic and fiscal outlook' shows that the government is forecast to meet the 2% cyclically-adjusted deficit rule two years early in 2018-19, with £14.8 billion (0.7% of GDP) of headroom in the target year of 2020-21. The OBR judges that on current policy, the government has a 65% chance of achieving the fiscal mandate in 2020-21.

Chart 1.5: Cyclically-adjusted public sector net borrowing (CAPSNB)



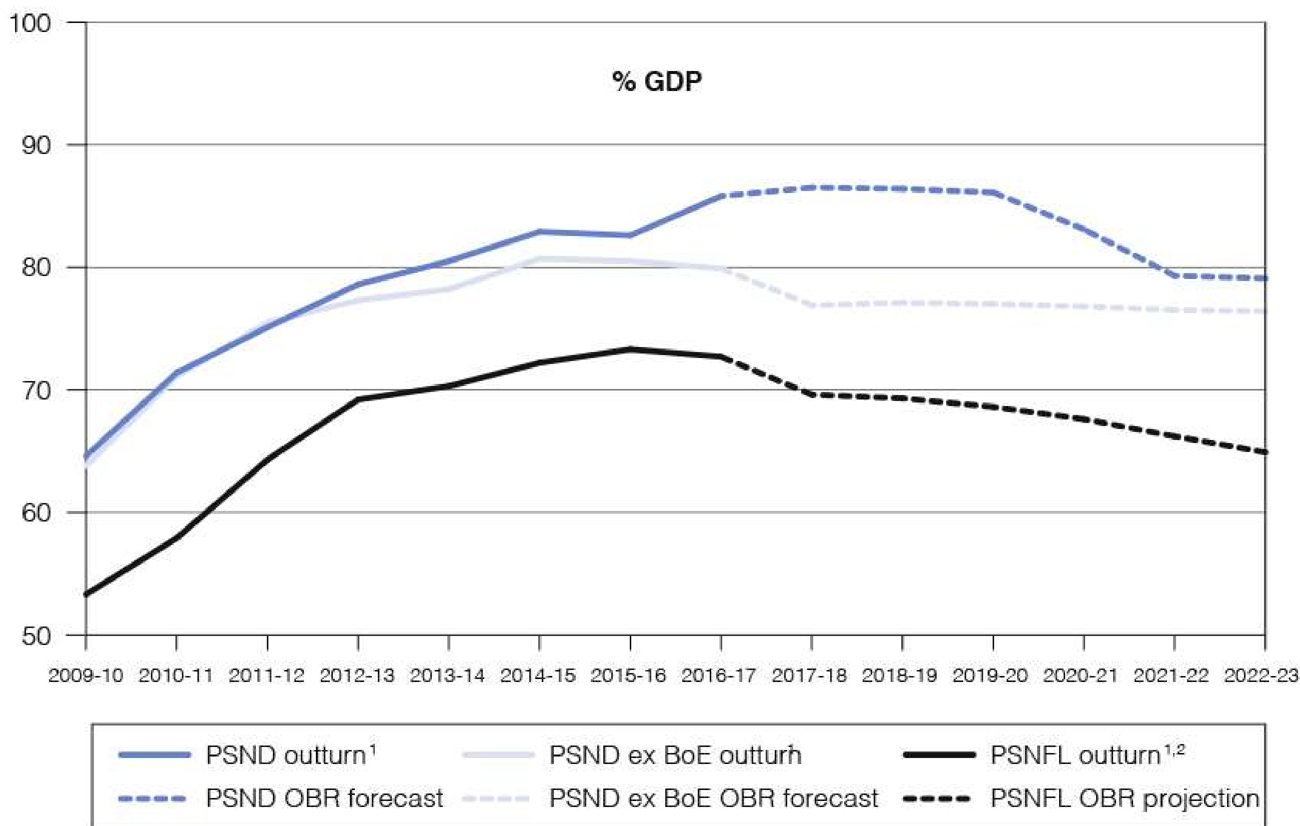
Source: Office for Budget Responsibility

The ONS's outturn data shows the UK's Treaty deficit[footnote 15] was 2.3% of GDP in 2016-17,[footnote 16] below the 3.0% of GDP target agreed in the Stability and Growth Pact. The OBR forecasts it will remain below 3.0% of GDP during the forecast period.

The supplementary debt target

The OBR's forecast also shows that the government is expected to meet its supplementary debt target. Debt as a share of GDP is forecast to fall in 2020-21 with £67.1 billion of headroom and is due to begin falling two years earlier in 2018-19.

Chart 1.6: Public sector debt



[1] Outturn for 2016-17 is an OBR estimate.

[2] Experimental ONS statistic.

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

2.14 Welfare cap

The welfare cap is designed to improve Parliamentary accountability of welfare spending. It currently applies to spending on benefits and tax credits within its scope in 2021-22, and includes a 3% margin to manage unavoidable fluctuations in spending.

In accordance with the Charter for Budget Responsibility, as is mandated for the first fiscal event of this Parliament, the OBR has formally assessed spending against the welfare cap in its 'Economic and fiscal outlook'. Spending within scope is forecast to be within the welfare cap and margin, and so the fiscal rule is judged to have been met with £2.5 billion of headroom.

The government is now required to reset the welfare cap for the new Parliament. The cap will be based on the OBR forecast in the Budget of the benefits and tax credits in scope as set out in Annex B, and will apply to welfare spending in 2022-23. In the interim years, progress towards the cap will be managed internally, based on the OBR's monitoring of forecasts of welfare spending. Again, to manage unavoidable fluctuations in welfare spending there will be a margin rising to 3% above the cap; the cap will be breached if spending exceeds the cap plus the margin at the point of assessment.

Performance against the cap will be formally assessed by the OBR in 2022-23. This will avoid the government having to make short term responses to changes in the welfare forecast, while ensuring welfare spending remains sustainable in the medium term.

Further details on the operation of the cap are set out in the Charter for Budget Responsibility.

Table 1.5: New welfare cap (in £ billion, unless otherwise stated)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Cap	-	-	-	-	-	130.1
Interim pathway	119.3	120.9	122.1	123.8	126.9	-
Margin (%)	0.5	1.0	1.5	2.0	2.5	3.0

Source: HM Treasury

2.15 Public spending

With debt still too high, it is vital that the government continues to control public spending and improve the productivity of public bodies and services. Government spending as a share of GDP has been brought down from 44.8% in 2010-11 to 39.0% in 2016-17.[footnote 17] Total Managed Expenditure (TME) as a share of GDP is forecast to fall from 38.9% in 2017-18 to 37.7% in 2022-23, the same proportion of GDP as in 2003-04.[footnote 18] Table 1.6 sets out the path for TME, Public Sector Current Expenditure (PSCE) and Public Sector Gross Investment (PSGI) to 2022-23.

Tables 1.7 and 1.8 show the departmental resource and capital totals set at Spending Review 2015, adjusted to reflect subsequent announcements. These reflect the government's balanced approach to public spending set out in Spending Review 2015, including its commitments to priority public services, to defence and to international development.[footnote 19]

For the years beyond the current Spending Review period, the government sets out a path for overall expenditure. Before additional investment over the forecast period and excluding classification changes, departmental spending will continue to grow in 2020-21 and 2021-22 in line with the profiles set out at Autumn Statement 2016 and Spring Budget 2017. In 2022-23, departmental resource spending will continue to grow in line with inflation, and departmental capital spending will grow in line with GDP.

Table 1.6: Total managed expenditure (in £ billion, unless otherwise stated) (1, 2)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Current expenditure						
Resource AME	386.5	397.8	406.2	417.0	431.5	447.6
Resource DEL excluding depreciation	304.0	309.6	310.7	313.5	319.1	324.8
Ring-fenced depreciation	22.0	22.8	23.3	21.9	22.3	22.7

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Total public sector current expenditure	712.5	730.2	740.1	752.4	772.9	795.1
Capital expenditure						
Capital AME	26.0	18.0	17.7	21.3	23.0	23.8
Capital DEL	56.9	61.1	69.0	76.2	75.8	77.9
Total public sector gross investment	82.8	79.1	86.6	97.6	98.8	101.8
Total managed expenditure	795.3	809.3	826.7	849.9	871.7	896.8
Total managed expenditure % of GDP	38.9%	38.5%	38.3%	38.2%	37.9%	37.7%

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

2. The ONS has announced the reclassification of English Housing Associations to the private sector with effect from 16 November 2017, which means that from this date their expenditure is no longer part of PSGI. As a result of reclassification, the OBR now considers that from this date central government grants to Housing Associations will be part of PSGI in CDEL. More detail can be found in the OBR's Economic and Fiscal Outlook.

Source: Office for Budget Responsibility and HM Treasury calculations

2.16 Preparing for EU exit

The government is approaching the EU exit negotiations anticipating success. The government does not want or expect to leave without a deal, but while it seeks a new partnership, it is planning for a range of outcomes, as is the responsible thing to do. To support the preparations, nearly £700 million of additional funding has been provided to date. Details of additional departmental funding will be set out as part of the 2017-18 Supplementary Estimates process in the usual way.

The Budget sets aside a further £3 billion to ensure that the government can continue to prepare effectively for EU exit. £1.5 billion of additional funding will be made available in each of 2018-19 and 2019-20.

Departmental allocations for preparing for EU exit in 2018-19 will be agreed in early 2018. Ahead of these allocations, government departments will continue to refine their 2018-19 plans with the support of HM Treasury and the Department for Exiting the European Union. Details of additional departmental

funding will be set out as part of the 2018-19 Supplementary Estimates process in the usual way. Departmental allocations for 2019-20 will be agreed later in 2018-19, when there is more certainty on the status of our future relationship with the EU.

2.17 Efficiency Review and Official Development Assistance

At Budget 2016, the government announced that spending would be reduced by £3.5 billion over Spending Review 2015 plans in 2019-20. An Efficiency Review was launched to help deliver this. As announced at Autumn Statement 2016 the government has reprioritised £1 billion of low value spend to fund new priorities, instead of putting savings toward deficit reduction as originally planned.

A further £1.4 billion reduction has been delivered by a number of savings in low value spend, announced in the previous Parliament, in addition to lower than forecast Official Development Assistance (ODA) spending. In line with the commitment to spend 0.7% of Gross National Income (GNI) on ODA each year, ODA budgets will be adjusted at the Budget to reflect the OBR's revised forecasts for GNI. Taking existing plans into account, ODA budgets will be adjusted down by £375 million in 2018-19 and £520 million in 2019-20.

Given potential new spending and administrative pressures faced by departments in 2019-20, the government has decided not to proceed with the remaining £1.1 billion reduction in spending in that year. Taking these changes together, departmental spending in 2019-20 will therefore be higher than envisaged at Budget 2016 by £2.1 billion.

Table 1.7: Departmental Resource Budgets (£ billion)

	Plans		
	2017-18	**2018-19**	**2019-20**
Resource DEL excluding depreciation (1)			
Defence	27.5	28.2	29.0
Single Intelligence Account (2)	2.0	1.9	2.0
Home Office	10.6	10.7	10.7
Foreign and Commonwealth Office (3)	2.0	1.2	1.2
International Development (4)	7.6	8.7	8.2
Health (inc. NHS)	119.1	121.9	124.2
Work and Pensions	6.2	6.0	5.4
Education	61.3	62.4	63.3
Business, Energy and Industrial Strategy	1.7	1.8	1.6

	Plans		
	2017-18	**2018-19**	**2019-20**
Transport	2.0	2.1	1.7
Exiting the European Union	0.1	0.1	0.1
Digital, Culture, Media and Sport	1.4	1.5	1.5
DCLG Communities	2.8	2.3	2.2
DCLG Local Government	6.7	4.8	5.6
Scotland (5)	14.3	13.8	13.5
Wales (6)	13.4	13.2	11.2
Northern Ireland	10.0	10.0	10.0
Justice	6.6	6.2	6.0
Law Officers Departments	0.6	0.5	0.5
Environment, Food and Rural Affairs	1.6	1.5	1.5
HM Revenue and Customs	3.6	3.4	3.2
HM Treasury	0.2	0.2	0.1
Cabinet Office	0.5	0.3	0.3
International Trade	0.4	0.3	0.3
Small and Independent Bodies	1.4	1.3	1.3
Reserves (7)	3.5	6.5	7.2
Adjustment for Budget Exchange (8)	-0.4	0.0	0.0
Total Resource DEL excluding depreciation	306.7	310.9	311.9
OBR allowance for shortfall (9)	-2.8	-1.3	-1.3
OBR resource DEL excluding depreciation forecast	304.0	309.6	310.7

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 SIA budget in 2017-18 includes transfers from other government departments, which have yet to be reflected in later years.
3.Figures for 2018-19 and beyond do not reflect all transfers which will be made from DFID to other government departments, as the cross government funds have not been allocated for these years.
4.Figures reflect Autumn Budget 2017 adjustments, as well as further adjustments made as result of revised GNI forecasts at Autumn Statement 2016.
5.The Scottish Government's resource DEL block grant has been adjusted from 2016-17 onwards as agreed in the Scottish Government's Fiscal Framework. In 2016-17 an adjustment of £5.5 billion reflected the devolution of Stamp Duty Land Tax and Landfill Tax and the creation of the Scottish Rate of Income Tax. In 2017-18 an adjustment of £12.5 billion reflects the devolution of further income tax powers and revenues from Scottish courts. In 2018-19 and 2019-20, adjustments of £13.1 billion and £13.4 billion also include the devolution of Air Passenger Duty. However, the UK and Scottish governments have now agreed to delay the devolution of Air Passenger Duty. As a result, the Scottish Government's block grant for 2018-19 and 2019-20 will be re-calculated.
6. The Welsh Government's resource DEL block grant has been adjusted from 2018-19 onwards as agreed in the Welsh Government's Fiscal Framework. In 2018-19 an adjustment of £0.3 billion reflects the devolution of Stamp Duty Land Tax and Landfill Tax and in 2019-20 an adjustment of £2.3 billion reflects the devolution of the Welsh Rates of Income Tax.
7. The reserve in 2017-18 reflects allocations made at Main Estimates and Autumn Budget 2017.
8. Departmental budgets in 2017-18 include amounts carried forward from 2016-17 through Budget Exchange, which has been voted at Main Estimates. These increases will be offset at Supplementary Estimates, so are excluded from spending totals.
9. The OBR's forecast of underspends in resource DEL budgets.

Table 1.8: Departmental Capital Budgets (£ billion)

	Plans			
	2017-18	**2018-19**	**2019-20**	**2020-21**
Capital DEL				
Defence	8.5	8.7	9.0	9.6
Single Intelligence Account	0.6	0.6	0.7	0.7

	Plans			
	2017-18	2018-19	2019-20	2020-21
Home Office	0.6	0.5	0.5	0.4
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1
International Development	2.9	3.2	3.5	3.6
Health (inc. NHS)	5.6	6.4	6.7	6.8
Work and Pensions	0.4	0.3	0.2	0.2
Education	5.1	5.2	5.1	4.5
Business, Energy and Industrial Strategy (1)	10.9	10.5	11.5	6.1
Transport	6.5	8.1	11.9	13.0
Exiting the European Union	0.0	0.0	0.0	0.0
Digital, Culture, Media and Sport	0.4	0.5	0.6	0.5
DCLG Communities	7.7	8.6	10.5	11.6
DCLG Local Government	0.0	0.0	0.0	0.0
Scotland	3.6	3.9	4.2	4.3
Wales	1.7	1.9	2.1	2.2
Northern Ireland	1.3	1.4	1.5	1.5
Justice	0.7	0.7	0.4	0.1
Law Officers Departments	0.0	0.0	0.0	0.0
Environment, Food and Rural Affairs	0.7	0.6	0.6	0.5
HM Revenue and Customs	0.2	0.2	0.2	0.2
HM Treasury	0.2	0.2	0.2	0.1
Cabinet Office	0.1	0.0	0.0	0.0

	Plans			
	2017-18	**2018-19**	**2019-20**	**2020-21**
International Trade	0.0	0.0	0.0	0.0
Small and Independent Bodies	0.2	0.2	0.1	0.1
Reserves	1.1	1.0	1.4	1.4
Capital spending not yet in budgets (2)	0.0	0.0	0.4	2.3
Adjustment for Budget Exchange (3)	-0.5	0.0	0.0	0.0
Adjustment for Research & Development RDEL to CDEL switch (4)	0.0	0.0	0.0	6.5
Total Capital DEL	58.7	62.9	71.3	76.2
Remove CDEL not in public sector gross investment (5)	-8.6	-8.5	-9.2	-7.9
OBR allowance for shortfall (6)	-1.9	-1.8	-2.3	-
Public Sector Gross Investment in CDEL	48.2	52.6	59.7	68.3

1. Full BEIS capital DEL budgets for 2020-21 have not yet been set. See footnote 4.

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

3. Departmental budgets in 2017-18 include amounts carried forward from 2016-17 through Budget Exchange, which have been voted at Main Estimates. These increases will be offset at Supplementary Estimates, so are excluded from spending totals.

4. As most departmental resource DEL budgets have not been set in 2020-21, the OBR has forecast the size of the resource to capital switch for R&D that will take place in that year.

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

6. The OBR's forecast of underspends in capital DEL budgets.

2.18 Devolved administrations

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

2.19 Financial transactions

Some policy measures do not directly affect PSNB in the same way as conventional spending or taxation. These include financial transactions that directly affect only the central government net cash requirement (CGNCR) and PSND. Table 1.9 shows the effect of the financial transactions announced since Spring Budget 2017 on CGNCR.

Table 1.9: Financial transactions from 2017-18 to 2022-23 (£ million) (1,2)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Help to Buy: Equity Loan (Spending) (3)	-1,895	-2,870	-3,325	-3,780	-	-
Help to Buy: Equity Loan (Receipts)	30	125	355	725	1,130	1,510
Estate Regeneration	0	-60	-85	-95	-120	-120
Home Building Fund: SMEs	0	-365	-620	-440	-235	-120
Patient Capital Investment Fund	0	0	-115	-175	-195	-195
Charging Infrastructure Investment Fund	0	-40	-80	-80	0	0
Tuition Fee Cap Freeze	0	105	220	225	230	235
Student Loans Repayment Threshold (4)	0	-125	-235	-370	-490	-615
RBS Share Sales	0	3,000	3,000	3,000	3,000	3,000
Universal Credit: Advances	-20	-100	-40	-35	-10	5
Innovation Loans	0	-20	-20	-5	0	0
Reprofile Financial Transactions (BEIS)	0	80	-80	0	0	0
Total policy decisions	-1,885	-270	-1,025	-1,030	3,310	3,700

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

2. Negative numbers in the table represent a cost to the Exchequer.
3. The Government confirmed in October 2017 that Help to Buy Equity Loan will continue until March 2021.
4. Student Loans Plan 2 Repayment Threshold Increase to £25,000 in 2018-19 and index with average earnings thereafter.

2.20 Sovereign Grant

The Sovereign Grant for 2018-19 will be £82.2 million. This grant provides funding in support of Her Majesty's official duties as Sovereign.

2.21 Asset sales

The government remains committed to returning the financial sector assets acquired in 2008 to 2009 to the private sector in a way that achieves value for money for taxpayers:

- Lloyds Banking Group (LBG) – The government fully exited its shareholding in LBG on 16 May 2017.[footnote 20] Sales of the government's stake in the bank generated over £21.2 billion for taxpayers, representing almost £900 million more than the original investment.[footnote 21]
- Royal Bank of Scotland (RBS) – RBS has made significant progress on resolving its legacy issues and refocusing on serving British businesses and consumers. It remains the government's objective to return the bank fully to the private sector when it represents value for money to do so and market conditions allow. The government intends to recommence the privatisation of RBS before the end of 2018-19 and to carry out over the forecast period a programme of sales expected to dispose of around £15 billion worth of shares, which represents around two thirds of our stake at current market prices.
- UK Asset Resolution (UKAR) – UKAR's balance sheet has already reduced from £115.8 billion in 2010 to £34.3 billion as at 31 March 2017.[footnote 22] UKAR has completed an £11.8 billion sale of Bradford Bingley mortgages in 2017-18 as part of a programme of sales to repay Bradford Bingley's debt to the Financial Services Compensation Scheme,[footnote 23] and this programme of sales is expected to complete in early 2018-19. Building on UKAR's strong track record of successful asset sales, the government expects to divest the remaining assets from the former Bradford Bingley and Northern Rock by March 2021, subject to achieving value for money and market conditions remaining supportive.

The government continues to explore options for the sale of wider corporate and financial assets, where there is no longer a policy reason to retain them and when value for money can be secured for taxpayers. This is an integral part of the government's plan to repair the public finances:

- On 20 April 2017, the government announced the sale of the UK Green Investment Bank plc (GIB) to Macquarie Group Limited, with a £2.3 billion deal which secures a profit on the government's investment in the bank, provides value for taxpayers and ensures GIB continues its green mission in the private sector.[footnote 24]
- On 31 October 2017, the government announced the continuation of the process to sell part of the pre-2012 income contingent repayment student loan book.[footnote 25] The sale process is expected to take a number of weeks and remains subject to market conditions and a final assessment of

value for money. This is the first tranche of a programme of sales which is forecast to raise £12 billion by 2021-22.
- On 17 November 2017, Network Rail announced its intention to sell the leases for commercial space under railway arches.[footnote 26] The sale is expected to complete in the autumn of 2018.

2.22 Debt and reserves management

The government's revised financing plans for 2017-18 are summarised in Annex A.

3. Policy decisions

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

Table 2.1 shows the cost or yield of all Autumn Budget decisions with a direct effect on PSNB in the years up 2022-23. This includes tax measures, changes to Departmental Expenditure Limits (DEL) and measures affecting annually managed expenditure (AME).

The government is also publishing the methodology underpinning the calculation of the fiscal impact of each policy decision. This is included in the supplementary document 'Autumn Budget 2017: policy costings' published alongside the Budget.

The supplementary document 'Overview of Tax Legislation and Rates (https://www.gov.uk/government/publications/autumn-budget-2017-overview-of-tax-legislation-and-rates-ootlar)' published alongside the Budget, provides a more detailed explanation of tax measures.

Table 2.1: Autumn Budget 2017 policy decisions (£ million) (1)

	Head	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (2)
Housing and Homeownership							
1 Land Assembly Fund (3)	Spend	0	0	-220	-355	-355	-355
2 Housing Infrastructure Fund: extend (3)	Spend	0	0	-215	-710	-1,070	-1,185
3 Small sites: infrastructure and remediation	Spend	0	-275	-355	-120	0	0
4 Local Authority housebuilding: additional investment	Spend	0	0	-355	-265	-260	0
5 Stamp Duty Land Tax: abolish for First Time Buyers up to £300,000	Tax	-125	-560	-585	-610	-640	-670

	Head	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (2)
6 Right to Buy for Housing Association tenants: pilot	Spend	0	0	-85	0	0	0
7 Council Tax: increase maximum empty home premium to 100%	Tax	0	0	0	0	+5	+5
National Health Service							
8 NHS: additional resource	Spend	-400	-1,900	-1,070	0	0	0
9 NHS: additional capital	Spend	-600	-420	-840	-1,020	-960	-360
Supporting families and working people							
10 Fuel Duty: freeze for 2018-19	Tax	0	-830	-825	-845	-865	-885
11 Alcohol Duties: freeze in 2018	Tax	-35	-225	-230	-230	-235	-240
12 Air Passenger Duty: freeze for long-haul economy flights and raise business class multiplier	Tax	0	0	+25	+25	+25	+30
13 Targeted Affordability Fund: increase	Spend	0	-40	-85	-95	-100	-110
14 Universal Credit: remove 7 day wait and extend advances to 100%	Spend	-20	-170	-205	-195	-160	-145
15 Universal Credit: run on payment for housing benefit recipients	Spend	0	-130	-125	-135	-110	-40
16 Universal Credit: in-work progression trials	Spend	*	*	*	-5	-5	0
17 Private rented sector access schemes: support for households at risk of homelessness	Spend	0	-10	-10	-	-	-
18 Disabled Facilities Grant: additional resource	Spend	-50	0	0	0	0	0
19 Relationship Support: continue programme	Spend	0	-5	-10	-	-	-

	Head	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (2)
An economy fit for the future							
20 Domestic spending: preparing for EU Exit	Spend	0	-1,500	-1,500	0	0	0
21 National Productivity Investment Fund (3)	Spend	0	0	0	0	0	-7,000
22 Research and Development: NPIF investment (3)	Spend	0	0	0	0	-2,300	-
23 Research and Development: increase R&D expenditure credit to 12%	Spend	-5	-60	-170	-175	-170	-175
24 Oil and Gas: transferrable tax history	Tax	0	+5	+20	+10	+10	+25
25 Patient Capital Review: reforms to tax reliefs to support productive investment	Tax	0	0	+45	+35	-15	-20
26 Innovation: Ultra Low Emission Vehicles: plug in car grant	Spend	0	-50	-50	0	0	0
27 Innovation: tech, AI, and geo-spatial data	Spend	0	-70	-75	-	-	-
28 Transport: accelerate capital investment for intra-city transport (Transforming Cities Fund)	Spend	0	-10	-240	-285	+525	-
29 Transport: additional investment in local roads	Spend	-55	0	0	0	0	0
30 Public Works Loan Board: new local infrastructure rate	Spend	0	*	-5	-5	-5	-5
31 Skills: National Retraining Scheme initial investment	Spend	0	-20	-45	-	-	-
32 Skills: investment in computer science teachers and maths	Spend	0	-30	-50	-	-	-

	Head	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (2)
33 Skills: teacher premium pilot	Spend	0	-10	-15	-15	-5	0
34 Business Rates: bring forward CPI uprating to 2018-19	Tax	0	-240	-530	-525	-520	-520
35 Business Rates: extend pubs discount to 2018-19	Tax	0	-30	0	0	0	0
36 Competition and Markets Authority: additional enforcement	Spend	0	-5	-5	+5	+15	+10
37 Aggregates Levy: freeze in 2018-19	Tax	0	-15	-10	-10	-10	-10
38 HGV VED and Road User Levy: freeze in 2018-19	Tax	0	-15	-10	-15	-15	-15
Avoidance, Evasion, Fraud and Error							
39 Avoidance and Evasion: additional compliance resource	Tax	-10	+10	+170	+585	+580	+740
40 Corporation Tax: tackle related party step up schemes	Tax	+15	+45	+45	+45	+45	+45
41 Corporation Tax: depreciatory transactions	Tax	+5	+10	+10	+10	+10	+10
42 Royalty payments made to low tax jurisdictions: withholding tax	Tax	0	0	+285	+225	+160	+130
43 Online VAT fraud: extend powers to combat	Tax	0	+10	+20	+40	+50	+45
44 Offshore Time Limits: extend to prevent non-compliance	Tax	0	*	*	*	+5	+10
45 Carried Interest: prevent avoidance of Capital Gains Tax	Tax	0	+20	+170	+165	+150	+145
46 Insolvency use to escape tax debt	Tax	0	-5	+70	+135	+150	+150
47 Dynamic coding-out of debt	Tax	0	0	+55	+30	+20	+20

	Head	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (2)
48 Construction supply chain VAT fraud: introduce reverse charge	Tax	0	0	+90	+135	+105	+75
49 Waste crime	Tax	0	+30	+45	+45	+50	+45
50 Fraud, Error, and Debt: greater use of real-time information	Spend	0	+85	+75	+65	+40	+40
A fair and sustainable tax system							
51 Corporation Tax: freeze indexation allowance from January 2018	Tax	+30	+165	+265	+345	+440	+525
52 Capital Gains Tax: extend to all non-resident gains from April 2019	Tax	+5	+15	+35	+115	+140	+160
53 Non-resident property income: move from Income Tax to Corporation Tax	Tax	0	0	0	+690	-310	-25
54 Capital Gains Tax payment window reduction: delay to April 2020	Tax	0	0	-1,200	+950	+235	+10
55 VAT registration threshold: maintain at £85,000 for two years	Tax	0	+15	+55	+105	+145	+170
56 Tobacco Duty: continue escalator and index Minimum Excise Duty	Tax	+45	+35	+40	+45	+40	+35
Other public spending							
57 Adjustments to DEL spending	Spend	+1,000	0	-1,135	0	0	0
58 Official Development Assistance: meet 0.7% GNI target	Spend	0	+375	0	0	0	0
59 Scotland police and fire: VAT refunds	Tax	0	-40	-40	-40	-45	-45
Air Quality							
60 Air Quality: increase Company Car Tax diesel supplement by 1ppt from April 2018	Tax	0	+70	+35	-30	+130	+90

	Head	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (2)
61 Air Quality: First Year Rate increased by one VED band for new diesel cars from April 2018	Tax	0	+125	+50	+10	*	*
62 Air Quality: funding for Air Quality Plan and Clean Air Fund	Spend	-20	-180	-215	-80	-	-
Previously announced policy decisions							
63 Tuition Fees: raise threshold to £25,000 in April 2018	Tax	0	-50	-100	-175	-235	-295
64 Tuition Fees: freeze fees in September 2018	Tax	0	-5	-15	-25	-35	-45
65 Oil and Gas: funding for UK continental shelf exploration projects	Spend	0	-5	0	0	0	0
66 NICs: maintain Class 4 NICs at 9% and delay NICs Bill by one year	Tax	-10	-125	-645	-685	-565	-525
67 Making Tax Digital: only apply above VAT threshold and for VAT	Tax	*	*	-65	-245	-515	-585
68 City Deals: Swansea and Edinburgh	Spend	0	-30	-30	-30	-	-
69 Social rented sector: maintain current rent policy without Local Housing Allowance cap	Spend	0	0	-155	-205	-255	-320
Total policy decisions (3)		-230	-6,045	-9,915	-3,315	-2,960	-2,520
Total spending policy decisions		-150	-4,460	-7,190	-3,625	-1,450	-1,105
Total tax policy decisions		-80	-1,585	-2,725	+310	-1,510	-1,415

* Negligible
1 Costings reflect the OBR's latest economic and fiscal determinants.
2 At Spending Review 2015, the government set departmental spending plans for resource DEL (RDEL) for the years up to and including 2019-20, and capital DEL (CDEL) for the years up to and including 2020-21. Where specific commitments have been made beyond those periods, these have been set out on the

scorecard. Where a specific commitment has not been made, adjustments have been made to the overall spending assumption beyond the period.

3 These figures do not feed into the Total policy decisions line. In 2021-22 and 2022-23, funding for these measures has been allocated from the aggregate total for capital spending. This includes the National Productivity Investment Fund. The NPIF will extend into 2022-23 at £7bn in that year.

4. Tax

4.1 Introduction

The government remains committed to a low-tax economy, and is cutting taxes for both working people and businesses to help them respond to short-term pressures. Since 2010-11, the personal allowance (PA) has increased from £6,475 to £11,500 and the corporation tax rate has fallen to 19%, the lowest in the G20.[footnote 27] The Budget goes further by freezing fuel duty for the eighth consecutive year, reducing the upfront costs for first-time buyers by including a permanent Stamp Duty Land Tax (SDLT) relief, reducing business rates by £2.3 billion over the next 5 years, and further increasing the PA and higher rate threshold (HRT).

The Budget also introduces measures to ensure that everyone pays their fair share, including those seeking to evade or avoid tax using offshore structures. The Budget increases the time limits for HMRC assessments of offshore tax non-compliance, as much as tripling the current time limits to at least 12 years in all cases, further addresses online VAT fraud, and announces investment to provide HMRC with the resources it needs to continue to strengthen its ability to tackle tax avoidance in the future. These policy changes build on the government's longer-term record, including £160 billion secured in additional tax revenue since 2010 by being at the forefront of global efforts to tackle avoidance, evasion and non-compliance.[footnote 28]

This is the first Budget in the new annual tax policymaking cycle. The government's aim is to provide greater tax certainty for households and businesses by consulting with taxpayers further in advance of changes and changing taxes less frequently. Further details on this new process will be set out later this year. To accommodate the move to an Autumn Budget, at this Budget the government has changed the forecasted timetable for the uprating of alcohol and tobacco duties. The forecast now assumes that alcohol duties will be uprated on 1 February, and tobacco duties will be uprated at 6pm on Budget day. As the OBR confirms, the changes are designed to be largely neutral for receipts.[footnote 29] Further details are available in the Autumn Budget 2017: policy costings document.

4.2 Personal tax

The government puts the interests of ordinary working families first in the tax system. Since 2010-11, the PA has been increased from £6,475 to £11,500. Successive increases in the PA and HRT have allowed over 31 million working people to keep more of what they earn, and have taken over a million people out of paying income tax altogether.[footnote 30]

4.3 Income tax and National Insurance

Personal allowance and higher rate threshold – The government is committed to raising the PA to £12,500 and the HRT to £50,000 by 2020 – which will mean an increase to the PA of over 90% in the space of a decade. The Budget announces that in 2018-19 the PA and HRT will increase further, to

£11,850 and £46,350 respectively.[footnote 31] This will mean that in 2018-19 a typical taxpayer will pay at least £1,075 less tax than in 2010-11.

Marriage Allowance: allowing claims on behalf of deceased partners – The Marriage Allowance allows taxpayers to transfer up to 10% of their unused PA to their partner, reducing their tax bill by up to £230 a year in 2017-18. The government will now allow claims in cases where a partner has died before the claim was made. These claims will be able to be backdated by up to 4 years.

Off-payroll working in the private sector – The government reformed the off-payroll working rules (known as IR35) for engagements in the public sector in April 2017. Early indications are that public sector compliance is increasing as a result, and therefore a possible next step would be to extend the reforms to the private sector, to ensure individuals who effectively work as employees are taxed as employees even if they choose to structure their work through a company. It is right that the government take account of the needs of businesses and individuals who would implement any change. Therefore the government will carefully consult on how to tackle non-compliance in the private sector, drawing on the experience of the public sector reforms, including through external research already commissioned by the government and due to be published in 2018.

Employment status discussion paper – The government will publish a discussion paper as part of the response to Matthew Taylor's review of employment practices in the modern economy, exploring the case and options for longer-term reform to make the employment status tests for both employment rights and tax clearer. The government recognises that this is an important and complex issue, and so will work with stakeholders to ensure that any potential changes are considered carefully.[footnote 32]

Taxation of trusts – The government will publish a consultation in 2018 on how to make the taxation of trusts simpler, fairer, and more transparent.

National Insurance Contributions (NICs) Bill – As previously announced, to ensure that there is enough time to work with Parliament and stakeholders on the detail of reforms that will simplify the NICs system, the government has announced that it will delay implementing a series of NICs policies by one year. These are the abolition of Class 2 NICs, reforms to the NICs treatment of termination payments, and changes to the NICs treatment of sporting testimonials. (66)

Rent-a-room relief – The government will publish a call for evidence to establish how rent-a-room relief is used and ensure it is better targeted at longer-term lettings.

Mileage rates for landlords – The government will extend the option to use mileage rates to individuals operating property businesses, on a voluntary basis, to reduce the administrative burden for these businesses.

Benefits in kind: electric vehicles – From April 2018, there will be no benefit in kind charge on electricity that employers provide to charge employees' electric vehicles.

Taxation of employee business expenses – Following the call for evidence published in March 2017, the government will make several changes to the taxation of employee expenses:

- Self-funded training – The government will consult in 2018 on extending the scope of tax relief currently available to employees and the self-employed for work-related training costs.
- Subsistence benchmark scale rates – To reduce the burden on employers, from April 2019 they will no longer be required to check receipts when reimbursing employees for subsistence using benchmark scale rates. The existing concessionary accommodation and subsistence overseas scale rates will be placed on a statutory basis, to provide greater certainty for businesses.

- Guidance and claims process for employee expenses – HMRC will work with external stakeholders to improve the guidance on employee expenses, particularly on travel and subsistence and the process for claiming tax relief on non-reimbursed employment expenses.

Armed Forces personnel accommodation – An income tax and NICs exemption will be introduced for certain allowances paid to Armed Forces personnel for renting or maintaining accommodation in the UK private market. This will support the Ministry of Defence's aim to provide a more flexible, attractive and better value-for-money approach to accommodation.

Seafarers' Earnings Deduction and the Royal Fleet Auxiliary – Seafarers are entitled to an income tax deduction of their foreign earnings in certain circumstances. The existing extra-statutory treatment of the Royal Fleet Auxiliary will be placed on a statutory basis.

Qualifying Care Relief (QCR) and self-funded Shared Lives payments – QCR is a tax simplification covering expenses incurred when providing care that means carers only need to keep simple records. The government will extend the scope of QCR to cover self-funded Shared Lives care payments, to encourage the use of Shared Lives care.

Class 4 National Insurance contributions – As previously announced, the government will no longer proceed with an increase to the main rate of Class 4 NICs from 9% to 10% in April 2018, and to 11% in April 2019. (66)

4.4 Capital Gains Tax

Capital Gains Tax (CGT) payment window – The introduction of the 30-day payment window between a capital gain arising on a residential property and payment will be deferred until April 2020. (54)

4.5 Charity tax

Gift Aid donor benefit rules – Following the review of the Gift Aid donor benefit rules, to simplify the rules for charities the current three monetary thresholds will be reduced to two, while all existing extra-statutory concessions will be legislated. Changes will come into effect from April 2019.

4.6 Pensions and savings tax

Starting rate for savings – The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 for 2018-19.

Individual Savings Account (ISA) annual subscription limits – The ISA annual subscription limit for 2018-19 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds for 2018-19 will be uprated in line with CPI to £4,260.

Lifetime allowance for pensions – The lifetime allowance for pension savings will increase in line with CPI, rising to £1,030,000 for 2018-19.

Save As You Earn scheme – Employees on maternity and parental leave will be able to take up to a 12 month pause from saving into their Save As You Earn employee share scheme, increased from 6 months currently. The change will take effect from 6 April 2018.

Life assurance and overseas pension schemes – From April 2019, tax relief for employer premiums paid into life assurance products or certain overseas pension schemes will be modernised to cover policies when an employee nominates an individual or registered charity to be their beneficiary.

4.7 Business tax

The UK has one of the most competitive tax regimes for business, with the lowest corporate tax rate in the G20. The Budget reaffirms the government's commitment to low, stable taxes. It takes steps to support businesses to invest by increasing the R&D expenditure credit from 11% to 12%, while introducing measures that ensure businesses pay their fair share, including those seeking to evade or avoid tax using offshore structures.

4.8 Property tax

Business rates – At Budget 2016 the government announced major reforms to business rates worth approximately £9 billion by the end of this Parliament, including ensuring that 600,000 businesses will not pay business rates again.[footnote 33] Spring Budget 2017 announced an additional £435 million in this Parliament to support businesses most affected by the recent revaluation. In light of the recent rise in inflation, over the next 5 years the government will provide a further £2.3 billion of support to businesses and improve the fairness of the system in England, by:

- bringing forward to 1 April 2018 the planned switch in indexation from RPI to the main measure of inflation (currently CPI) (34)
- legislating retrospectively to address the so-called "staircase tax".[footnote 34] Affected businesses will be able to ask the Valuation Office Agency (VOA) to recalculate valuations so that bills are based on previous practice backdated to April 2010 – including those who lost Small Business Rate Relief as a result of the Court judgement. The government will publish draft legislation shortly
- continuing the £1,000 business rate discount for public houses with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties, for one year from 1 April 2018 (35)
- increasing the frequency with which the VOA revalues non-domestic properties by moving to revaluations every three years following the next revaluation, currently due in 2022. To enable this, ratepayers will be required to provide regular information to the VOA on who is responsible for business rates and property characteristics including use and rent. The government will consult on the implementation of these changes in the spring

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

SDLT – The government will amend SDLT higher rates for additional properties with immediate effect. The changes will benefit those increasing their share of their own home, families affected by a divorce court order, and cases where properties are held in trust for children subject to Court of Protection orders. The government will also remove a potential opportunity for avoidance.

Taxing gains made by non-residents on immovable property – To align the UK with other countries and remove an advantage which non-residents have over UK residents, all gains on non-resident disposals of UK property will be brought within the scope of UK tax. This will apply to gains accrued on or after April 2019. The government intends to include targeted exemptions for institutional investors such as pension funds. (52)

4.9 Corporate tax

Corporate indexation allowance – To bring the UK in line with other major economies and broaden the tax base through removing relief for inflation that is not available elsewhere in the tax system, the corporate indexation allowance will be frozen from 1 January 2018. Accordingly, no relief will be

available for inflation accruing after this date in calculating chargeable gains made by companies. (51)

Changing how non-resident companies' UK property income and certain gains are taxed – From April 2020, income that non-resident companies receive from UK property will be chargeable to corporation tax rather than income tax. Also from that date, gains that arise to non-resident companies on the disposal of UK property will be charged to corporation tax rather than CGT. (53)

Position paper: corporate tax and the digital economy – Alongside Budget the government has published a position paper setting out the challenges posed by the digital economy for the international corporate tax framework and its proposed approach for addressing those challenges.

Withholding tax: royalties – With effect from April 2019, withholding tax obligations will be extended to royalty payments, and payments for certain other rights, made to low or no tax jurisdictions in connection with sales to UK customers. The rules will apply regardless of where the payer is located. (42)

Corporate capital gains – The government will amend the Substantial Shareholding Exemption legislation and the Share Reconstruction rules to avoid unintended chargeable gains being triggered where a UK company incorporates foreign branch assets in exchange for shares in an overseas company.

Hybrid mismatch rules – Some aspects of the corporation tax rules which apply to arrangements involving hybrid structures and instruments – the hybridity arising from differences in tax treatment between two jurisdictions – will be amended to clarify how and when the rules apply, and to ensure that the rules operate as intended. HMRC has published further details of these amendments alongside the Budget.

Intangible Fixed Asset regime – The government will consult in 2018 on the tax treatment of intellectual property (the Intangible Fixed Asset regime). This will consider whether there is an economic case for targeted changes to this regime, so that it better supports UK companies investing in intellectual property.

4.10 Stamp taxes on shares

Financial institution bail-in exemption – The government will legislate to exempt certain transfers of shares and land from stamp taxes when resolving failing financial institutions. The exemption will be limited to transfers to public bodies and affected creditors. This will help simplify and strengthen the process of resolving a failing financial institution and help to ensure that the "no creditor worse off" principle is upheld.

Securities deposited with financial institutions liable to 1.5% charges – The government will not reintroduce the Stamp Duty and Stamp Duty Reserve Tax 1.5% charge on the issue of shares (and transfers integral to capital raising) into overseas clearance services and depositary receipt systems following the UK's exit from the EU.

4.11 Energy and transport tax

4.12 Transport tax

Fuel duty – Fuel duty will be frozen for an eighth year in 2018-19. Fuel duty freezes since 2011 will have saved the average driver a cumulative £850 by April 2019, compared to what they would have paid under the pre-2010 escalator plans.[footnote 35] (10)

Alternative fuels – The government will review whether the existing fuel duty rates for alternatives to petrol and diesel are appropriate, ahead of decisions at Budget 2018. In the meantime, the government will end the fuel duty escalator for Liquefied Petroleum Gas (LPG). The LPG rate will be frozen in 2018-19, alongside the main rate of fuel duty.

Air quality – In support of the National Air Quality Plan published in July, the government will provide £220 million for a new Clean Air Fund. This will allow local authorities in England with the most challenging pollution problems to help individuals and businesses adapt as measures to improve air quality are implemented. The government is launching a consultation alongside Budget on options that could be supported by this fund. (62) This will be paid for by:

- a Vehicle Excise Duty (VED) supplement that will apply to new diesel cars first registered from 1 April 2018, so that their First-Year Rate will be calculated as if they were in the VED band above. This will not apply to next-generation clean diesels – those which are certified as meeting emissions limits in real driving conditions, known as Real Driving Emissions Step 2 (RDE2) standards (61)
- a rise in the existing Company Car Tax diesel supplement from 3% to 4%, with effect from 6 April 2018. This will also apply only to diesel cars which do not meet the Real Driving Emissions Step 2 (RDE2) standards (60)

VED – The government will:

- increase in line with RPI from 1 April 2018 VED rates for cars, vans and motorcycles registered before April 2017 and the First-Year Rates for cars registered after April 2017
- freeze the Heavy Goods Vehicle (HGV) VED and Road User Levy rates from 1 April 2018. A call for evidence on updating the existing HGV Road User Levy will be launched this autumn. The government will work with industry to update the Levy so that it rewards hauliers that plan their routes efficiently, to encourage the efficient use of roads and improve air quality (38)
- from April 2019, exempt zero-emission capable taxis from the VED supplement that applies to expensive cars, consulting in advance on how to define such taxis

Company cars – The Fuel Benefit Charge and the Van Benefit Charge will both increase by RPI from 6 April 2018.

Air Passenger Duty (APD) – Short-haul APD rates for 2019-20 will remain frozen as they have been since 2012. The long-haul rate for economy passengers will be frozen at the 2018-19 rates while the rates for premium economy, business and first class will increase by £16 and for those travelling by private jet by £47. (12)

4.13 Energy tax

Total Carbon Price – The government is confident that the Total Carbon Price, currently created by the combination of the EU Emissions Trading System and the Carbon Price Support, is set at the right level, and will continue to target a similar total carbon price until unabated coal is no longer used. This will deliver a stable carbon price while limiting cost on business.

Climate Change Levy (CCL) – Budget 2016 announced the rebalancing of gas and electricity main rates; the government will set CCL main rates for the years 2020-21 and 2021-22 at Budget 2018. In addition, and to ensure better consistency between portable fuels for commercial premises not connected to the gas grid, the government will freeze the CCL main rate for LPG at the 2019-20 level until April 2022. To ensure that the CCL exemptions for businesses that operate mineralogical and metallurgical processes

remain operable after EU exit, the government will clarify the definition of the exemptions in Finance Bill 2018-19. The revised definition will also ensure that the exemptions work better in landlord-tenant situations.

Enhanced Capital Allowances (ECAs): energy-saving technologies – The list of designated energy-saving technologies qualifying for an ECA, which support investment in energy-saving plant or machinery that might otherwise be too expensive, will be updated through Finance Bill 2017-18.

First Year Tax Credits – The government will extend the First Year Tax Credit scheme until the end of this Parliament, thereby making sure that loss-making companies are encouraged to invest in energy-efficient technology. The credit rate will be set at two-thirds the rate of corporation tax.

4.14 Environmental tax

Reducing plastics waste – The government will launch a call for evidence in 2018 seeking views on how the tax system or charges could reduce the amount of single-use plastics waste, building on the success of the existing plastic carrier bag charge.

Tackling waste crime – From 1 April 2018, operators of illegal waste sites will become liable for Landfill Tax, and those who continue to flout the rules will face tough civil and criminal sanctions. This follows a positive response to the consultation announced at Spring Budget 2017. In addition, the government is providing £30 million extra funding over the next four years to help the Environment Agency tackle waste crime and reduce the harm caused to the environment and to legitimate operators. (49)

Landfill Communities Fund – The government will set the Landfill Communities Fund for 2018-19 at £33.9 million, in accordance with the announcement at Spring Budget 2017 that the cap on contributions by landfill operators would be set at 5.3%.

Aggregates Levy – The government will freeze Aggregates Levy rates for 2018-19 at £2 per tonne but will return to index-linking the Levy in the longer term. Following consultation, the government has decided against introducing an exemption from the Aggregates Levy for aggregates extracted when laying underground utility pipes. (37)

4.15 Oil and gas

Transferable tax history for oil and gas – The government remains committed to the principles for oil and gas fiscal policy, as set out in the 2014 paper Driving Investment, and has published a paper on enabling oil and gas companies to transfer tax histories – a world first – to facilitate the transfer of late life oil and gas assets.[footnote 36] Draft legislation will be published in spring 2018 and the government will legislate to make transferable tax histories available from 1 November 2018. (24)

Other issues for late-life oil and gas assets – The government will also launch a technical consultation on allowing a petroleum revenue tax deduction for decommissioning costs incurred by a previous licence holder. This will support transfers of assets where the seller retains the decommissioning liability.

Tariff receipts – The government will legislate in Finance Bill 2017-18 to clarify that all tariff income earned by petroleum licence holders is within the ring fence corporation tax regime. This will support the government's commitment to extend the Investment and Cluster Area allowances to include income from tariff receipts.

4.16 Indirect tax

4.17 Alcohol and tobacco

Alcohol duty rates and bands – Duty rates on beer, cider, wine and spirits will be frozen. (11)

Alcohol structures consultation – Following the consultation launched at Spring Budget 2017, the government will introduce a new duty band for still cider and perry from 6.9% to 7.5% alcohol by volume (abv), to target white ciders. Legislation will be brought forward in Finance Bill 2018-19, for implementation in 2019, to allow producers time to reformulate and lower their abv.

Tobacco duty rates – Duty rates on all tobacco products will increase by two percentage points above RPI inflation until the end of this Parliament. Hand rolling tobacco will increase by an additional one percentage point. These changes will come into effect from 6pm on 22 November 2017. (56)

Minimum Excise Tax – The Minimum Excise Tax for cigarettes will rise to be set at £280.15 per 1,000 cigarettes. This will take effect from 6pm on 22 November 2017. (56)

4.18 VAT

VAT registration threshold – In response to the Office of Tax Simplification's report Value Added Tax: Routes to Simplification, the government will consult on the design of the threshold, and in the meantime will maintain it at the current level of £85,000 for two years from April 2018.[footnote 37] (55)

Import VAT – Businesses currently benefit from postponed accounting for VAT when importing goods from the EU. The government recognises the importance of such arrangements to business due to the cash flow advantage they provide. The government will take this into account when considering potential changes following EU exit and will look at options to mitigate any cash flow impacts.

Access to VAT refunds – The government will make the following changes to VAT refunds:

- Combined Authorities – Through Finance Bill 2017-18, legislation will be amended to ensure UK Combined Authorities and certain fire services in England and Wales will be eligible for VAT refunds.
- Accident Rescue Charities Grant Scheme – A grant will be provided to help accident rescue charities meet the cost of normally irrecoverable VAT.

VAT and vouchers – The government will consult on plans to legislate in Finance Bill 2018-19 to ensure that when customers pay with vouchers, businesses account for the same amount of VAT as when other means of payment are used, aligning the UK with similar changes being made across the rest of the EU.

4.19 Evasion, avoidance, and compliance

The government remains committed to tackling tax evasion and avoidance, aggressive tax planning and non-compliance, including those seeking to evade or avoid tax using offshore structures. Since 2010 the government has secured almost £160 billion in additional tax revenue and alongside the Budget publishes details of over 100 measures it has introduced. These actions have also helped the UK achieve one of the lowest tax gaps in the world at 6.0% in 2015-16.[footnote 38] Further steps taken in the Budget are forecast to raise £4.8 billion between now and 2022-23.

4.20 Tax evasion and the hidden economy

Requirement to notify HMRC of offshore structures – The government will publish a consultation response on the proposed requirement for designers of certain offshore structures, that could be misused to evade taxes, to notify HMRC of these structures and the clients using them. This work will be taken forward in conjunction with the OECD and EU.

Extending offshore time limits – Assessment time limits for non-deliberate offshore tax non-compliance will be extended so that HMRC can always assess at least 12 years of back taxes without needing to establish deliberate non-compliance, following a consultation in spring 2018. (44)

VAT fraud in labour provision in the construction sector – Following a consultation into options for tackling fraud in construction labour supply chains, the government will introduce a VAT domestic reverse charge to prevent VAT losses. This will shift responsibility for paying VAT along the supply chain to remove the opportunity for it to be stolen. Changes will have effect on and after 1 October 2019. The long lead-time reflects responses to the consultation and the government's commitment to give businesses adequate time to prepare for the change. (48)

Hidden economy: conditionality – The government will consult further on how to make the provision of some public sector licences conditional on being properly registered for tax. This would make it more difficult to trade in the hidden economy, helping to level the playing field for compliant businesses.

4.21 Tax avoidance

NICs Employment Allowance – The government has found evidence of some employers abusing the Employment Allowance to avoid paying the correct amount of NICs, often by using offshore arrangements. To crack down on this, HMRC will require upfront security from employers with a history of avoiding paying NICs in this way. This will take effect from 2018 and raise up to £15 million a year. (39)

Disguised remuneration – The government will tackle disguised remuneration avoidance schemes used by close companies – companies with five or fewer participators – by introducing the close companies' gateway, revised following consultation, and measures to ensure liabilities from the new loan charge are collected from the appropriate person.

Profit fragmentation – The government will consult in 2018 on the best way to prevent UK traders or professionals from avoiding UK tax by fragmenting their UK income between unrelated entities.

Intangible fixed assets: related party step-up schemes – The Intangible Fixed Asset rules will be updated with immediate effect, so that a licence between a company and a related party in respect of intellectual property is subject to the market value rule, and to ensure that the tax value of any disposal of a company's intangible assets is correct, even if the consideration is in something other than cash. (40)

Depreciatory transactions – The government will remove the 6-year time limit within which companies must adjust for transactions that have reduced the value of shares being disposed of in a group company. This will ensure that any losses claimed are in line with the actual economic loss to the group. This change will take effect for disposals of shares or securities in a company made on or after 22 November 2017. (41)

Carried interest – To prevent the avoidance of legislation designed to ensure that asset managers receiving carried interest pay CGT on their full economic gain, the government will remove the transitional commencement provisions with immediate effect. (45)

Double Taxation Relief – From 22 November 2017 a restriction will be introduced to the relief for foreign tax incurred by an overseas branch of a company, where the company has already received relief overseas for the losses of the branch against profits other than those of the branch. This ensures the company does not get tax relief twice for the same loss. The Double Taxation Relief targeted anti-avoidance rule will also be amended to remove the requirement for HMRC to issue a counteraction notice, and extend the scope to ensure it is effective.

Double taxation arrangement: multilateral instrument – With effect from the Royal Assent of the Finance (No. 2) Act 2017, the powers giving effect to double taxation arrangements will be amended to allow the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting to be implemented.[footnote 39]

4.22 Taxation and digital platforms

Online VAT fraud: extending powers to UK businesses – The government will legislate in Finance Bill 2017-18 to extend HMRC's powers to hold online marketplaces Jointly and Severally Liable (JSL) for the unpaid VAT of overseas traders on their platforms to include all (including UK) traders. This extension will help tackle the UK hidden economy and eliminate the risk of overseas traders establishing a UK shell company simply to escape the existing JSL regime. This will come into force on Royal Assent in the spring. (43)

Online VAT fraud: extending powers on overseas businesses – The government will legislate in Finance Bill 2017-18 to extend HMRC's powers to hold online marketplaces JSL for any VAT that a non-UK business selling goods on their platforms fails to account for, where the business was not registered for VAT in the UK and that online marketplace knew or should have known that the business should be registered for VAT in the UK. This will come into force on Royal Assent in the spring.(43)

Online VAT fraud: VAT number display – The government will legislate in Finance Bill 2017-18 to require online marketplaces to ensure that VAT numbers displayed for businesses operating on their website are valid. They will also be required to display a valid VAT number when they are provided with one by a business operating on their platform. This will come into force on Royal Assent in the spring. (43)

Online VAT fraud: split payments – To reduce online VAT fraud and improve how VAT is collected, the government is looking at a split payment model. Following the call for evidence launched at Spring Budget 2017, the government will publish a response in December.

Encouraging compliance by users of digital platforms – The government expects digital platforms to play a wider role in ensuring their users are compliant with the tax rules. The government will publish a call for evidence in spring 2018 to explore what more digital platforms can do to prevent non-compliance among their users.

4.23 Tax administration and compliance

Making Tax Digital (MTD) – As announced in July and legislated for in the Finance (No. 2) Act 2017, no business will be mandated to use MTD until April 2019. Only those with turnover above the VAT threshold will be mandated at that point, and then only for VAT obligations. The scope of MTD will not be widened before the system has been shown to work well, and not before April 2020 at the earliest. (67)

Late Submission Penalties and Late Payment Interest – The government will reform the penalty system for late or missing tax returns, adopting a new points-based approach. It will also consult on whether to simplify and harmonise penalties and interest due on late payments and repayments. This will ensure

that the system is fair, simple and effective across different taxes. Final decisions on both measures will be taken following this latter consultation.

Closure of Certificate of Tax Deposit scheme – To make the tax system simpler and fairer, the government will close the Certificate of Tax Deposit scheme for new certificates on and after 23 November 2017. Existing certificates will continue to be honoured for 6 years.

Faster recovery of Self-Assessment debt – HMRC will use new technology to recover additional Self-Assessment debts in closer to real-time by adjusting the tax codes of individuals with Pay As You Earn (PAYE) income. These changes will take effect from 6 April 2019. (47)

Securing debt in insolvency: extension of security deposit legislation – The government will expand existing security deposit legislation to corporation tax and Construction Industry Scheme deductions. These changes will be legislated for in Finance Bill 2018-19 and take effect from 6 April 2019. The government will consult on the most effective means of introducing this change. (46)

4.24 Investing in HMRC

The government is investing a further £155 million in additional resources and new technology for HMRC. This investment is forecast to help bring in £2.3 billion of additional tax revenues by allowing HMRC to:

- transform their approach to tackling the hidden economy through new technology (39)
- further tackle those who are engaging in marketed tax avoidance schemes (39)
- enhance efforts to tackle the enablers of tax fraud and hold intermediaries accountable for the services they provide using the Corporate Criminal Offence (39)
- increase their ability to tackle non-compliance among mid-size businesses and wealthy individuals (39)
- recover greater amounts of tax debt including through a new taskforce to specifically tackle tax debts more than 9 months old (39)

5. Productivity

5.1 Introduction

The Budget sets out the government's vision for an economy that is fit for the future and provides greater opportunities for the next generation. An economy driven by innovation that will see the UK becoming a world leader in new technologies such as Artificial Intelligence (AI), immersive technology, driverless cars, life sciences, and FinTech. An economy that creates more highly-skilled and better-paid jobs, underpinned by increased investment in the skills and infrastructure needed for the future and a modern Industrial Strategy that shows how government can build an economy that works for everyone.

The Industrial Strategy will explain the active role the government will take, working in partnership with the private sector, to encourage investment in the technologies of the future and to ensure every part of the UK can share in the rewards.

Over the long term, improving productivity is vital to building an economy fit for the future. This is the best way to boost wages, improve living standards and enhance prosperity. The UK's productivity lags behind other advanced nations: this is both a challenge and an opportunity.[footnote 40] Closing the gap

between the UK's productivity and Germany's would increase the size of the UK economy by a third. [footnote 41]

The government has already set in train a plan to address the UK's productivity challenge, including: cutting taxes to support business investment, with corporation tax cut from 28% to 19%; improving skills through a significant increase in apprenticeships and the introduction of T levels, to transform technical education; and delivering high value infrastructure projects like the Mersey Gateway Bridge, the Northern Hub in Manchester and Crossrail.[footnote 42]

This approach is underpinned by a major increase in public investment. Excluding the exceptional years following the financial crisis, public investment as a proportion of GDP will reach its highest level in 30 years by 2020-21.[footnote 43] This includes a 50% increase in transport investment, funding the biggest road investment programme in a generation, and the biggest rail transformation in modern times.[footnote 44]

Much of this increase in investment is delivered through the NPIF created at Autumn Statement 2016. The Budget goes further, extending the NPIF into 2022-23 and increasing the size of the fund to £31 billion. This money is targeted at areas crucial for productivity: housing (see chapter 5), transport, R&D and digital communications. This investment provides the financial underpinning for a modern Industrial Strategy that will help businesses create better, higher-paying jobs.

Table 4.1: National Productivity Investment Fund (£ million) (1)

	2017-18	2018-19	2019-20	2020-21	2021-22 (2)	2022-23 (2)
Housing						
Accelerated Construction	90	230	170	200		
Affordable Housing	495	605	1,215	610		
Housing Infrastructure Fund	60	300	1,160	2,135	1,060	1,185
Small sites infrastructure and remediation	0	275	355	120		
Land Assembly Fund	0	0	220	355	355	355
Transport						
Roads and local transport	365	360	290	415		
Next generation vehicles	75	145	155	115		
Digital railway enhancements	30	55	165	285		

	2017-18	2018-19	2019-20	2020-21	2021-22 (2)	2022-23 (2)
Cambridge - Milton Keynes - Oxford corridor	5	135	0	0		
Transforming Cities Fund	0	140	355	485	1,010	
Tyne & Wear Metro	0	0	25	35	265	
Digital Communications						
Fibre and 5G investment	25	150	275	290		
Research and Development						
Research and Development funding	425	820	1,500	2,000	2,345	
Total	1,570	3,215	5,885	7,045	6,475	7,000

1 Gross costs are presented on a UK basis
2 Further allocations will be made at future fiscal events

Backed by this additional funding, the Budget and the modern Industrial Strategy together set out the next steps in the government's plan to build an economy fit for the future:

- New technologies and innovation – the Budget introduces further ground-breaking approaches to regulatory frameworks for AI and driverless cars, in order to attract the world's most innovative companies (27)
- Backing innovators and investing in R&D – the government has already committed to the biggest increase in R&D spending by any government in the last 40 years.[footnote 45] The Budget invests a further £2.3 billion in R&D in 2021-22 from the NPIF, and increases the R&D expenditure credit to 12%, demonstrating clear progress towards the government's ambition to raise the level of investment in R&D in the economy to 2.4% of GDP. This means that, based on current forecasts, total support for R&D will increase by a third by 2021-22[footnote 46] (22)
- Skills and jobs for a new economy – the Budget makes a step change in transforming lifelong learning, with a unique partnership between employers, unions and the government to deliver a new National Retraining Scheme to help people adapt to the changing world of work (31)
- Stimulating long-term business investment and exports – the Budget takes a radical step to stimulate investment in high growth, innovative businesses with a plan to attract £20 billion of new funding into these firms
- Driving stronger competition – the Budget backs the Competition and Markets Authority (CMA), the UK's internationally-respected competition authority, providing additional funding to stamp out anti-competitive practices (36)

- Upgrading infrastructure – the Budget announces a £1.7 billion Transforming Cities Fund to improve local transport connections and commits £385 million to projects to develop next generation 5G mobile and full-fibre broadband networks, both funded from the NPIF. The Budget also commits to specific improvements for the Tyne & Wear Metro, and rail and road connections in the Cambridge – Milton Keynes – Oxford corridor (28)

The Budget raises growth and prosperity across the UK, granting local areas more control over decisions which affect them. Seven areas across the UK already benefit from directly elected Mayors, including London, the West Midlands and Greater Manchester. The Budget announces the next steps for the North of Tyne area, paving the way for the area to elect a Mayor in 2019.

5.2 New technologies and innovation

Digital technologies have enormous potential to transform the economy – AI, for example, has the potential to increase productivity by up to 30% in some industries.[footnote 47] It is predicted that the UK driverless car industry will be worth £28 billion to the UK economy and employ 27,000 people.[footnote 48] The Budget sets out the steps that the government is taking to make the UK a leader in the development and deployment of digital technologies. To further support this, the Industrial Strategy will set out the first set of sector deals that have been agreed between the government and some of the UK's leading sectors.

5.3 Technology

AI – The government will create a new Centre for Data Ethics and Innovation to enable and ensure safe, ethical and ground-breaking innovation in AI and data-driven technologies. This world-first advisory body will work with government, regulators and industry to lay the foundations for AI adoption, which estimates suggest could benefit households across the UK by up to £2,300 per year by 2030, and increase GDP by 10%.[footnote 49] The government will invest over £75 million to take forward key recommendations of the independent review on AI, including exploratory work to facilitate data access through 'data trusts'.[footnote 50] The government will create new AI fellowships, and initially fund 450 PhD researchers, to secure the UK's leading position in the global AI market. (27)

Regulators' Pioneer Fund – To help unlock the potential of emerging technologies, the government will establish a new £10 million Regulators' Pioneer Fund. This will help regulators to develop innovative approaches aimed at getting new products and services to market. (27)

Tech Nation – To secure the UK's world-leading position in digital innovation, the government will invest £21 million over the next 4 years to expand Tech City UK's reach – to become 'Tech Nation' – and support regional tech companies and start-ups to fulfil their potential. Tech Nation will roll out a dedicated sector programme for leading UK tech specialisms, including AI and FinTech. Regional hubs will be located in: Cambridge, Bristol and Bath, Manchester, Newcastle, Leeds and Sheffield, Reading, Birmingham, Edinburgh and Glasgow, Belfast, and Cardiff. (27)

UK Games Fund – The government will provide a further £1 million to extend the UK Games Fund until 2020, aiding access to finance and business support for early stage video game developers. (27)

Geospatial data – The UK has some of the best geospatial data in the world, and much of it is held by public bodies. The potential economic value of this data is huge. To maximise the growth of the digital economy and consolidate the UK's position as the best place to start and grow a digital business, the government will establish a new Geospatial Commission to provide strategic oversight to the various public bodies who hold this data. To further boost the digital economy, the government will work with the

Ordnance Survey (OS) and the new Commission, by May 2018, to establish how to open up freely the OS MasterMap data to UK-based small businesses in particular, under an Open Government Licence or through an alternative mechanism, while maintaining the OS's strategic strengths. The Budget provides £40 million a year over the next two years to support this work.

5.4 Next generation vehicles

Ultra-low emission vehicles – To support the transition to zero emission vehicles, the government will regulate to support the wider roll-out of charging infrastructure; invest £200 million, to be matched by private investment into a new £400 million Charging Investment Infrastructure Fund; and commit to electrify 25% of cars in central government department fleets by 2022. The government will also provide £100 million to guarantee continuation of the Plug-In Car Grant to 2020 to help consumers with the cost of purchasing a new battery electric vehicle. (26)

Connected and Autonomous Vehicles (CAVs) – The government wants to see fully self-driving cars, without a human operator, on UK roads by 2021. The government will therefore make world-leading changes to the regulatory framework, such as setting out how driverless cars can be tested without a human safety operator. The National Infrastructure Commission (NIC) will also launch a new innovation prize to determine how future roadbuilding should adapt to support self-driving cars.

5.5 Research and development

Long-term support for science and innovation – Supporting the government's ambition of increasing R&D investment in the economy to 2.4% of GDP by 2027, the Budget confirms that the £4.7 billion NPIF investment in science and innovation announced at Autumn Statement 2016 will grow by a further £2.3 billion of additional spending in 2021-22, taking total direct R&D spending to £12.5 billion per annum by 2021-22. (22) The Industrial Strategy White Paper will provide further detail on what this funding will support, including:

- support for our creative and digital industries by developing pioneering immersive technology for creative content, and launching a new AI and machine-learning programme targeted at the services sector
- £170 million for innovation to transform productivity in the construction sector
- new support to grow the next generation of research talent and ensure that the UK is able to attract and retain the best academic leaders globally

Research and development expenditure credit – The government will increase the rate of the R&D expenditure credit from 11% to 12% with effect from 1 January 2018. To provide businesses with the confidence to make R&D investment decisions, the government will also introduce a new Advanced Clearance Service for R&D expenditure credit claims. (23)

International talent – To support its ambitions on innovation and R&D, the government is encouraging the best and the brightest international scientific and research talent to work in the UK. The government will: change immigration rules to enable world-leading scientists and researchers endorsed under the Tier 1 (Exceptional Talent) route to apply for settlement after three years; make it quicker for highly-skilled students to apply to work in the UK after finishing their degrees; and reduce red tape in hiring international researchers and members of established research teams, by relaxing the labour market test and allowing the UK's research councils and other select organisations to sponsor researchers. This is alongside the expansion of the exceptional talent route, benefiting current and future leaders in the digital technology, science, arts and creative sectors.

5.6 Skills and jobs for a new economy

Nearly 50% of UK employers working in STEM report that they struggle to recruit people with relevant skills.[footnote 51] Studying STEM subjects at university is correlated with higher average wages.[footnote 52] The Budget invests an additional £406 million in maths and technical education, and in helping people develop the skills they need to succeed in the new economy.

5.7 Lifelong learning

National Retraining Partnership – The government will enter into a formal skills partnership with the Trades Union Congress and the Confederation of British Industry, to develop the National Retraining Scheme. Together they will help set the strategic priorities for the scheme and oversee its implementation, working with new Skills Advisory Panels to ensure that local economies' needs are reflected. (31)

Retraining to work in priority sectors – As a first step, the National Retraining Partnership will oversee targeted short-term action in sectors with skills shortages, initially focussing on construction and digital skills. Alongside the government's investment in housing and construction, the government will invest £30 million to test the use of AI and innovative EdTech in online digital skills courses so that learners can benefit from this emerging technology, wherever they are in the country. There will also be new employer-designed courses in construction and digital. (31)

Work-based training – The government will provide £8.5 million over the next two years to support Unionlearn, an organisation of the Trades Union Congress to boost learning in the workplace. (31)

5.8 Education

Maths – The Budget announces support for maths, given its crucial role in preparing the next generation for jobs in the new economy. The government will:

- give more children the opportunity to be taught using world-leading techniques by providing £27 million to expand the successful Teaching for Mastery maths programme into a further 3,000 schools (32)
- reward schools and colleges who support their students to study maths by giving them £600 for every extra pupil who decides to take Maths or Further Maths A levels or Core Maths – with over £80 million available initially, and no cap on numbers (32)
- nurture top mathematical talent by delivering its commitment to open maths schools across the country. The Budget commits £18 million to fund an annual £350,000 for every maths school under the specialist maths school model, which includes outreach work (32)
- test innovative approaches to improve GCSE Maths resit outcomes by launching a £8.5 million pilot, alongside £40 million to establish Further Education Centres of Excellence across the country to train maths teachers and spread best practice (32)

Computer science – The Budget will ensure that every secondary school has a fully qualified computer science GCSE teacher, by committing £84 million to upskill 8,000 computer science teachers by the end of this Parliament. The government will also work with industry to set up a new National Centre for Computing to produce training material and support schools. (32)

T levels – The government announced T levels at Spring Budget 2017. As implementation gets underway, the government will invest up to £20 million to help teachers prepare for this change.

Apprenticeship levy – The government will continue to work with employers on how the apprenticeship levy can be spent so that the levy works effectively and flexibly for industry, and supports productivity across the country.

Gender disparity in STEM – Girls are disproportionately less likely to study most STEM subjects at A level,[footnote 53] hindering progress into higher education and careers in STEM. To deepen the understanding of the gender disparity in subject choices at age 16, the government will explore how to improve the accessibility and transparency of data on this issue by institution and subject.

Teacher Development Premium – The government will invest £42 million to pilot a Teacher Development Premium. This will test the impact of a £1,000 budget for high-quality professional development for teachers working in areas that have fallen behind. This will support the government's ambition to address regional productivity disparities through reducing the regional skills gap. (33)

Reducing student loan overpayments – The government will tackle the problem of graduates overpaying their student loans. The Student Loans Company and HMRC will update their processes by April 2019, in order to share data more frequently and stop payments after a borrower has fully repaid.

5.9 Supporting labour market productivity

NLW and National Minimum Wage (NMW) – The percentage of full-time jobs that are low paid is at its lowest in at least 20 years.[footnote 54] Following the recommendations of the independent Low Pay Commission (LPC), the government will increase the NLW by 4.4% from £7.50 to £7.83 from April 2018. The LPC estimate this will benefit over 2 million workers.[footnote 55] In total, earnings for a full-time worker on the NMW will have increased by over £2,000 a year since the introduction of the NLW in April 2016.[footnote 56]

The government will also accept all of the LPC's recommendations for the other NMW rates to apply from April 2018. For youth rates, this represents the largest increase in 10 years.[footnote 57] The recommendations include:

- increasing the rate for 21 to 24 year olds by 4.7% from £7.05 to £7.38 per hour
- increasing the rate for 18 to 20 year olds by 5.4% from £5.60 to £5.90 per hour
- increasing the rate for 16 to 17 year olds by 3.7% from £4.05 to £4.20 per hour
- increasing the rate for apprentices by 5.7% from £3.50 to £3.70 per hour

5.10 Business investment and exports

The UK is already one of the best places in the world to start a business, but some of the UK's most innovative start-ups do not grow to scale due to lack of finance.[footnote 58] The Budget provides businesses with additional support to grow and also to export. The government's Industrial Strategy will provide further detail of how businesses in every part of the country will get the help they need to access support and improve their productivity.

5.11 Access to finance

Box 4.1: Financing growth in innovative firms

The Budget announces an action plan to unlock over £20 billion of patient capital investment to finance growth in innovative firms over 10 years by:

- establishing a new £2.5 billion Investment Fund incubated in the British Business Bank with the intention to float or sell once it has established a track record. By co-investing with the private sector, a total of £7.5 billion of investment will be unlocked
- doubling the annual allowance for people investing in knowledge-intensive companies through the Enterprise Investment Scheme (EIS) and the annual investment those companies can receive through EIS and the Venture Capital Trust scheme, and introducing a new test to reduce the scope for and redirect low-risk investment, together unlocking over £7 billion of growth investment
- investing in a series of private sector fund of funds of scale. The British Business Bank will seed the first wave of investment with up to £500 million, unlocking double its investment in private capital. Up to three waves will be launched, supporting a total of up to £4 billion investment
- backing new and emerging fund managers through the British Business Bank's established Enterprise Capital Fund programme, unlocking at least £1.5 billion of new investment
- backing overseas investment in UK venture capital through the Department for International Trade, expected to unlock £1 billion of investment

The government will also support long-term investment by:

- giving pension funds confidence that they can invest in assets supporting innovative firms as part of a diverse portfolio. The Pensions Regulator will clarify guidance on investments with long-term investment horizons. With over £2 trillion in UK pension funds, small changes in investment have the potential to transform the supply of capital to innovative firms
- changing the qualifying rules in Entrepreneurs' Relief to remove the disincentive to accept external investment and consulting on the detailed implementation of that change
- launching a National Security Strategic Investment Fund to invest in advanced technologies to contribute to the national security mission. The British Business Bank will also support developing clusters of business angels outside London through a new commercial investment programme

The government's response to the consultation 'Financing Growth in Innovative Firms' published alongside Autumn Budget 2017 provides further details of these measures.

Supporting businesses – The government will support businesses to get the finance they need by extending the British Business Bank's Enterprise Finance Guarantee to March 2022 and expanding the programme to support up to £500 million of loans per annum. The government will also work with businesses, lenders, insurers, the British Business Bank and the Intellectual Property Office to overcome the barriers to high growth, intellectual property-rich firms, such as those in the creative and digital sector, using their intellectual property to access growth funding.

5.12 Reaching new markets

Support for exporters – UK Export Finance (UKEF) will introduce a new guarantee to banks designed to increase liquidity in the supply chain. This will improve exporters' access to capital and enable their suppliers to fulfil new orders. UKEF will also launch a targeted campaign to promote the support they offer to exporters and overseas buyers, as part of the wider GREAT campaign. The Department for International Trade will also set out details of their new export strategy review.

5.13 Asset management

Investment Management Strategy 2 – The government will publish a new long-term strategy to ensure that the UK asset management industry continues to thrive and deliver the best possible outcomes for investors and the UK economy. This will include actions, to be taken forward in close collaboration with the industry, on skills, harnessing financial technology solutions, mainstreaming innovative investment strategies, and continuing a coordinated programme of international engagement.

5.14 Competitive markets

A thriving market economy rewards enterprise, investment and innovation. Competition is the best way of delivering value and choice for consumers. Competition also boosts productivity in the economy by incentivising companies to become more efficient, ensuring investment and talent go where they are best used, in turn boosting wages. Independent regulators make sure markets for essential services, like energy and water, work fairly and efficiently.

CMA – The government will provide the CMA with an extra £2.8 million a year, so it can take on more cases against companies that are acting unfairly, and will allow the CMA to use more of the fines it collects to meet the legal costs of defending its decisions. The government will ensure the UK has the robust and effective competition system it needs after the UK has left the EU. (36)

Review into airline insolvency arrangements – The government will launch a review, led by an independent chair, into consumer protection in the event of an airline or travel company failure. This will draw on lessons from the collapse of Monarch and will consider both repatriation and refund protection to identify the market reforms necessary to ensure passengers are protected. This will include full consideration of options to allow airlines to wind down in an orderly fashion so that they are able to conduct and finance repatriation operations without the without impact on the taxpayer.

5.15 Modern banking services

The government is committed to supporting competition in banking, and the Budget sets out further actions which will enable innovation in banking services, strengthen challenger banks, and improve access to affordable credit for consumers.

- Open Banking – the Open Banking project will, from early next year, make it easier for customers to access innovative products and services that better suit their needs. The government has now secured the commitment of the largest banks to extend Open Banking to more payment products, including credit cards. The second phase of the Nesta Open-Up Challenge will also award £2.5 million to firms to develop innovative Open Banking apps to support greater customer choice and flexibility
- Support for challenger banks – as agreed with the European Commission in September 2017, RBS will fund and deliver a £775 million package of measures designed to improve competition in the UK business banking market. The Prudential Regulation Authority will also make capital requirements more proportionate for eligible smaller banks, helping them compete more effectively in the market
- Post Office banking services – the government will ask Post Office Limited and UK Finance to raise public awareness of the banking services available at the Post Office, both for personal customers and Small and Medium Enterprises (SMEs)
- Credit Unions – to improve access to reputable sources of credit, the government will increase the number of potential members that a credit union serving a local area is able to have from 2 to 3 million

5.16 Financial services supporting the community

Banking fines – The government has committed a further £36 million of banking fines over the next 3 years to support Armed Forces and Emergency Services charities and other related good causes. This completes the LIBOR Charity Funding scheme, bringing the total of funding committed since 2012 to £773 million.[footnote 59]

5.17 Infrastructure

Good quality infrastructure is essential for the economy and productivity. The Budget and the government's modern Industrial Strategy set out the next steps in a major programme to upgrade the country's infrastructure networks, capitalising on new technologies. The government's plans mean that by the end of this Parliament public investment in economic infrastructure will have doubled in a decade, from £12 billion in 2012-13 to at least £24 billion in 2022-23, in real terms an increase of more than 60%. [footnote 60]

5.18 Modernising transport

Transforming Cities Fund – A £1.7 billion fund from the NPIF to support intra-city transport, will target projects which drive productivity by improving connectivity, reducing congestion and utilising new mobility services and technology. Half will be allocated via competition for transport projects in cities and the other half will be allocated on a per capita basis to the 6 combined authorities with elected metro mayors – £74 million for Cambridgeshire and Peterborough, £243 million for Greater Manchester, £134 million for Liverpool City Region, £80 million for West of England, £250 million for West Midlands and £59 million for Tees Valley – enabling them to invest in their transport priorities. (28)

Pothole fund – The government is investing an additional £45 million in 2017-18 to tackle around 900,000 potholes across England. (28)

Digital rail upgrade – Digital rail technology will transform the railways, enabling trains to run more frequently, at lower cost and greater resilience, and replacing the legacy of Victorian railway technologies. The government announces £84 million for fitting state-of-the-art in-cab digital signalling across a range of trains. The government is allocating a further £5 million from the NPIF for development funding for a digital railway upgrade on the South East and East London Lines. The government will also fund a digital signalling scheme at Moorgate that will enable more frequent and reliable services.

New National Infrastructure Commission study: Freight – The government is announcing a new NIC study on the future of freight infrastructure, to be published in Spring 2019. The study will look at urban congestion, decarbonisation and how to harness the potential of new technologies. This includes platooning, where trucks travel in convoy using smart technology to communicate.

Travel discounts – The government will work with industry to extend the benefits of discounted rail travel to ensure those aged 16 to 30 can access appropriate concessions. This will include the introduction of a new railcard for ages 26 to 30, which the government anticipates will increase the number of journeys taken. Further details will be announced in agreement with the industry and will be implemented from Spring 2018.

5.19 Digital communications

5G testbeds and trials – The UK has an opportunity to become a world leader in 5G, which is the next generation of mobile communications. The government will invest a further £160 million from the NPIF in new 5G infrastructure. The first projects to benefit are:

- £10 million to create facilities where the security of 5G networks can be tested and proven, working with the National Cyber Security Centre
- £5 million for an initial trial, starting in 2018, to test 5G applications and deployment on roads, including helping to test how we can maximise future productivity benefits from self-driving cars, building on the work already progressing on connected and autonomous vehicle trials in the West Midlands

Local full-fibre networks – Full-fibre is the gold standard for fast and reliable broadband. The government is launching a new £190 million Challenge Fund that local areas around the country will bid for to encourage faster rollout of full-fibre networks by industry. Children in 100 schools around the country will be some of the first to benefit, starting with a pilot in the East Midlands in early 2018.

Rail passenger communications – The government will shortly consult on commercial options to improve mobile communications for rail passengers and will invest up to £35 million to enable trials. This will be used to: upgrade the Network Rail test track in Melton Mowbray; install trackside infrastructure along the Trans-Pennine route between Manchester, Leeds and York; and support the rollout of full-fibre and 5G networks.

5.20 Environment

Flood defence investment – An additional £76 million will be spent on flood and coastal defence schemes over the next three years. This funding will better protect 7,500 households and boost flood defence investment to over £2.6 billion between 2015-16 and 2020-21.[footnote 61] Of this, £40 million will be focussed on deprived communities at high flood risk, boosting local regeneration.

Sustainable investment in energy – The government will continue to support low carbon electricity as it becomes more cost-competitive, including through up to £557 million for further Contracts for Difference. The government is also committed to keeping energy costs as low as possible. Therefore, in order to protect consumers, the government will not introduce new low carbon electricity levies until the burden of such costs are falling. On the basis of the current forecast, this means there will be no new low carbon electricity levies until 2025.[footnote 62] All existing commitments will be respected.

5.21 Infrastructure delivery

Construction – The government is taking a series of steps to improve the cost effectiveness, productivity and timeliness of infrastructure delivery. The government will use its purchasing power to drive adoption of modern methods of construction, such as offsite manufacturing. Building on progress made to date, the Department for Transport, the Department of Health, the Department for Education, the Ministry of Justice, and the Ministry of Defence will adopt a presumption in favour of offsite construction by 2019 across suitable capital programmes, where it represents best value for money.

Infrastructure delivery – The Infrastructure and Projects Authority will publish an update to the National Infrastructure and Construction Pipeline in December 2017. This will set out a 10 year projection of public and private investment in infrastructure of around £600 billion, and demonstrate the UK's strong track record of infrastructure delivery since 2010.

5.22 Local growth

Every region in the UK has a role to play in boosting the national economy. If the UK could increase the productivity of the five biggest city regions outside of London so that they matched UK average productivity, that could increase UK GDP by £31 billion a year, which equates to £1,100 per household.[footnote 63] The Budget demonstrates how the government will support the comparative advantages of regional economies, provide the skills and infrastructure people need to access employment, and continue to back devolution. Further detail will be set out in the Industrial Strategy.

5.23 Northern Powerhouse

Northern Powerhouse rail – As announced in October 2017, £300 million will go towards ensuring High Speed 2 (HS2) infrastructure can accommodate future Northern Powerhouse and Midlands rail services. Transport for the North and Midlands Connect are working up the case for these services. This will enable faster services between Liverpool and Manchester, Sheffield, Leeds and York, as well as to Leicester and other places in the East Midlands and London. It will also enable future services between Liverpool and Leeds to go via Manchester Piccadilly station.

North of Tyne devolution deal – The government has agreed a 'minded to' devolution deal with the North of Tyne authorities, which will be subject to the consent of local partners. This will see £600 million of investment in the region over 30 years and create a new mayor elected in 2019 with powers over important economic levers including planning and skills.

Tyne & Wear Metro – The government will invest £337 million from the NPIF to replace the Tyne & Wear Metro's nearly 40-year-old rolling stock with modern energy-efficient trains. The new fleet will cut running costs while boosting performance and reliability for the 38 million passengers that use the system annually.[footnote 64] (28)

Redcar Steelworks – The Budget will provide £5 million to help enable the South Tees Development Corporation to take ownership of the SSI Redcar Steelworks site, and the government will work with local partners to prepare the site for redevelopment.

Greater Manchester – Greater Manchester and the government will work in partnership to develop a local Industrial Strategy. The government will provide a £243 million allocation from the Transforming Cities Fund and will continue to work with Transport for Greater Manchester to explore options for the future beyond the Fund, including land value capture.

Jodrell Bank – The government is providing £4 million to Jodrell Bank, subject to approval of a sustainable business case, as part of their £20.5 million project to create a new interpretation centre promoting the historically significant scientific work undertaken at this site in Cheshire.

Liverpool City Region and Tees Valley – The government will enter into discussions with the Liverpool City Region and Tees Valley to explore scope for further devolution to these areas, to promote local growth.

5.24 Midlands Engine

West Midlands – The government has agreed a second devolution deal in principle with the West Midlands Mayor and Combined Authority to address local productivity barriers. This includes £6 million for a housing delivery taskforce, £5 million for a construction skills training scheme and a £250 million allocation from the Transforming Cities fund to be spent on local intra-city transport priorities.

Midlands Connect – To support the delivery of the Midlands Connect strategy, the government will provide £2 million to develop options to address key constraints on the Coventry – Leamington Rail Corridor, and £4 million for congestion measures. (28)

Manufacturing zone – The government will pilot a manufacturing zone in the East Midlands. This will reduce planning restrictions to allow land to be used more productively, providing certainty for business investment, and boosting local productivity and growth.

5.25 Cambridge – Milton Keynes – Oxford corridor

The corridor between Cambridge and Oxford has the potential to be a globally significant economy. Following the National Infrastructure Commission's report, the Budget sets out an ambitious integrated programme of infrastructure, housing, business investment and development.

Housing – The government recognises the need, highlighted by the NIC's report, to build up to 1 million new homes in the area by 2050 to maximise its economic potential, starting with a housing deal with Oxfordshire for 100,000 homes by 2031, and working with Central and Eastern sections on commitments in 2018. The government will also consider significant new settlements and the potential role of development corporations to deliver these using private finance.

Rail – By 2024 the western section of East West Rail will be complete, allowing services between Oxford and Bedford, and Aylesbury and Milton Keynes. A new East West Rail Company is being established to accelerate delivery of the central section between Bedford and Cambridge, aiming for completion by the mid-2020s and leveraging private sector investment. Working in partnership with local stakeholders, the government is committing £5 million to develop proposals for Cambridge South station, and is starting a study on the enhancements needed to accommodate future rail growth across Cambridgeshire. As a first step towards opening a station at Cowley, the government will also make available £300,000 to co-fund a study of opportunities for new stations, services and routes across the Oxfordshire rail corridor. (28)

Road – Construction will begin on key elements of the Expressway between Cambridge and Oxford in the second Roads Investment Strategy. The government will also accelerate work on the 'missing link' elements of the Expressway so that it is ready to open by 2030. The government is commissioning England's Economic Heartland to analyse how communities not on the route of the 'missing link' will be able to benefit from it.

Land value uplift – The government expects authorities and delivery bodies in the Cambridge – Milton Keynes – Oxford corridor to use existing mechanisms of land value capture and the new powers (subject to consultation) announced at the Budget to capture rising land values from the additional public investment. The government will also encourage authorities to explore the introduction of a Strategic Infrastructure Tariff, in addition to the Community Infrastructure Levy (CIL), supported by appropriate governance arrangements. These approaches will require developers to baseline their contributions towards infrastructure into the values they pay for land.

Governance – The government is setting out its vision for the future, and inviting local partners to contribute. The government has agreed with Oxfordshire that it will work toward the adoption of a new joint statutory plan (JSP), and will seek further JSPs in central and eastern sections.

5.26 London

London business rates retention pilot – The government has agreed a pilot of 100% business rates retention in London in 2018-19. The Greater London Authority (GLA) and London boroughs will come together to form a pool and invest revenue growth strategically on a pan-London basis.

Crossrail 2 – The government recognises the need for investment in London's infrastructure to support its growth, and will continue to work with Transport for London on developing fair and affordable plans for Crossrail 2, including through an independent review of funding and financing.

5.27 Other local growth policies

Thames Estuary 2050 Growth Commission – The government has appointed Sir John Armitt to chair the Thames Estuary 2050 Growth Commission, with Professor Sadie Morgan as deputy chair. The Commission will publish its final report by Spring 2018. The government will make a further announcement on the Commission's priorities and will explore options for ambitious housing deals with local authorities in the Thames Estuary region.

New link road in Cornwall – Government will help to improve access to the A391 near St Austell by providing £79 million towards a new A30 link road, supporting housing development in the area.

New bridge in Great Yarmouth – Government will contribute £98 million to support a new bridge in Great Yarmouth, alleviating congestion and stimulating growth in the Enterprise Zone.

Bristol Temple Meads – The government will work with stakeholders on their proposals for direct access from the station to help unlock housing and employment benefits from the new Enterprise Zone.

Isles of Scilly rural fuel duty rebate scheme – The rural fuel duty rebate scheme for the Isles of Scilly will be extended until 2023, allowing drivers in this rural part of England to continue to benefit from a 5p per litre reduction in fuel costs.

Capacity funding for Mayoral Combined Authorities – The government will make available to Mayoral Combined Authorities with elected mayors a £12 million fund for 2018-19 and 2019-20, to boost the new mayors' capacity and resources.

Local infrastructure rate – Following a consultation earlier this year, the government confirms that it will lend local authorities in England up to £1 billion at a new discounted interest rate of gilts + 60 basis points accessible for three years to support infrastructure projects that are high value for money. Details of the bidding process will be published in December 2017, and corresponding shares will be made available to local authorities in Scotland and Wales. (30)

Business rates retention – The government will continue to pilot additional business rates retention for councils across England. In addition to the London pilot announced in the Budget, new pilots for 2018-19 will be announced following the Department for Communities and Local Government's (DCLG) assessment of recent applications to its scheme.

Centenary fund – At Spring Budget 2017 the government announced £5 million for projects to celebrate the centenary of voting rights being extended to women for the first time in 1918. From this, £1.2 million will fund activities in 7 cities and towns with strong links to the campaign for women's suffrage – Bolton, Bristol, Leeds, Leicester, London, Manchester, and Nottingham. The government will allocate the rest to local and community projects, a statue of Millicent Fawcett in Parliament Square, and other activities.

Poppy Factories – The government has committed £4.7 million to modernise the Poppy Factories in Richmond and Edinburgh, to make them fit for purpose and to secure the production of the Poppy, the iconic symbol of National Remembrance, throughout the UK for the next generation.

Cultural Development Fund – To support the role culture can play in regeneration and local growth, the government will provide £2 million funding to the Department for Digital, Culture, Media and Sport for place-based cultural development.

5.28 Scotland, Wales and Northern Ireland

The UK benefits from a strong internal market and the government is committed to the continuing sustainability and prosperity of the economies of Scotland, Wales and Northern Ireland within that. In addition to all the decisions in the Budget that apply UK-wide, the government is also taking decisions to provide targeted support in each of Scotland, Wales and Northern Ireland. Alongside these government policy decisions, some key economic levers are devolved. The UK government will work with the devolved administrations to deliver the maximum benefit for everyone across the UK.

Funding – Spending decisions taken by the UK government in the Budget have resulted in Barnett consequentials for the devolved administrations to deliver their devolved responsibilities:

- the Scottish Government's budget will increase by £2 billion through to 2020-21
- the Welsh Government's budget will increase by £1.2 billion through to 2020-21. For the first time, this includes over £65 million as a result of a 5% uplift in Barnett consequentials agreed as part of the Welsh Government's fiscal framework
- the budget for a Northern Ireland Executive will increase by £660 million through to 2020-21

The government also commits to publishing for the first time a breakdown of changes in devolved administrations' block grant funding by the end of the year. This breakdown will be published on an annual basis.

City and growth deals – City and growth deals will support growth and create opportunity across Scotland, Wales and Northern Ireland. The government continues to make good progress towards a city deal for Stirling and is in negotiations for a Tay cities deal. The government will also begin negotiations on a growth deal for the Borderlands. The government is working with local partners and the Scottish Government to achieve this.

The government will begin formal negotiations towards a North Wales growth deal. The government will also consider proposals for a mid-Wales growth deal, and work with local partners and the Welsh Government on this. Upon restoration of a Northern Ireland Executive, the government will open negotiations for a city deal for Belfast as part of the government's commitment to work towards a comprehensive and ambitious set of city deals across Northern Ireland to boost investment and productivity.

VAT and APD – Through Finance Bill 2017-18, legislation will be amended to ensure that Scottish Police and Fire Services will be eligible for VAT refunds. Early in 2018, the government will publish a call for evidence which will consider the impact of VAT and APD on tourism in Northern Ireland, to report at Budget 2018.

Northern Ireland rate of corporation tax – The government remains committed to the commencement of a Northern Ireland rate of corporation tax once a restored Executive has demonstrated that its finances are on a sustainable footing. Subject to this, the government will consider an announcement in 2018-19 on implementing the regime.

Scottish Islands rural fuel duty rebate scheme – The rural fuel duty rebate scheme for the Scottish Islands will be extended until 2023, allowing drivers in this rural part of Scotland to continue to benefit from a 5p per litre reduction in fuel costs. (59)

Welsh rail – The government will invest in infrastructure upgrades that will provide direct services from Pembroke Dock to London via Carmarthen on new, state of the art Intercity Express trains. Additionally, the Department for Transport continues to develop proposals for a number of potential rail schemes within Wales. This includes station improvements at Cardiff Central Station and Swansea, improving Cardiff to Severn Tunnel Junction Relief Lines, and improving journey times between: Swansea and Cardiff; South Wales, Bristol and London; and on the North Wales Main Line. The government will also consider proposals to improve journey times on the Wrexham – Bidston line and provide necessary funding to develop the business case.

Tolls on Severn bridges – As previously announced, the government will abolish tolls on the Severn bridges at the end of 2018, and cut the tolls in January 2018 as the bridges come back into public ownership.

Banking fines – The government will allocate over £5 million in Scotland, Wales and Northern Ireland from banking fines. Projects supported include mental health support for veterans in the Scottish Highlands, training and work opportunities for veterans in North East Wales and support for injured police officers and their families in Northern Ireland.

6. Housing

6.1 Housing

The government is determined to fix the broken housing market, and restore the dream of home ownership for a new generation. In England, average house prices are now almost 8 times the average worker's salary; in parts of the West Midlands, they are over 9 times; in London, they are nearly 12 times.[footnote 65] Despite the government's support for home ownership – such as helping over 320,000 people through the Help to Buy schemes – home ownership rates have declined.[footnote 66] This is especially true for young people, for whom home ownership has fallen by 20% since 2003-04.[footnote 67]

The cost of housing near the most productive centres of employment has become a barrier to productivity growth. High house prices can prevent people from living near the best job opportunities for them, limiting the productivity of companies that might have employed them.

The only sustainable way of making housing more affordable in the long term is to build more homes in the right places. The government has made strong progress: housing supply has increased by over 1.1 million since 2010, including more than 300,000 affordable homes.[footnote 68] The latest figures show that housing supply increased by 217,000 last year, up from 137,000 in 2010.[footnote 69]

There is no single solution to this problem. The government needs to push on all fronts. The Budget announces a comprehensive package of new policy which will raise housing supply by the end of this Parliament to its highest level since 1970, on track to reach 300,000 per year, through:

- making available £15.3 billion of new financial support for housing over the next five years, bringing total support for housing to at least £44 billion over this period
- introducing planning reforms that will ensure more land is available for housing, and that better use is made of underused land in our cities and towns

- providing £204 million of funding for innovation and skills in the construction sector, including to train a workforce to build new homes

The Budget also announces further support for those getting on the housing ladder now. The government will permanently raise the price at which a property becomes liable for SDLT to £300,000 for first-time buyers to help young people buy their first home. The relief will not apply for purchases of properties worth over £500,000.

Box 5.1: Housing supply and productivity

Increasing the supply of housing in the right places brings productivity gains. It supports flexible and responsive labour markets, enabling people to work where they are most productive, and allows successful towns and cities to become even more productive by realising agglomeration economies.

Expanding the stock of housing in urban areas can lead to agglomeration benefits where it increases the density of economic activity. Studies find larger cities boost productivity: doubling a city size or density increases productivity by 3 to 8%. [footnote 70]

Increasing housing supply guards against macroeconomic instability. House prices tend to rise faster in environments with lower responsiveness of new housing supply. Cross-country studies show that lower house price variability is associated with lower variability in inflation, interest rates and real incomes. [footnote 71]

6.2 Planning for more homes

The planning system needs reform to boost the availability of land in the right places for homes, and to ensure that better use is made of underused land in towns and cities. The Budget builds on the reforms in the Housing White Paper. The Budget confirms the government’s commitment to maintain the existing protections for the Green Belt.

Deallocating sites from plans – The government will consult on strengthening policy to be clear that allocated land should be taken out of a plan if there is no prospect of a planning application being made.

Intervention where there is a failure to progress Local Plans – DCLG has begun the formal process of considering intervention in 15 areas where the local authority has failed to put an up-to-date plan in place. The government will shortly activate powers that will enable it to direct local planning authorities to produce joint statutory plans and undertake an assessment of where they should be used.

First-time buyer led developments – The government will consult on a new policy whereby local authorities will be expected to permission land outside their plan on the condition that a high proportion of the homes are offered for discounted sale for first-time buyers, or for affordable rent. This will exclude land in the Green Belt.

Increasing housing density in urban areas – To ensure that our brownfield and scarce urban land is used as efficiently as possible, the government will consult on introducing:

- minimum densities for housing development in city centres and around transport hubs, with greater support for the use of compulsory purchase powers for site assembly
- policy changes to support the conversion of empty space above high street shops
- policy changes to make it easier to convert retail and employment land into housing

- a permitted development right to allow commercial buildings to be demolished and replaced with homes

6.3 Ensuring that planning permissions are built out faster

The government is determined to ensure that land released for housing is put to the best use. It will consult on:

- strengthening the Housing Delivery Test with tougher consequences where planned homes are not being built, by setting the threshold at which the presumption in favour of development applies at 75% of housing delivery by 2020
- expecting local authorities to bring forward 20% of their housing supply as small sites. This will speed up the building of new homes and supports the government's wider ambition to increase competition in the house building market
- speeding up the development process by removing the exemptions from the deemed discharge rules. This will get builders on site more quickly, ensuring that development is not held back by delays in discharging planning conditions

Review of build out – The government will set up a review panel, chaired by Sir Oliver Letwin, to explain the significant gap between housing completions and the amount of land allocated or permissioned, and make recommendations for closing it. The review will provide an interim report in time for Spring Statement 2018 and a full report at Budget 2018.

Register of planning permissions – The government will develop a central register of residential planning permissions from local authorities to improve information on where permissions are held and progress towards them being built out.

6.4 Developer contributions

Land value uplift – In this year's Housing White Paper, the government committed to respond to the CIL Review. DCLG will launch a consultation with detailed proposals on the following measures:

- removing restriction of Section 106 pooling towards a single piece of infrastructure where the local authority has adopted CIL, in certain circumstances such as where the authority is in a low viability area or where significant development is planned on several large strategic sites.[footnote 72] This will avoid the unnecessary complexity that pooling restrictions can generate
- speeding up the process of setting and revising CIL to make it easier to respond to changes to the market. This will include allowing a more proportionate approach than the requirement for two stages of consultation and providing greater clarity on the appropriate evidence base. This will enable areas to implement a CIL more quickly, making it easier to set a higher 'zonal CIL' in areas of high land value uplift, for example around stations
- allowing authorities to set rates which better reflect the uplift in land values between a proposed and existing use. Rather than setting a flat rate for all development of the same type (residential, commercial, etc.), local authorities will have the option of a different rate for different changes in land use (agricultural to residential, commercial to residential, industrial to residential). All the protections for viability from CIL, such as the Examination in Public, will be retained
- changing indexation of CIL rates to house price inflation, rather than build costs. This will reduce the need for authorities to revise charging schedules. This will ensure CIL rates keep up with general housing price inflation and if prices fall, rates will fall too, avoiding viability issues

- giving Combined Authorities and planning joint committees with statutory plan-making functions the option to levy a Strategic Infrastructure Tariff (SIT) in future, in the same way that the London Mayoral CIL is providing funding towards Crossrail. The SIT would be additional to CIL and viability would be examined in public. DCLG will consult on whether it should be used to fund both strategic and local infrastructure

6.5 Housing investment

The reforms above will ensure that there is more land for housing, but the private sector and local authorities will need support to ensure homes get built on that land as soon as possible. The government will strengthen the ability of the Homes and Communities Agency (to be renamed Homes England) to use investment and planning powers to intervene more actively in the land market.

Land Assembly Fund – The government will provide £1.1 billion for a new Land Assembly Fund, funded from the NPIF. The new fund will enable Homes England to work alongside private developers to develop strategic sites, including new settlements and urban regeneration schemes. (1)

New garden towns – The government will bring together public and private capital to build five new garden towns, using appropriate delivery vehicles such as development corporations, including in areas of high demand such as the South East.

Increasing the Housing Infrastructure Fund – The government will invest further in infrastructure through the NPIF to support new housing in high-demand areas. The Budget commits a further £2.7 billion to the competitively allocated Housing Infrastructure Fund (HIF) in England. This takes the total investment in the HIF to £5 billion. (2)

Strategic planning in the South East – To ensure that this investment is well-targeted and helps grow the economy, the government will support more strategic and zonal planning approaches through housing deals in the South East, where housing need is at its most acute. As a first step, the government has agreed a housing deal with Oxfordshire, part of its wider strategic investment in the Cambridge-Milton Keynes-Oxford corridor. Oxfordshire has agreed to bring forward for adoption a joint statutory spatial plan and commit to a stretching target of 100,000 homes in the county by 2031, in return for a package of government support over the next five years, including £30 million a year for infrastructure and further support for affordable housing and local capacity. The government is also continuing housing deal negotiations with Greater Manchester, the West Midlands, Leeds and the West of England.

Small sites: infrastructure and remediation – The government will provide a further £630 million through the NPIF to accelerate the building of homes on small, stalled sites, by funding on-site infrastructure and land remediation. (3)

Home Building Fund: SMEs – The Budget announces a further £1.5 billion for the Home Building Fund, providing loans specifically targeted at supporting SMEs who cannot access the finance they need to build.

Housing guarantees – The government will explore options with industry to create £8 billion worth of new guarantees to support housebuilding, including SMEs and purpose built rented housing.

Affordable housing – The government has already shown its commitment to increasing the supply of affordable homes:

- the Budget confirms the further £2 billion of funding for affordable housing announced in October, including funding for social rented homes. This takes the total budget for the Affordable Homes Programme from £7.1 billion to £9.1 billion to 2020-21. It is expected that this will provide at least 25,000 new affordable homes
- the Budget will lift Housing Revenue Account borrowing caps for councils in areas of high affordability pressure, so they can build more council homes. Local authorities will be invited to bid for increases in their caps from 2019-20, up to a total of £1 billion by the end of 2021-22. The government will monitor how authorities respond to this opportunity, and consider whether any further action is needed (4)

Estate regeneration – The Budget provides £400 million of loan funding for estate regeneration to transform run-down neighbourhoods and provide new homes in high-demand areas.

Construction skills – The government will support industry to help ensure that there is a workforce fit to build these homes, providing £34 million to scale up innovative training models across the country, including a programme in the West Midlands. The government is working with industry to finalise a Construction Sector Deal that will support innovation and skills in the sector, including £170 million of investment through the Industrial Strategy Challenge Fund. Construction skills will also be a focus for the National Retraining Scheme. (31)

Grenfell Tower – Following the tragedy at Grenfell Tower, the government is determined to ensure that those affected receive the support they need. The Budget re-confirms that, where measures are essential to make a building fire safe, the government will make sure that current restrictions on the use of local authority financial resources will not prevent them going ahead. The government awaits the findings of the Hackitt Review and will respond to the recommendations when they are published. The Budget also commits £28 million additional community support to victims, including new mental health services, regeneration support for the Lancaster West estate, and a new community space.

6.6 Homeownership

Building more homes will not happen overnight. In the short term, there is a need to help those who have been shut out of the housing market by rising prices.

Stamp duty land tax – the government will permanently raise the price at which a property becomes liable for SDLT to £300,000 for first-time buyers to help young people buy their first home. The relief will not apply for purchases of properties worth over £500,000. 95% of first-time buyers that pay SDLT will benefit, up to a maximum of £5,000, and 80% of first-time buyers will pay no SDLT at all.

Help to Buy Equity Loan – The Help to Buy Equity Loan scheme helps people to buy a home with a 5% deposit and has supported 135,000 people so far.[footnote 73] The Budget confirms the announcement in October of a further £10 billion for the scheme, supporting another 135,000 people to buy a new home.

Creditworthiness and rental payment data – The government will launch a £2 million competition, to support FinTech firms developing innovative solutions that help first-time buyers ensure their history of meeting rental payments on time is recognised in their credit scores and mortgage applications. Mortgage lenders and credit reference agencies are often unable to take rental payment history into account as they do not have access to this data. This competition will support firms to solve this problem.

Empty homes premium – The government is keen to encourage owners of empty homes to bring their properties back into use. To help achieve this, local authorities will be able to increase the council tax premium from 50% to 100%. (7)

Right to Buy pilot – The Budget confirms that government will proceed with a £200 million large-scale regional pilot of the Right to Buy for housing association tenants in the Midlands.

6.7 Homelessness

Rough sleeping – The Budget sets out the government's first steps towards its commitment to halve rough sleeping by 2022, and to eliminate it by 2027, including the launch of the Homelessness Reduction Taskforce, which will develop a cross-government strategy to work towards this commitment.

Housing First pilots – The government will invest £28 million in three Housing First pilots in Manchester, Liverpool and the West Midlands, to support rough sleepers with the most complex needs to turn their lives around.

Private rented sector access schemes: support for households at risk of homelessness – The government will also provide £20 million of funding for schemes to support people at risk of homelessness to access and sustain tenancies in the private rented sector. (17)

6.8 Support for renters

Longer tenancies – The government will consult on the barriers to landlords offering longer, more secure tenancies to those tenants who want them.

Targeted Affordability Funding – To support Housing Benefit and Universal Credit claimants living in areas where private rents have been rising fastest, the government will increase some Local Housing Allowance rates by increasing Targeted Affordability Funding by £40 million in 2018-19 and £85 million in 2019-20. This will increase the housing benefit awards of approximately 140,000 claimants in 2018-19, by an average of £280, in areas where affordability pressures are greatest. (13)

7. Public services

7.1 Introduction

The government's commitment to a balanced approach to managing the public finances means more funding is available for public services. The government is committed to making this funding available where it is needed most. Therefore the Budget provides £6.3 billion additional funding for the NHS. This includes £3.5 billion of capital investment in estates transformation, and improvement and efficiency schemes, so that the NHS can locally deliver more integrated care for patients and better meet demand. It also includes £2.8 billion in resource funding, as a significant first step towards meeting the government's commitment to increase NHS spending by a minimum of £8 billion in real terms by the end of this parliament. In addition, the government is committing to funding pay awards for NHS staff on the Agenda for Change contract that are agreed as part of a pay deal to improve productivity, recruitment and retention.

The government also remains committed to making sure the welfare system is simple and sustainable in the long term, and that work always pays. At the same time, it is ensuring that the most vulnerable in society are protected. The measures in the Budget will make sure that those most in need get the support they require, learning lessons from the early stages of the roll-out of Universal Credit.

The government will continue to ensure that public money is used as effectively as possible throughout the public sector. The Budget announces a step change in how the government assesses, incentivises and innovates to raise public sector productivity. This includes piloting the use of a Public Value Framework, as recommended by Sir Michael Barber, to drive productivity improvements across the public sector.

7.2 Health

The government will provide the NHS with £6.3 billion of additional funding in England.

NHS funding – At Spending Review 2015, the government funded the NHS's 'Five Year Forward View' plan. Even with this significant investment the health service remains under pressure, with high demand on its services caused by the UK's ageing population and rapidly advancing technology. The government will therefore provide the NHS with £2.8 billion of additional resource funding in England. This will help it get back on track to meet its performance targets on waiting times both in A&E and after patients are referred to treatment: (8)

- £335 million of this will be provided this year, to help the NHS to increase capacity over winter
- £1.6 billion will be provided in 2018-19 – taking the overall increase in the NHS's resource budget next year to £3.75 billion
- £900 million will be provided in 2019-20, to help address future pressures

This funding should enable the NHS to meet the A&E four-hour target next year, make inroads into waiting lists and improve performance against waiting time targets. It will therefore ensure that more patients receive the care that they need more quickly. Alongside this investment, the government expects the NHS to continue to improve its efficiency and productivity, and deliver its plan to transform services and deliver seamless care for patients.

NHS pay – To protect frontline services in the NHS, the government is also committing to fund pay awards as part of a pay deal for NHS staff on the Agenda for Change contract, including nurses, midwives and paramedics. Any pay deal will be on the condition that the pay award enables improved productivity in the NHS, and is justified on recruitment and retention grounds. This does not prejudge the role of the independent NHS Pay Review Body in recommending the level of pay award that these staff should receive.

NHS capital investment – The government is delivering on its share of the £10 billion package of investment recommended by Sir Robert Naylor's review of NHS property and estates, by providing a further £3.5 billion of new capital funding for the NHS in England – on top of the £425 million already provided at Spring Budget 2017.[footnote 74] This will be allocated as follows: (9)

- £2.6 billion will be for local groups of NHS organisations (Sustainability and Transformation Partnerships) to deliver transformation schemes that improve their ability to meet demand for local services. This funding will enable them to deliver more integrated care for patients, more care out of hospital and reduce waiting times. Alongside the Budget, the government has announced the first group of schemes to benefit from this funding, subject to the usual approvals processes
- £700 million will support turnaround plans in the individual trusts facing the biggest performance challenges, and tackle the most urgent and critical maintenance issues that trusts are facing – to help ensure every patient is treated in a safe environment, conducive to the highest quality of care

- £200 million will support efficiency programmes that will, for example, help reduce NHS spending on energy, and fund technology that will allow more money and staff time to be directed towards treating patients

This £3.5 billion will allow the NHS to increase the proceeds from selling surplus NHS land and buildings to at least £3.3 billion, almost doubling the scale of investment available to the NHS, and unlocking land for housing. It will also be accompanied by private finance investment in the health estate where this provides good value for money. And it will be complemented by work to review and improve the rules that inform trusts' use of capital funding, to help make sure that they can maintain their facilities most effectively. Taken together, these measures will help hospitals and commissioners to bring down running costs and invest in high quality patient care.

Mental health – the government is committed to parity of esteem between mental health and physical health. In December, a green paper will be published setting out the government's plans to transform mental health services for children and young people.

Disabled Facilities Grant – The Budget also provides £42 million of additional funding for the Disabled Facilities Grant in 2017-18, supporting people to stay in their own homes. This will increase the total budget for this year to £473 million.

7.3 Welfare and pensions

Changes to the welfare system since 2010 have helped to create a system where it pays to work and where the most vulnerable in society are protected, and which remains fair to the taxpayer.

Universal Credit – Universal Credit ensures work always pays, and it is working – more people are moving into work within 6 months under Universal Credit than in the legacy system.[footnote 75] The government is committed to ensuring Universal Credit supports people in work, which is why at Autumn Statement 2016 the government reduced the Universal Credit taper rate. The taper rate will be kept under review and the government will continue to consider the case for further changes.

The government will provide more support to Universal Credit claimants:

- from January 2018 those who need it, and who have an underlying entitlement to Universal Credit, will be able to access up to a month's worth of Universal Credit within five days via an interest-free advance. The government will extend the period of recovery from six months to twelve months, making it easier for claimants to manage their finances. New claimants in December will be able to receive an advance of 50% of their monthly entitlement at the beginning of their claim and a second advance to take it up to 100% in the new year, before their first payment date (14)
- from February 2018 the government will remove the seven-day waiting period so that entitlement to Universal Credit starts on the first day of application (14)
- from April 2018 those already on Housing Benefit will continue to receive their award for the first two weeks of their Universal Credit claim (15)
- the government will also make it easier for claimants to have the housing element of their award paid directly to their landlord

To support these changes the government will roll out Universal Credit more gradually between February 2018 and April 2018, and roll-out to all jobcentres will be complete in December 2018. (14)

Universal Credit also offers new opportunities to support people in low-paid work to progress in the labour market. The Budget allocates £8 million to trial innovative approaches to help individuals on Universal Credit to earn more. (16)

State Pension and Pension Credit – The basic State Pension will be increased by the triple lock. The rise in April 2018 will be 3%, a cash increase of £3.65 per week for the full basic State Pension. The benefits of the triple lock uprating will also be passed on to the poorest pensioners through an increase to the Standard Minimum Guarantee in Pension Credit to match the cash rise in the basic State Pension. This will be paid for through an increase in the Savings Credit threshold – the Savings Credit starting point. The full new State Pension will also be increased by the triple lock, rising by £4.80 per week.

Benefit fraud and error – Overall fraud and error in the benefit system remains low at 1.9% of the Department for Work and Pensions' (DWP) total welfare expenditure.[footnote 76] However, the government is committed to further improvements to ensure that taxpayers get value for money. The government will invest in the better use of data to ensure that fraudulent and error related payments are reduced. (50)

Relationship support – The government will provide funding for DWP's relationship support work, to help keep families together and reduce parental conflict. (19)

7.4 Public sector productivity

Raising the UK's public sector productivity is a prerequisite for maintaining control of public finances while meeting growing demands for world class public services. With public services accounting for around 20% of the UK economy, public sector productivity also plays an important role in the UK's productivity growth overall.[footnote 77]

Barber Review – The government welcomes Sir Michael Barber's review, 'Delivering better outcomes for citizens: practical steps for unlocking public value' published on 17 November 2017.[footnote 78] The government accepts the central recommendation to introduce a new Public Value Framework, a tool that will be used by government to measure how effectively public spending delivers results that improve people's lives. This will support more constructive conversations on public sector productivity and offer practical insights into improving public services. The approach will be piloted in collaboration with departments during 2018.

GovTech Catalyst – Growing and diversifying the UK digital economy, while ensuring the public sector can benefit from emerging technologies, is a priority for government. The government will create a GovTech Catalyst, a small central unit based in the Government Digital Service that will give businesses and innovators a clear access point to government. The unit will help them navigate government and collaborate to solve public sector challenges, which could include improving the planning process and freeing up teachers time.

GovTech Fund – The Budget commits up to £20 million over 3 years, starting in 2018-19, of R&D NPIF funding for a GovTech Fund. Public bodies will be able to access this fund to support procurement of innovative products through the Small Business Research Initiative (SBRI), run by Innovate UK.

Balance Sheet Review – The government holds £1.7 trillion of assets and £3.7 trillion of liabilities on its balance sheet.[footnote 79] The government is launching a Balance Sheet Review to make more effective use of these holdings, looking at areas such as estates optimisation, improving the return on

investments, and reducing the cost of liabilities. The Review will help to release resources for further investment in public services and improve the sustainability of the public finances. The government will update on progress of the Review at Budget 2018.

Workforce strategy – To develop and support public sector workers in driving productivity improvements, the government will build capability in workforce planning, management and monitoring. This will ensure the right people are in place, with the right skills and experiences to deliver key services.

Public sector leadership – Great leadership is crucial for improving productivity. The government will establish a Public Service Leadership Academy to complement existing provision, create networks and share best practice across the public services. A taskforce will be set up to advise on the role, remit and responsibilities of the new Academy and will provide an interim report by Spring Statement 2018.

Public sector pay – In September 2017 the government announced its intention to move away from the 1% basic public sector pay award policy, which is paid to public servants in addition to any incremental pay progression and allowances. The government will ensure that the overall pay award is fair to public sector workers, as well as to taxpayers, and reflects the vital contribution they make to delivering high quality public services. In 2018-19, for those workforces covered by an independent Pay Review Body (PRB), the relevant Secretary of State will shortly write to the PRB Chair to initiate the 2018-19 pay round, before later submitting detailed evidence outlining recruitment and retention data and reflecting the different characteristics and circumstances of their workforce. Each PRB will then make its recommendations in the spring or summer, based on the submitted evidence. Secretaries of State will make final decisions on pay awards, taking into account their affordability, once the independent PRBs report.

8. Annex A: Financing

This annex sets out revisions to the government's financing plans for 2017-18, which were previously updated on 25 April 2017. Further details of the revised remit for 2017-18, including progress against the remit to date, can be found on the website of the Debt Management Office (DMO).[footnote 80] The government's debt management framework remains as set out in the Debt Management Report 2017-18.[footnote 81]

8.1 Financing arithmetic

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

The OBR's November 2017 'Economic and fiscal outlook' forecasts the 2017-18 central government net cash requirement (excluding NRAM plc, Bradford & Bingley and Network Rail) (CGNCR (ex NRAM, B&B and NR)). This measure is used in the financing arithmetic as it reflects the forecast cash requirement of the Exchequer. The relationship between PSNB and CGNCR (ex NRAM, B&B and NR) is set out in the November 2017 'Economic and fiscal outlook'.

This requirement is forecast to be £43.4 billion for 2017-18, which represents a downward revision of £4.1 billion relative to Spring Budget 2017.

NS&I's net financing target has been revised down by £5.0 billion relative to Spring Budget 2017, from £13.0 billion to £8.0 billion.

These changes will be met by an upward revision of £0.9 billion to the net financing requirement (NFR) for the DMO. The DMO's NFR comprises: CGNCR (ex NRAM, B&B and NR) plus any financing for gilt redemptions, planned financing for the reserves, and other adjustments, minus the net contribution to financing from NS&I and any other in-year contributions to financing. The upward revision to the DMO's NFR will be delivered through an increase in gilt issuance this year of £0.9 billion.

8.2 Debt management objective

The debt management objective is set out in the Debt Management Report 2017-18:

"to minimise, over the long term, the costs of meeting the government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy."

While decisions on debt management policy must be taken with a long-term perspective, specific decisions on funding the government's gross financing requirement are taken annually. Those decisions are announced in advance for the forthcoming year and can be updated during the year.

The government is aware that the significant volume of index-linked gilt issuance in recent years has consequences for the long-term inflation exposure in the public finances. The UK's relatively high level of index-linked debt was one of the issues highlighted in the OBR's 'Fiscal risks report' in July 2017. The government will consider the appropriate balance between index-linked and conventional gilts in the coming years.

8.3 2017-18: Gilt issuance by maturity, type and method

The maturity skew and split of type of gilt issuance were previously set out at Spring Budget 2017. Total gilt sales in 2017-18 are now forecast to increase by £0.9 billion to £115.1 billion.

This revision will be met by an increase in the unallocated portion of the DMO's financing remit by £0.9 billion. The unallocated portion allows for gilts of any maturity or type to be issued, and by any issuance method, in response to evolving market conditions. The financing plans confirmed at Spring Budget 2017 included £6.6 billion of initially unallocated gilt issuance for 2017-18, of which £0.8 billion is remaining. The unallocated portion will now be increased to £1.7 billion for the remainder of 2017-18.

Auctions will remain the government's primary method of gilt issuance. It is anticipated that £89.7 billion (77.9%) of total issuance will be issued by auction in 2017-18, and a minimum of £23.7 billion (20.6%) will be issued by syndication. The government will continue to use gilt tenders to supplement issuance by auction and syndication.

8.4 2017-18: Treasury bills

Treasury bills comprised £69.5 billion of the total debt stock at the end of 2016-17.[footnote 82] It was anticipated at Spring Budget 2017 that Treasury bill issuance would make a negative net contribution of £9.5 billion to debt financing in 2017-18. The negative net contribution of Treasury bills to the NFR will remain unchanged at £9.5 billion.

8.5 2017-18: NS&I

At Spring Budget 2017, NS&I was set a Net Financing target of £13.0 billion for 2017-18, with a flexibility of plus or minus £3.0 billion. The target is being reduced by £5.0 billion to £8.0 billion, with a flexibility of plus or minus £3.0 billion. The change to the target reflects lower than expected Net Financing being

delivered in the first half of 2017-18 as a result of changing conditions in the savings market.

8.6 2017-18: Reserves

The financing arithmetic provides for £6.0 billion of sterling financing for the Official Reserves in 2017-18.

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

	Spring Budget 2017-18	April 2017-18 (1)	Autumn Budget 2017-18
CGNCR (ex NRAM, B&B and NR) (2)	47.4	47.4	43.4
Gilt redemptions	79.5	79.5	79.5
Planned financing for the reserves	6.0	6.0	6.0
Financing adjustment carried forward from previous financial years	-14.3	-15.2	-15.2
Gross financing requirement	118.6	117.7	113.6
less:			
NS&I net financing	13.0	13.0	8.0
Other financing (3)	0.0	0.0	0.0
Net financing requirement (NFR) for the Debt Management Office (DMO)	105.6	104.7	105.6
DMO's NFR will be financed through:			
Gilt sales, through sales of:			
Short conventional gilts	27.4	27.2	29.2
Medium conventional gilts	22.2	22.0	23.0
Long conventional gilts	32.3	32.1	33.4
Index-linked gilts	26.6	26.4	27.8
Unallocated amount of gilts	6.6	6.5	1.7
Total gilt sales for debt financing	115.1	114.2	115.1

	Spring Budget 2017-18	April 2017-18 (1)	Autumn Budget 2017-18
Total net contribution of Treasury bills for debt financing	-9.5	-9.5	-9.5
Total financing	105.6	104.7	105.6
DMO net cash position	0.5	0.5	0.5

Figures may not sum due to rounding.

1 Following the Spring Budget in March 2017, the financing arithmetic was updated in April 2017. This reflects the outturn of the previous financial year's CGNCR (ex NRAM, B&B and NR), which changes the financing adjustment and gross financing requirement.
2 Central government net cash requirement (excluding NRAM plc, Bradford & Bingley and Network Rail).
3 Prior to publication of the end-year outturn in April each year, this financing item will mainly comprise estimated revenue from coinage.
Source: HM Treasury, NS&I, Office for Budget Responsibility and UK Debt Management Office.

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

	2018-19	2019-20	2020-21	2021-22	2022-23
CGNCR (ex NRAM, B&B and NR) (1)	45.4	46.5	62.6	54.6	56.0
Gilt redemptions	67.3	99.1	97.6	79.3	73.3
Planned financing for the reserves	6.0	6.0	0.0	0.0	0.0
Total illustrative gross financing requirement	118.7	151.6	160.3	133.9	129.4

Figures may not sum due to rounding.

1 Central government net cash requirement (excluding NRAM plc, Bradford & Bingley and Network Rail).
Source: HM Treasury, Office for Budget Responsibility and UK Debt Management Office.

9. Annex B: Welfare cap

Table B.1 sets out a full list of expenditure items within the scope of the welfare cap. The Treasury will seek the approval of the House of Commons for any changes to the list of items of expenditure which fall within the scope of the welfare cap.

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

In scope	Not in scope
Attendance Allowance	Benefits paid from DEL (1)
Bereavement benefits	Jobseeker's Allowance and its passported Housing Benefit
Carer's Allowance	State Pension (basic and additional)
Child Benefit (including Guardian's Allowance)	Transfers within government (e.g. Over 75s TV licences)
Christmas Bonus	Universal Credit payments to claimants subject to full
Disability Living Allowance	conditionality and on zero income
Employment and Support Allowance	
Financial Assistance Scheme	
Housing Benefit (except HB passported from JSA)	
Incapacity Benefit	
Income Support	
Industrial injuries benefits	
In Work Credit	
Maternity Allowance	
Pension Credit	
Personal Independence Payment	
Personal Tax Credits	
Return to Work Credit	

In scope	Not in scope
Severe Disablement Allowance	
Social Fund - Cold Weather Payments	
Statutory Adoption Pay	
Statutory Maternity Pay	
Statutory Paternity Pay	
Tax Free Childcare	
Universal Credit (except payments to jobseekers)	
Winter Fuel Payments	

1 These payments are subject to firm spending control through the usual DEL process.

10. Annex C: Office for Budget Responsibility’s economic and fiscal outlook

The Office for Budget Responsibility (OBR) has published its November 2017 ‘Economic and fiscal outlook’ alongside Autumn Budget 2017. This annex reproduces the OBR’s key projections for the economy and public finances. Further detail and explanation can be found in the OBR’s report.

Access the OBR’s Economic and fiscal outlook – November 2017 (http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-november-2017/).

---

1. Details of the sources of all numerical references, including National Statistics, used in this section, can be found in ‘Autumn Budget 2017 data sources (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661469/AB2017_data_sources_web.pdf)’.
2. CPIH extends CPI to include costs associated with owning, maintaining and living in one’s own home as well as council tax.
3. ‘Statement on the redesignation of CPIH as a National Statistic (https://www.ons.gov.uk/news/statementsandletters/statementontheredesignationofcpihasanationalstatistic)’, Office for National Statistics (ONS), July 2017
4. ‘Economic and fiscal outlook (http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-november-2017/)’, Office for Budget Responsibility, November 2017
5. ‘Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 1 November 2017 (http://www.bankofengland.co.uk/publications/minutes/Documents/mpc/pdf/2017/nov.pdf)’, Bank of England, November 2017

6. 'Asset Purchase Facility (APF) ceiling (https://www.gov.uk/government/publications/asset-purchase-facility-apf-ceiling-november-2017)', HM Treasury and Bank of England, November 2017
7. 'Public sector finances: October 2017 (https://www.ons.gov.uk/releases/ukpublicsectorfinancesoct2017)' ONS, November 2017
8. See Table 1.4, p.18.
9. 'Public finances databank (http://budgetresponsibility.org.uk/download/public-finances-databank/)', OBR, November 2017
10. 'Charter for Budget Responsibility: autumn 2016 update (https://www.gov.uk/government/publications/charter-for-budget-responsibility-autumn-2016-update)', HM Treasury, January 2017
11. 'Public finances databank (http://budgetresponsibility.org.uk/download/public-finances-databank/)', OBR, November 2017
12. 'Statement on classification of English housing associations (https://www.ons.gov.uk/news/statementsandletters/statementonclassificationofenglishhousingassociationsnovember2017)', ONS, November 2017
13. 'Public finances databank (http://budgetresponsibility.org.uk/download/public-finances-databank/)', OBR, November 2017
14. 'Fiscal risks report (http://budgetresponsibility.org.uk/frr/fiscal-risk-report-july-2017/)', OBR, July 2017
15. General government net borrowing on a Maastricht basis.
16. 'Public finances databank (http://budgetresponsibility.org.uk/download/public-finances-databank/)', OBR, November 2017
17. 'Public finances databank (http://budgetresponsibility.org.uk/download/public-finances-databank/)', OBR, November 2017
18. 'Public finances databank (http://budgetresponsibility.org.uk/download/public-finances-databank/)', OBR, November 2017
19. 'Spending Review and Autumn Statement 2015 (https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015)', HM Treasury, November 2015
20. 'Lloyds Banking Group has been fully returned to private ownership (https://www.gov.uk/government/news/government-shareholding-in-lloyds-banking-group)', HM Treasury, May 2017
21. HM Treasury calculations.
22. 'UKAR fact sheet Financial Year to 31 March 2017 (http://www.ukar.co.uk/~/media/Files/U/Ukar-V2/Attachments/fact-sheet/ukar-factsheet-04-07-2017.pdf)', UKAR, July 2017
23. 'Bradford & Bingley asset sale to raise £11.8 billion for UK taxpayers (https://www.gov.uk/government/news/bradford-bingley-asset-sale-to-raise-118-billion-for-uk-taxpayers)', HM Treasury, March 2017
24. 'Statement on the sale of the UK Green Investment Bank (GIB) to Macquarie Group Limited (https://www.gov.uk/government/speeches/sale-of-green-investment-bank)', Department for Business, Energy and Industrial Strategy, April 2017
25. 'Government Asset Sale: Written statement to Parliament (https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2017-10-31/HCWS205/)' (HCWS205), October 2017
26. 'Network Rail launches commercial asset sale (https://www.networkrail.co.uk/feeds/network-rail-launches-commercial-asset-sale/)', Network Rail, November 2017

27. KPMG and HMT analysis; 'Corporate tax rates table (https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html)', KPMG, November 2017
28. 'HMRC annual report and accounts (https://www.gov.uk/government/collections/hmrcs-annual-report-and-accounts)', HMRC, 28 June 2012 (https://www.gov.uk/government/publications/annual-report-and-resource-accounts-2011-12) and 13 July 2017; and 'Measuring tax gaps (https://www.gov.uk/government/statistics/measuring-tax-gaps)', HMRC, 26 October 2017.
29. 'Economic and fiscal outlook (http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-november-2017/)', OBR, November 2017
30. HMRC analysis based on Survey of Personal Incomes (SPI) 2014-15 data, and Autumn Budget 2017 OBR forecasts.
31. This is in line with CPI inflation.
32. 'Good work: the Taylor review of modern working practices (https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices)', Matthew Taylor, July 2017
33. HMT and DCLG calculations.
34. by reinstating the previous valuation practice in multi-occupancy buildings, which applied before the recent Supreme Court judgement, Woolway (VO) v Mazars [2015] UKSC 53.
35. HMT calculations based on OBR RPI forecasts.
36. 'Driving investment: a plan to reform the oil and gas fiscal regime (https://www.gov.uk/government/consultations/review-of-the-oil-and-gas-fiscal-regime-a-call-for-evidence)', HMT, December 2014
37. 'Value added tax: routes to simplification (https://www.gov.uk/government/publications/ots-report-on-routes-to-simplification-for-vat-is-published)', OTS, November 2014
38. 'Measuring tax gaps (https://www.gov.uk/government/statistics/measuring-tax-gaps)', HMRC, 26 October 2017
39. 'Multilateral convention to implement tax treaty related measures to prevent base erosion and profit shifting (http://www.oecd.org/tax/treaties/multilateral-convention-to-implement-tax-treaty-related-measures-to-prevent-beps.htm)', OECD, June 2017
40. 'International comparisons of UK productivity (https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/internationalcomparisonsofproductivityfirstestimates)', ONS, October 2017
41. For more information see 'Autumn Budget 2017 data sources (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661469/AB2017_data_sources_web.pdf)'.
42. Further information on apprenticeship figures is available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/650904/201617_Oct_Apps_Geography_Data_Pack_Final.xlsm (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/650904/201617_Oct_Apps_Geography_Data_Pack_Final.xlsm)
43. 'Public finances databank (http://budgetresponsibility.org.uk/download/public-finances-databank/)', OBR, October 2017. (Excludes the exception years following the financial crisis).
44. 'Corporate report: Single department plan 2015 to 2020 (https://www.gov.uk/government/publications/dft-single-departmental-plan-2015-to-2020)', Department for Transport, October 2016

45. Further information is available at: www.gov.uk/government/speeches/plans-for-an-effective-and-reliable-road-network-in-the-decades-ahead (https://www.gov.uk/government/speeches/plans-for-an-effective-and-reliable-road-network-in-the-decades-ahead)
46. Including both direct spending and support provided through R&D tax credits. Source: HMT analysis of OBR and HMRC data.
47. 'Bank of America Merrill Lynch, Robot Revolution – Global Robot & AI Primer (https://www.scribd.com/document/328954872/BofA-ML-Global-Robot-AI-Primer-12-16-2015)', December 2015
48. 'Market forecast for connected and autonomous vehicles (https://www.gov.uk/government/publications/connected-and-autonomous-vehicles-market-forcecast)', Centre for Connected and Autonomous Vehicles, September 2017
49. 'The economic impacts of artificial intelligence on the UK economy (https://www.pwc.co.uk/economic-services/assets/ai-uk-report-v2.pdf)', PwC, June 2017
50. Further information is available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/652097/Growing_the_artificial_intelligence_industry_in_the_UK.pdf
51. 'Engineering UK's report: The State of Engineering UK 2016 (http://epc.ac.uk/state-of-engineering-2016/)', Engineering UK, February 2016
52. 'Graduate outcomes for all subjects by university (https://www.gov.uk/government/statistics/graduate-outcomes-for-all-subjects-by-university)', Department for Education', June 2017
53. 'Revised A Level and other 16-18 results in England, 2015/2016 (https://www.gov.uk/government/statistics/a-level-and-other-16-to-18-results-2015-to-2016-revised)', Department for Education, January 2017
54. 'Annual Survey of Hours and Earnings (https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults)', ONS, October 2017
55. Further information is available at: www.gov.uk/government/publications/national-minimum-wage-low-pay-commission-autumn-2016-report
56. For more information see 'Autumn Budget 2017 data sources (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661469/AB2017_data_sources_web.pdf)'.
57. For more information see 'Autumn Budget 2017 data sources (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661469/AB2017_data_sources_web.pdf)'.
58. Further information is available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/642456/financing_growth_in_innovative_firms_consultation_web.pdf (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/642456/financing_growth_in_innovative_firms_consultation_web.pdf)
59. 'Investigation into the management of the Libor Fund (https://www.nao.org.uk/press-release/investigation-into-the-management-of-the-libor-fund/)', NAO, September 2017
60. Public investment in economic infrastructure is defined by the National Infrastructure Commission's Fiscal remit. For more information see 'Autumn Budget 2017 data sources (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661469/AB2017_data_sources_web.pdf)'.

61. ‘Flood and coastal erosion risk management investment programme 2015-2021 (https://www.gov.uk/government/publications/programme-of-flood-and-coastal-erosion-risk-management-schemes)’, Environmental Agency, April 2017
62. ‘Control for Low Carbon Levies (https://www.gov.uk/government/publications/control-for-low-carbon-levies)’, HM Treasury, November 2017
63. For more information see ‘Autumn Budget 2017 data sources (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661469/AB2017_data_sources_web.pdf)’.
64. ‘Light Rail and Tram Statistics: England 2016/17 (https://www.gov.uk/government/collections/light-rail-and-tram-statistics)’, Department for Transport, June 2017
65. ‘Ratio of house price to workplace-based earnings (lower quartile and median) (https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ratioofhousepricetoworkplacebasedearningslowerquartileandmedian)’, Office for National Statistics, March 2017
66. ‘Help to Buy (Equity Loan scheme) and Help to Buy: NewBuy statistics: Data to 30 June 2017, England (https://www.gov.uk/government/statistics/help-to-buy-equity-loan-scheme-and-help-to-buy-newbuy-statistics-april-2013-to-30-june-2017)’, DCLG, September 2017 (more information available in ‘Autumn Budget 2017 data sources (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661469/AB2017_data_sources_web.pdf)’)
67. ‘English Housing Survey headline report 2015 to 2016: section 1 household tables (https://www.gov.uk/government/statistics/english-housing-survey-2015-to-2016-headline-report)’, Department for Communities and Local Government, March 2017. Percentage change in homeownership for 25-34 year olds was 20.4% between 2003-04 (58.6%) and 2015-16 (38.2%)
68. ‘Live tables on housing supply: net additional dwellings (https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing)’, Department for Communities and Local Government, November 2017
69. ‘Housing supply; net additional dwellings, England: 2016-17 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/659529/Housing_Supply_England_2016-17.pdf)’, Department for Communities and Local Government, November 2017
70. ‘Evidence on the nature and sources of agglomeration economies, Rosenthal and Strange (http://www.econ.brown.edu/Faculty/henderson/WillAndStuart.pdf)’, 2004
71. ‘Real house prices in OECD countries: The role of demand shocks and structural policy factors (http://www.oecd-ilibrary.org/economics/real-house-prices-in-oecd-countries_5km33bqzhbzr-en?crawler=true)’, Andrews. D, 2010
72. Section 106 agreements are legal agreements between local authorities and developers. They are a mechanism which makes a development proposal acceptable in planning terms, which would not otherwise be acceptable. Section 106 agreements provide site specific mitigations.
73. ‘Help to Buy (equity Loan scheme) and Help to Buy: NewBuy statistics: Data to 30 June 2017, England (https://www.gov.uk/government/statistics/help-to-buy-equity-loan-scheme-and-help-to-buy-newbuy-statistics-april-2013-to-30-june-2017)’, Department for Communities and Local Government, September 2017
74. ‘NHS property and estates (https://www.gov.uk/government/publications/nhs-property-and-estates-naylor-review)’, Sir Robert Naylor, March 2017
75. ‘Universal Credit employment impact analysis (https://www.gov.uk/government/publications/universal-credit-employment-impact-analysis-update)’, Department for Work and Pensions, September 2017

76. 'Fraud and Error in the Benefit System: 2015/16 Final Estimates (https://www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-201516-estimates)', Department for Work and Pensions, December 2016
77. 'Quarterly National Accounts Data Tables (https://backup.ons.gov.uk/wp-content/uploads/sites/3/2017/09/Quarterly-national-accounts-April-to-June-2017.pdf)' (General Government expenditure as a percentage of GDP at market prices), ONS, September 2017
78. 'Delivering better outcomes for citizens: practical steps for unlocking practical value (https://www.gov.uk/government/publications/delivering-better-outcomes-for-citizens-practical-steps-for-unlocking-public-value)', Sir Michael Barber, November 2017
79. 'Whole of government accounts 2015-16 (https://www.gov.uk/government/publications/whole-of-government-accounts-2015-to-2016)', HM Treasury, July 2017
80. www.dmo.gov.uk
81. 'Debt management report 2017-18 (https://www.gov.uk/government/publications/debt-management-report-2017-to-2018)', HM Treasury, March 2017
82. 'Quarterly Review for January to March 2017 (http://www.dmo.gov.uk/documentview.aspx?docname=publications/quarterly/jan-mar17.pdf&page=Quarterly_Review)', UK Debt Management Office, May 2017

Print this page