HM Treasury

AUTUMN STATEMENT 2016

Cm 9362

November 2016

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Presented to Parliament by
the Chancellor of the Exchequer
by Command of Her Majesty

November 2016

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Contents

Executive Summary

Since 2010, the government has made huge progress in turning the economy around following the Great Recession. The employment rate is at a record high and the deficit has fallen by almost two thirds. But more needs to be done. The deficit remains too high and productivity too low. In addition, the government wants to see more people sharing in the UK's prosperity and ensure that the tax system is one where everyone plays by the same rules.

In the near term, the UK's economic outlook has become more uncertain. The British people's decision to leave the EU presents new opportunities, but also new challenges. The Autumn Statement sets out policies which support the economy during this transition. Alongside the forthcoming Industrial Strategy it prioritises investment to improve productivity and ultimately living standards. It provides certainty for business to secure investment and create jobs; and reprioritises spending to build an economy that works for everyone.

UK economy

The UK economy showed considerable momentum in the run up to the EU referendum, and has shown significant resilience since. The UK is forecast to be the fastest growing country in the G7 in 2016 and economic activity grew 2.3% in the year to Q3 2016. The employment rate is at a record high of 74.5%, and between 2009-10 and 2015-16 the deficit was reduced by almost two-thirds from 10.1% to 4.0% of GDP.

The UK is likely to face a period of uncertainty, followed by adjustment. Reflecting this, the Office for Budget Responsibility (OBR) forecasts that GDP growth will slow to 1.4% in 2017, and then recover to 1.7% in 2018, 2.1% in both 2019 and 2020, and 2.0% in 2021. The OBR expects lower business investment and household spending to weigh on GDP in the near term. Lower business investment is expected to exacerbate the long-standing weakness in UK productivity. The OBR highlights that there is a higher than usual degree of uncertainty in these forecasts.

Public finances and fiscal policy

The OBR's forecast for the public finances shows a deterioration since Budget 2016, due to disappointing tax revenues over the first half of this year, a weaker economic outlook weighing on receipts from income taxes, and higher spending by local authorities, public corporations, and on welfare benefits. Compared with the OBR's Budget 2016 forecast, borrowing is higher in every year of the forecast and £32 billion higher in 2020-21. Debt peaks at over 90% of GDP in 2017-18 due to a combination of higher borrowing, lower asset sales, and the impact of the Bank of England's monetary policy operations.

The Autumn Statement sets out how the government will return the public finances to health, while providing flexibility to support the economy in the near term and addressing long-term economic weaknesses through increased investment. The government will return the public finances to balance as soon as possible in the next Parliament, with an interim objective of reducing the structural deficit to less than 2% of GDP, and for debt as a percentage of GDP to be falling by the end of this Parliament.

To achieve this, the government is committed to maintaining fiscal discipline. At the Autumn Statement the government chooses to borrow only to invest in highly-targeted infrastructure and innovation which will boost productivity. All other new commitments have been funded.

Productivity

The Autumn Statement, and the government's forthcoming Industrial Strategy, will focus on raising productivity to raise living standards for people across the UK.

A new National Productivity Investment Fund will add £23 billion in high-value investment from 2017-18 to 2021-22. The government will target this spending at areas that are critical for productivity: housing; research and development (R&D); and economic infrastructure. The NPIF will take total spending in these areas to £170 billion over the period from 2017-18 to 2021-22, reaching 1.7% of GDP in 2021-22. The new spending includes:

- £7.2 billion to support the construction of new homes, including spending by Housing Associations
- £4.7 billion to enhance the UK's position as a world leader in science and innovation
- £2.6 billion to tackle congestion and ensure the UK's transport networks are fit for the future
- £0.7 billion to support the market to roll out full-fibre connections and future 5G communications

The government will encourage private investment with £400 million from the British Business Bank to unlock £1 billion of new investment in innovative firms planning to scale up, and a doubling of capacity to support exporters through UK Export Finance.

In addition the government will review the tax environment for R&D to look at ways to build on the introduction of the 'above the line' R&D tax credit to make the UK an even more competitive place to do R&D.

The government will raise productivity across the UK. The government is publishing the Northern Powerhouse Strategy, allocating £1.8 billion funding for regions through the Local Growth Fund, continuing discussions with the West Midlands and London on future devolution deals, and continuing to pursue city deals in Scotland and Wales.

Tax

Providing certainty is central to the government's aims for the tax system. The government's intention is to move to a single fiscal event in the autumn each year to provide more stability for businesses and individuals. Despite pressure on the public finances:

- the government recommits to raising the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of the Parliament. By 2020, the government will have delivered a decade of income tax cuts, reducing taxes so that working families can take home more of what they earn. From that point the personal allowance will rise in line with the Consumer Prices Index
- the government recommits to the business tax road map which sets out plans for major business taxes to 2020 and beyond, including cutting the rate of corporation tax to 17% by 2020, the lowest in the G20, and reducing the burden of business rates by £6.7 billion over the next 5 years.

In order to reduce living costs, and support those who are just about managing to get by, the government will freeze fuel duty from April 2017 for the seventh successive year. This will save the average driver around £130 a year, compared to pre-2010 fuel duty escalator plans.

The government will also take action to promote fairness in the tax system, ensuring everyone plays by the same rules, and to secure a sustainable tax base:

- to tackle tax avoidance, the government will strengthen sanctions and deterrents and will take further action on disguised remuneration tax avoidance schemes
- to ensure multinational companies pay their fair share, following consultation, the government will go ahead with reforms to restrict the amount of profit that can be offset by historical losses or high interest charges
- to fund commitments made in the Autumn Statement, Insurance Premium Tax will rise from 10% to 12% in June 2017
- to promote fairness and broaden the tax base, the government will phase out the tax advantages of salary sacrifice arrangements

Public spending

Putting the public finances on a sustainable path is vital to securing a strong and stable economy. Departments will therefore continue to deliver overall spending plans set at the Spending Review 2015. The Efficiency Review announced at Budget 2016 will update in autumn 2017.

The government will deliver welfare savings already identified but has no plans to introduce further welfare savings measures in this Parliament beyond those already announced.

To help people progress in work, the government will reduce the taper rate that applies in Universal Credit from 65% to 63% so working families will keep more of every pound they earn.

In order to support savers, NS&I will offer a new market leading 3-year savings bond, open to those aged 16 and over, available for 12 months from spring 2017.

Table 1: Autumn Statement 2016 policy decisions (£ million)[1]

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total tax policy decisions	+25	+375	+640	+720	+565	+555
Total spending policy decisions	-310	-3,930	-6,335	-8,680	-7,490	-9,270
Total policy decisions	**-285**	**-3,555**	**-5,695**	**-7,960**	**-6,925**	**-8,715**
Total policy decisions excluding NPIF and inherited policy	**-220**	**+40**	**+170**	**-5**	**+30**	**+130**

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

1 Economy and public finances

Economy

1.1 Government action since 2010 has helped to ensure that the fundamentals of the economy are strong. The government has taken steps to improve growth prospects and reduce the deficit, putting the economy on a sound footing. In recent years, the UK economy has grown at a faster pace than other major advanced economies, which has supported strong gains in employment. As data released since the EU referendum have shown, the economy has been resilient. Gross Domestic Product (GDP) grew at a solid rate through the first three quarters of 2016, and employment and living standards have continued to rise.[1]

1.2 The Office for Budget Responsibility (OBR) judges that there will now be a period of economic uncertainty as the UK negotiates its departure from the EU. Beyond that, the economy will need to adjust to new relationships with the EU and the rest of the world. Consistent with most external studies, the OBR expects that this period of uncertainty and adjustment will lead to lower business investment. This has driven its assessment that the outlook for productivity growth is weaker than it had previously envisaged.

1.3 This section outlines the current position of the UK economy, and the OBR's forecast for the economic outlook. This provides the backdrop for both meeting the challenge and seizing the opportunities that the next few years will bring.

UK economy

Growth

1.4 The UK economy has grown 14.3% in real terms since Q1 2010, second only to the US among major advanced economies. UK GDP grew 2.2% in 2015, and growth has remained solid in the first three quarters of 2016. GDP grew 2.3% in the year to Q3 2016, with average quarterly growth of 0.5% in 2016 to date.

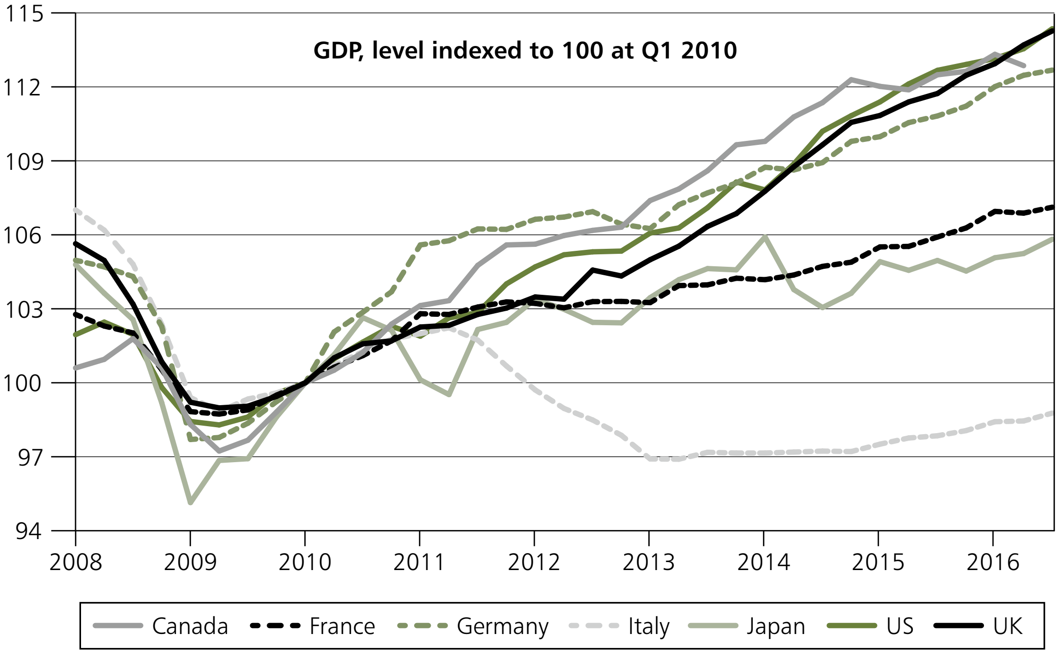
1.5 On a per capita basis, UK GDP has increased 9.0% since Q1 2010, and has experienced the third fastest growth among major advanced economies since 2010. After falling during the financial crisis, GDP per capita grew slowly in the early years of the recovery, and only reached its pre-crisis peak in Q4 2015. Growth has since increased; GDP per capita grew 1.4% in 2015 and has continued to rise more recently, increasing 1.5% in the year to Q3 2016.

1.6 Household consumption growth has been consistently strong in recent years. Consumption rose by 2.5% in 2015, and growth picked up to 2.9% in the year to Q2 2016. Household saving as a proportion of disposable income has fallen from a recent peak of 11.5% in Q1 2010, and is now at 5.1%, having been broadly stable for the last three years.

[1] Details of the sources of all numerical references, including National Statistics, used in this section, can be found in 'Autumn Statement 2016 Data Sources'.

1.7 Business investment increased by 5.1% in 2015, but has been weaker in recent quarters, falling by 0.8% in the year to Q2 2016. Official data on business investment in Q3 2016 will be published on 25 November 2016. Most private business surveys suggest that investment has remained subdued, and many firms cite uncertainty about future demand and the outcome of the EU negotiations as weighing on spending.

Chart 1.1: International comparison of GDP



Source: Organisation for Economic Cooperation and Development.

Trade

1.8 The total volume of exports increased 4.5% in 2015, while the volume of imports increased 5.4%. The trade in goods deficit widened to £126.4 billion while the trade in services surplus increased to £87.8 billion, combining to give a total trade deficit of £38.7 billion or 2.1% of GDP. This is in line with its average since 2010 and down from a peak of 3.0% of GDP in 2008.

1.9 The annual current account deficit was the largest on record in 2015, at 5.4% of GDP. On a quarterly basis, the deficit remained close to record highs, and wide by international and historical standards, at 5.9% of GDP in Q2 2016. The widening in recent years has been driven by a deterioration in the UK's primary income balance, as the return on assets held overseas by UK residents was relatively weaker. There was a primary income deficit of 2.0% of GDP in 2015, in contrast to surpluses before 2012.

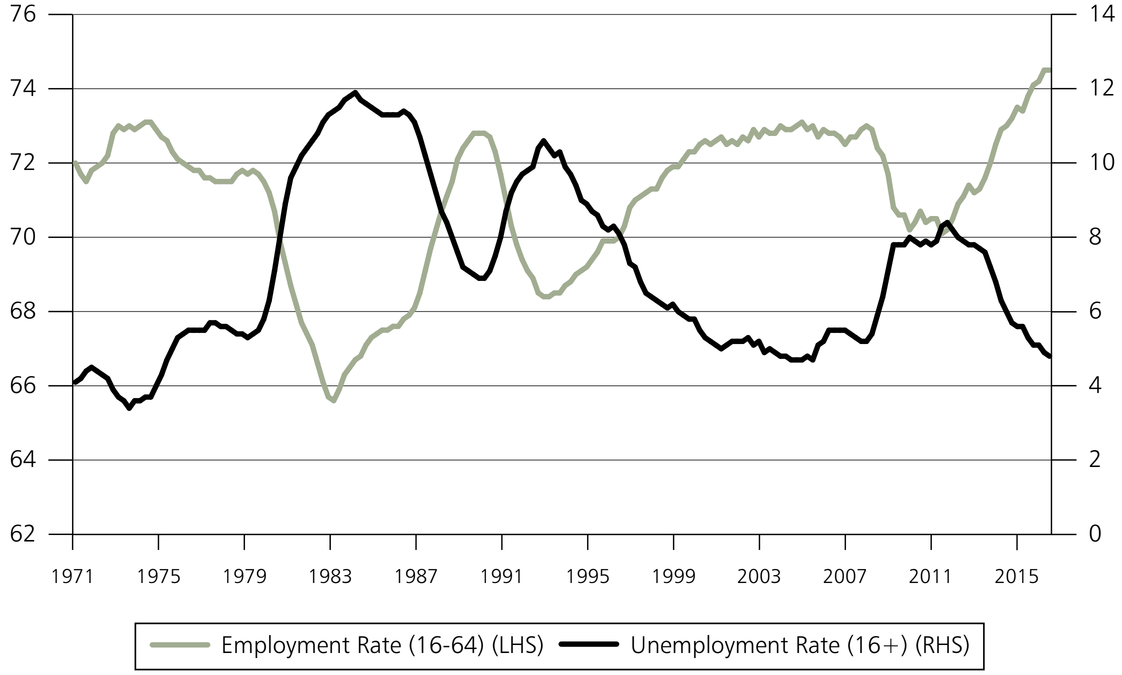
Prices

1.10 Consumer price growth has slowed in recent years, with the Consumer Prices Index (CPI) measure of inflation falling from a peak of 5.2% in September 2011. Falling fuel and food prices through 2014 and 2015 contributed to unusually low inflation, with CPI inflation averaging 0.0% in 2015, supporting real income growth and household spending. Inflation has risen in recent months, as fuel prices have started to increase internationally, and reached 1.0% in September 2016 before falling back to 0.9% in October. The post-referendum sterling depreciation has amplified the effect of global oil price rises, increasing the contribution of the energy and transport components to CPI inflation.

Labour market

1.11 The employment rate has been rising since 2010 and stood at a record high of 74.5% in the three months to September 2016. The number of people in employment has also reached its highest ever level in recent months, and there are now over 2.7 million more people in work than in Q1 2010. Over the same period, average hours worked have increased 1.6% to 32.1 hours per week, with full-time workers accounting for 72% of employment growth. The unemployment rate was 4.8% in the three months to September 2016, its lowest in 11 years.

Chart 1.2: Employment rate and unemployment rate (percentage, quarterly)



Source: Office for National Statistics.

1.12 The UK has a longstanding productivity gap with other major advanced economies. In 2015, UK labour productivity, as measured on an output per hour basis, was 18 percentage points below the average of other G7 countries; 35 percentage points below Germany; and 30 percentage points below the US. UK labour productivity growth remains subdued, as in most advanced economies. The average rate of productivity growth across Organisation for Economic Cooperation and Development (OECD) countries fell to 0.9% between 2010 and 2014, compared with 1.8% in the five years before the financial crisis. Although UK productivity growth increased slightly to 0.9% in 2015, this is less than half the average growth rate experienced before the financial crisis.

1.13 With relatively slow productivity growth, earnings growth in the UK has remained subdued following the financial crisis – a trend observed in many advanced economies during this period. More recently, UK earnings growth has picked up. Total pay rose 2.3% in the three months to September 2016, compared with the same period a year earlier. Regular pay (excluding bonuses) grew 2.4% over the same period.

1.14 Some improvement in wage growth and unusually low inflation has supported increases in living standards, as measured by real household disposable income (RHDI) per capita, in recent years. RHDI per capita grew 2.8% in 2015 – the fastest rate of growth in 14 years – and has continued to increase in 2016, rising 2.0% in the year to Q2 2016.

Global economy

1.15 The global economy remains subdued, posing continued challenges for the UK economy. Global growth was 3.2% in 2015, the slowest pace since the financial crisis, and the International Monetary Fund (IMF) forecasts that global growth will remain modest, at 3.1% in 2016 and 3.4% in 2017. Advanced economies grew 2.1% in 2015, while emerging economies grew 4.0%, the fifth consecutive year of slowing emerging economy growth. China's growth has slowed, as policymakers seek to move to a more sustainable growth path, but, like in India, growth remains well above the global average.

1.16 Growth in global trade has also slowed in recent years to a rate well below its pre-crisis trend. World trade has grown at an average annual rate of 3.2% over the last four years, compared with an average annual rate of 7.1% in the two decades before the financial crisis. This is a weakening of the historical relationship between trade and GDP growth; global trade growth was lower than global GDP growth in 2015 and is expected to remain lower in 2016.

Economic outlook

1.17 The OBR's Autumn Statement forecast is for slightly stronger GDP growth in 2016 than expected in March. The UK economy showed considerable momentum in the run up to the referendum, and has shown significant resilience since. Thereafter, the OBR's forecast reflects a new set of circumstances for the UK economy, resulting from the decision to leave the EU. In the near term, economic uncertainty during the period of negotiation is likely to constrain business investment, and higher inflation, largely caused by the post-referendum sterling depreciation, is likely to put downward pressure on real incomes, weighing on household consumption growth.

1.18 The economy will then adjust to new relationships with the EU and the rest of the world over the coming years. In producing the forecast, the OBR has not attempted to predict the precise outcome of negotiations, nor the breadth and depth of new relationships that may be negotiated bilaterally with the EU or other trading partners. Instead, it has made assumptions in line with a range of external studies. As the OBR sets out, the unprecedented nature of the decision to leave the EU has increased uncertainty around the outlook for the UK economy.

1.19 The outlook for trend productivity growth is the most important and most uncertain judgement in the OBR's economic forecast. The OBR now judges that uncertainty following the decision to leave the EU will reduce business investment. In turn, with lower investment the OBR has made a downward revision to productivity growth over the medium term. The level of potential output is forecast to be 1.5 percentage points lower than had been forecast in March. However, the OBR notes that in the absence of the referendum result it would have revised up its forecast for net migration and potential growth. As a result the OBR judges that the EU referendum result has served to reduce potential output by 2.4 percentage points.

Growth

1.20 With lower potential output over the next 5 years, the OBR expects weaker GDP growth than at Budget 2016. The OBR forecasts GDP growth to be 1.4% in 2017, rising to 1.7% in 2018, 2.1% in both 2019 and 2020, and 2.0% in 2021. GDP growth has been revised down by 0.8 percentage points in 2017 and by 0.4 percentage points in 2018, and is unchanged in both 2019 and 2020. GDP growth on a per capita basis has been revised down by the same amount, given the unchanged forecast for population growth.

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

		Forecast					
	2015	2016	2017	2018	2019	2020	2021
GDP	2.2	2.1	1.4	1.7	2.1	2.1	2.0
GDP per capita	1.4	1.3	0.7	1.0	1.4	1.4	1.4
Main components of GDP							
Household consumption[2]	2.5	2.8	1.2	1.1	2.1	2.0	2.0
General government consumption	1.5	1.0	0.6	0.5	0.3	0.6	0.8
Fixed investment	3.4	-0.1	1.2	3.6	4.0	4.5	3.3
Business	5.1	-2.2	-0.3	4.1	5.3	4.1	3.6
General government[3]	-2.0	2.3	3.3	2.1	1.9	8.8	3.3
Private dwellings[3]	2.8	2.8	2.8	3.7	2.4	2.9	3.0
Change in inventories[4]	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net trade[4]	-0.4	-0.2	0.3	0.3	-0.1	-0.1	-0.1
CPI inflation	**0.0**	**0.7**	**2.3**	**2.5**	**2.1**	**2.0**	**2.0**
Employment (millions)	**31.3**	**31.7**	**31.8**	**31.9**	**32.0**	**32.2**	**32.3**
LFS unemployment (% rate)[5]	**5.4**	**5.0**	**5.2**	**5.5**	**5.4**	**5.4**	**5.4**
Productivity per hour	**0.8**	**0.9**	**1.3**	**1.4**	**1.8**	**2.0**	**2.0**

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

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

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

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

[5] *Labour Force Survey.*

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

1.21 The OBR has revised up its forecast for household consumption growth in 2016, based on recent data showing continued robust consumer spending during the year to date. However, consumption growth is then forecast to slow, as the recent decline in sterling is expected to put upward pressure on inflation and therefore restrict real income growth. This contributes to the weaker GDP growth forecast in 2017 and 2018. The OBR forecasts consumption growth of 1.2% in 2017 and 1.1% in 2018 – both 1.0 percentage point lower than forecast at Budget 2016 – before increasing to between 2.0% and 2.1% growth for the remainder of the forecast period.

1.22 As consumption growth is not expected to slow as much as household income growth, the OBR forecasts that household saving as a proportion of disposable income will fall to 3.8% in 2017, before increasing to 4.2% in 2018 and 2019, 4.3% in 2020 and 4.4% in 2021.

1.23 The downward revision to the outlook for business investment has been more substantial. A combination of weak recent data and the effect of higher uncertainty, cited by firms, mean that the OBR forecasts a 2.2% fall in business investment in 2016, followed by a 0.3% fall in 2017 – revised down by 4.7 percentage points in 2016 and 6.3 percentage points in 2017. The OBR expects that business investment will then return to growth, increasing 4.1% in 2018, 5.3% in 2019, 4.1% in 2020 and 3.6% in 2021. However, the level of investment is expected to remain permanently lower than that forecast at Budget 2016. This has the effect of depressing near-term GDP growth, and additionally slows the productive potential of the economy.

Trade

1.24 Sterling depreciated 14.2% on a trade-weighted basis between the beginning of June and the end of October. The OBR expects that this will support exports and reduce imports in the short term, with net trade adding 0.3 percentage points to GDP growth in both 2017 and 2018. In the longer term, forecasts for both import and export growth have been revised down by similar amounts, due to the loss of trade that the OBR judges will result from the UK leaving the EU. This judgement draws on a range of external studies of the effect of leaving the EU on UK trade. The effect is to leave the net trade contribution to GDP little changed from the March forecast in 2019 and 2020.

1.25 The OBR forecasts that the current account deficit will narrow, to 5.0% of GDP in 2017, 4.2% of GDP in 2018, 3.4% of GDP in 2019, 2.8% of GDP in 2020 and 2.7% of GDP in 2021. The OBR expects that recent net investment income deficits will fade and return to surplus as the rate of return on the UK's stock of foreign assets normalises and the value of investment income received on those assets rises due to the depreciation of sterling.

Prices

1.26 The weaker exchange rate has a material effect on the OBR's forecast for consumer prices. The depreciation is expected to put upward pressure on inflation, coupled in the short term with higher fuel prices and the drag from past falls in fuel and food prices falling out of the annual comparison. The OBR forecasts CPI inflation of 2.3% in 2017, 2.5% in 2018, 2.1% in 2019 and 2.0% in 2020 and 2021.

Labour market

1.27 The OBR forecasts that the number of people in employment will continue to increase, reaching 32.3 million in 2021. Weaker expected activity in the near term has also caused the OBR to revise its near-term forecast for the unemployment rate up slightly, compared to the forecast at Budget 2016. The unemployment rate is now forecast to be 5.2% in 2017, 5.5% in 2018, and 5.4% from 2019 to 2021.

1.28 The OBR forecasts that productivity growth will be 1.3% in 2017, 1.4% in 2018, 1.8% in 2019 and 2.0% in both 2020 and 2021. The OBR highlights that there was considerable uncertainty around the outlook for productivity pre-referendum, reflecting the marked difference across advanced economies between the weak growth seen in recent years and the preceding decades of stronger performance. As there is little by way of precedent to guide the forecast, the decision to leave the EU has increased this uncertainty around the prospects for productivity growth in the medium term.

1.29 Wages and salaries are expected to continue to increase, but the OBR now forecasts slower earnings growth than previously predicted, due to the weaker projection for productivity growth. The OBR forecasts average earnings growth of 2.4% in 2017 and 2.8% in 2018, followed by annual growth above 3.0% through to 2021.

1.30 The OBR expects that upward pressure on inflation and lower wage growth than previously anticipated will temporarily halt recent rises in living standards, with RHDI per capita forecast to fall 0.5% in 2017. RHDI per capita is then expected to return to growth, increasing 0.3% in 2018, 0.6% in 2019, 1.1% in 2020 and 1.3% in 2021.

Monetary policy

1.31 The Monetary Policy Committee (MPC) of the Bank of England has full operational independence to set monetary policy to meet the inflation target of 2.0%, as measured by the 12-month increase in the CPI. This is a cornerstone of the UK's macroeconomic framework, which underpins the continued performance of the economy, including growth and employment.

1.32 On 4 August 2016 the MPC announced a monetary stimulus package to support economic growth and achieve a sustainable return of inflation to target.[2] The MPC:

- cut Bank Rate, the Bank of England's base interest rate, from 0.5% to 0.25%
- extended the quantitative easing programme. The Bank of England will expand its purchases of UK government bonds by £60 billion, taking the stock of these asset purchases to £435 billion, and purchase up to £10 billion of corporate bonds, using newly created central bank reserves
- introduced a new Term Funding Scheme to enable banks to pass on the Bank Rate cut to businesses and households

1.33 At its November meeting, the MPC voted unanimously to maintain the package of measures announced in August, and noted that the measures have supported financial conditions. Market interest rates have remained low, with the average rate on a new variable rate mortgage now below 2%. Sterling corporate bond spreads narrowed after the announcement of corporate bond purchases, reducing the cost for businesses of borrowing to invest.

Public finances

1.34 The UK's public finances are in a much stronger position than in 2010 due to determined government action. However, the outlook for the public finances has deteriorated since Budget 2016, with disappointing tax revenues over the first half of this year, a weaker economic outlook weighing on receipts from income taxes, and higher spending by local authorities, public corporations, and on welfare benefits.

1.35 Continuing to reduce the deficit is vital to delivering a strong and stable economy. The government remains committed to returning the public finances to balance, ensuring that the UK lives within its means. However, given the weaker growth outlook, and the period of uncertainty that is likely while the UK negotiates a new relationship with the EU, the government will no longer seek to reach a fiscal surplus in this Parliament.

1.36 The government's objective is to return the public finances to balance at the earliest possible date in the next Parliament. To ensure this objective is reached, the government has published a new Charter for Budget Responsibility. This commits to reducing the structural deficit to below 2% of GDP and to have debt falling as a percentage of GDP by the end of this Parliament. This new fiscal framework ensures the public finances continue on the path to sustainability, while providing the flexibility needed to support the economy in the near term.

1.37 Due to the pressure on the public finances, the government has chosen to focus discretionary support on highly-targeted investments to boost the productive capacity of the economy. This will, over the medium and long term, be the most important factor for continuing to raise living standards across the UK. Otherwise, the government is sticking to its overall spending plans set out in Spending Review 2015 and has reinforced its controls on welfare spending. All other new policies announced in Autumn Statement 2016 have been funded from savings or taxation.

[2] Further details of the monetary policy package can be found in 'Minutes of the Monetary Policy Committee meeting ending on 3 August 2016', Bank of England, 4 August 2016: http://www.bankofengland.co.uk/publications/minutes/Documents/mpc/pdf/2016/aug.pdf

Public finances since Budget 2016

1.38 Over the last 6 years the deficit has been cut by almost two-thirds from its 2009-10 post-war peak of 10.1% of GDP to 4.0% last year.[3] However, borrowing and debt remain high, and the OBR judges that the economic and fiscal outlook for the UK has deteriorated in the wake of the EU referendum. As a result, the OBR's forecast shows that the public finances will no longer reach a surplus by 2019-20.

1.39 Public sector net borrowing (PSNB) is higher than forecast at Budget 2016 in every year and by £32 billion in 2020-21, reflecting primarily the impact of lower growth on tax revenues. The deterioration in the fiscal outlook since Budget 2016 is driven by a number of factors:

- receipts are £15 billion lower by 2020-21 due in large part to lower income tax and National Insurance Contributions (NICs) partly offset by higher corporation and other taxes. Total income tax and NICs receipts are forecast to be £23 billion lower by 2020-21, of which £7 billion can be attributed to weaker outturn data, £9 billion to slower earnings growth over the forecast period, and a further £3 billion to higher rates of incorporation which reduces the effective tax rate[4]
- spending is £4 billion higher by 2020-21 due to previously announced decisions not to go ahead with changes to the Personal Independence Payment (PIP) proposed at Budget 2016, changes to the Universal Credit roll out schedule, and higher inflation which offset savings from lower debt interest payments
- classification changes add a further £4 billion to borrowing in 2020-21. These include the Office for National Statistics' (ONS) revision to the accounting treatment of corporation tax payments and the reclassification of non-England housing associations to the public sector

1.40 The OBR's forecast also includes new policies announced in the Autumn Statement which target investment to raise the UK economy's long-term productive capacity.

Table 1.2: Changes to the OBR forecast for public sector net borrowing since Budget 2016 (£ billion)

	2016-17	2017-18	2018-19	2019-20	2020-21
Budget 2016	**55.5**	**38.8**	**21.4**	**-10.4**	**-11.0**
Total forecast changes since Budget 2016	**11.7**	**17.6**	**20.6**	**24.0**	**22.1**
of which[1]					
Receipts forecast	6.7	9.3	13.1	15.2	15.3
Spending forecast	4.5	7.9	7.0	2.4	2.7
Classification effects	0.5	0.4	0.5	6.4	4.1
Total effect of government decisions since Budget 2016	**0.9**	**2.5**	**4.5**	**8.4**	**9.6**
Total changes since Budget 2016	**12.7**	**20.2**	**25.1**	**32.4**	**31.8**
Autumn Statement 2016	**68.2**	**59.0**	**46.5**	**21.9**	**20.7**

[1] Equivalent to lines from 'Table 1.3 of the November 2016 Economic and fiscal outlook'; full references available in Autumn Statement 2016 data sources.

Source: Office for Budget Responsibility and HM Treasury calculations.

[3] Public Sector Finances', ONS, September 2016.
[4] Taken from Table 4.11, 'Economic and fiscal outlook', OBR, November 2016.

1.41 Public sector net debt (PSND) is also higher than forecast at Budget 2016 in every year, and peaks at 90.2% of GDP in 2017-18. This is partly due to higher government borrowing over this period. However, much of the near-term increase in debt is due to the liabilities created by the Bank of England through its monetary policy operations announced in August 2016, which will unwind from 2020-21. As noted by the OBR, some assets acquired by the Bank of England through these interventions are treated as illiquid and are not netted off against PSND. However, the loans extended are secured on collateral and are therefore very unlikely to generate losses for the public sector. The fiscal impact of these interventions is discussed in more detail below.

Fiscal framework

1.42 The government remains committed to returning the public finances to balance at the earliest possible date. In light of the changed economic circumstances that date will be in the next Parliament. To support this objective, the government has today published a revised Charter for Budget Responsibility which sets out the following targets for this Parliament:

- a mandate to reduce cyclically-adjusted PSNB below 2% of GDP by 2020-21
- a supplementary target for PSND as a percentage of GDP to be falling in 2020-21
- a supplementary target to ensure that expenditure on welfare in 2021-22 is contained within a predetermined cap and margin set by the Treasury at Autumn Statement 2016

1.43 The government's new fiscal framework strikes the right balance between restoring the public finances to health in the medium term whilst providing sufficient flexibility to support the economy in the near term.

Fiscal strategy

1.44 The new fiscal framework provides the space for additional investment in the productive capacity of the UK economy, the centrepiece of which is a new National Productivity Investment Fund (NPIF). The NPIF will be targeted at four areas that are critical for productivity: transport, digital communications, R&D and housing. It will provide for an extra £23 billion of spending between 2017-18 and 2021-22. The new fiscal framework also allows automatic stabilisers to support the economy during a period of near-term uncertainty as the UK negotiates its departure from the EU.

1.45 At the same time the government will continue to restore the underlying public finances to health. It will do so by sticking to departmental resource spending plans set out at Spending Review 2015 and delivering the £3.5 billion of additional savings in 2019-20 announced at Budget 2016. And it will continue to control welfare spending through a reformed welfare cap. All new policies announced in the Autumn Statement, with the exception of the NPIF, are fully funded through savings or additional tax revenues.

1.46 The government's plan for tackling the structural deficit and to have debt falling by the end of this Parliament leaves it well placed to return the public finances to overall balance as soon as possible in the next Parliament, when the UK's future relationship with the EU is clear.

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

	Outturn	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Public sector net borrowing	4.0	3.5	2.9	2.2	1.0	0.9	0.7
Cyclically-adjusted public sector net borrowing	3.8	3.3	2.6	1.8	0.8	0.8	0.7
Treaty deficit[1]	4.0	3.6	2.9	2.2	1.1	1.0	1.0
Memo: Output gap[2]	*-0.2*	*-0.2*	*-0.7*	*-0.6*	*-0.3*	*-0.1*	*0.0*
Memo: Total policy decisions[3]		*0.0*	*-0.2*	*-0.3*	*-0.4*	*-0.3*	*-0.4*

[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.

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

	Outturn	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Public sector net debt[1]	84.2	87.3	90.2	89.7	88.0	84.8	81.6
Public sector net debt ex Bank of England[1]	82.0	82.4	82.4	82.0	80.4	78.9	77.7
Public sector net financial liabilities[2]	76.9	77.7	77.8	76.5	74.3	71.9	69.5
Treaty debt[3]	87.8	88.7	89.2	88.7	87.2	85.5	84.2

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

[2] Public sector net financial liabilities at end of March, GDP centred on end March; outturn estimate.

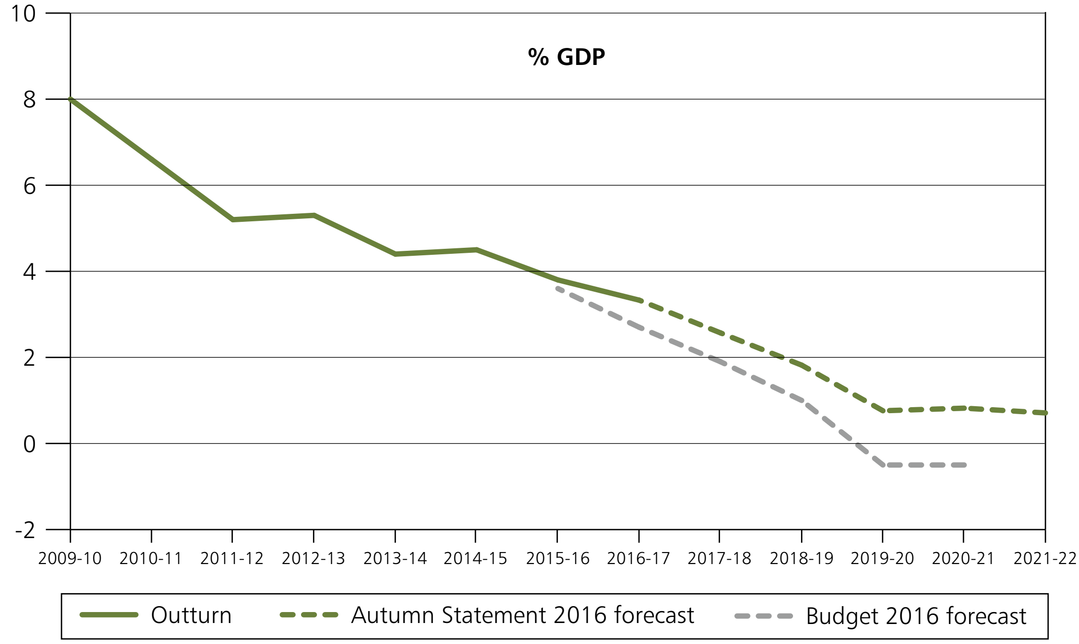
[3] General government gross debt on a Maastricht basis.

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

Performance against the government's fiscal targets

1.47 The OBR's 'Economic and fiscal outlook' provides an assessment of the government's performance against the new fiscal mandate. It shows that the government is on track to meet its fiscal mandate to reduce cyclically-adjusted PSNB below 2% of GDP by the end of this Parliament. The structural deficit is forecast to reach 0.8% of GDP in 2020-21.

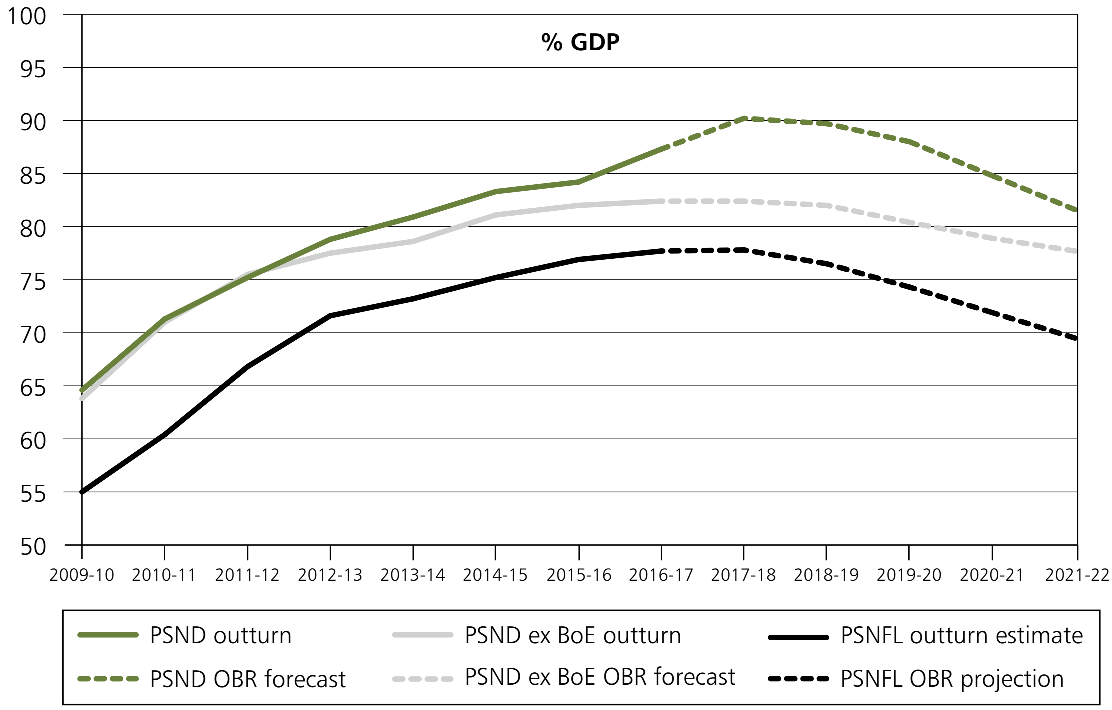
Chart 1.3: Cyclically-adjusted public sector net borrowing from 2009-10 to 2021-22



Source: Office for Budget Responsibility.

1.48 The OBR's 'Economic and fiscal outlook' also shows the government is on track to meet its supplementary target to have debt falling as a percentage of GDP by the end of this Parliament. PSND falls as a percentage of GDP in every year from 2018-19 onwards. The OBR also forecasts that welfare spending will be within the new cap and margin set in the Autumn Statement.

Chart 1.4: Public sector debt from 2009-10 to 2021-22



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

1.49 The government remains committed to bringing down the UK's Treaty deficit in line with the 3% target set out in the Stability and Growth Pact. The OBR's forecast indicates that this target will be met in 2017-18.

Supplementary fiscal aggregates

1.50 In order to maintain a consistent measure of the government's fiscal position, the government's target for debt will continue to be set in reference to PSND. However, while the liabilities created by the Bank of England to fund its monetary policy operations have a significant impact on PSND, the assets acquired through those operations are not fully captured in this measure.

1.51 To provide a more complete picture of the public sector balance sheet and in line with recommendations of independent experts[5], the government has asked the ONS to develop two supplementary fiscal aggregates.[6] The OBR has been asked to forecast these alongside PSND to provide additional information concerning the fiscal implications of the Bank's operations and the sustainability of the public finances. These supplementary aggregates are:

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

Public spending

1.52 With the deficit still sizeable, control of public spending and delivery of efficiencies is vital. The government is committed to the overall plans for departmental resource spending set out at Spending Review 2015. In the Autumn Statement, new spending initiatives, with the exception of the NPIF, have been fully funded.

Efficiency Review

1.53 As announced at Budget 2016, the government intends to identify £3.5 billion of savings in 2019-20. The government intends to allocate £1 billion of these savings for re-investment in priority areas. (7)

1.54 The Efficiency Review was launched to help identify these savings and the government will report on progress in autumn 2017. Ongoing improvement in efficiency should be part of business-as-usual activity across the public sector. The Efficiency Review will look to embed a culture where incremental improvements in the efficiency of public services are made year on year.

1.55 Alongside this, the Treasury is reviewing its approach to spending control, with the aim of improving how it works with departments. This will ensure that the framework continues to provide the right incentives for departments to identify efficiencies and deliver high quality public services within budget, that public expenditure provides value for money, and that it can be reprioritised as necessary.

Departmental Expenditure Limits

1.56 Budget 2016 set out that departmental resource spending will continue to grow with inflation in 2020-21. Departmental spending will also grow with inflation in 2021-22.

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[5] 'United Kingdom Fiscal transparency evaluation', IMF, November 2016; 'Evaluating the Government Balance Sheet: financial assets and investments', National Audit Office, June 2016.
[6] 'Autumn Statement 2016: supplementary fiscal aggregates', ONS, November 2016.

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

1.58 Table 1.5 sets out the path for Total Managed Expenditure (TME), Public Sector Current Expenditure (PSCE), and Public Sector Gross Investment (PSGI) to 2021-22.

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

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Current expenditure						
Resource AME	370.2	386.9	400.3	407.2	421.1	439.8
Resource DEL excluding depreciation[3]	309.0	304.2	306.3	305.6	311.5	317.6
Ring-fenced depreciation	20.6	21.9	22.8	23.3	21.9	22.8
Total public sector current expenditure	**699.8**	**713.0**	**729.4**	**736.2**	**754.5**	**780.1**
Capital expenditure						
Capital AME[4]	26.6	26.7	25.8	27.3	30.4	32.0
Capital DEL[4]	52.3	57.2	59.2	60.2	70.6	74.2
Total public sector gross investment	**79.0**	**84.0**	**85.1**	**87.5**	**101.1**	**106.3**
Total managed expenditure	**778.8**	**797.0**	**814.5**	**823.7**	**855.6**	**886.4**
Total managed expenditure (% of GDP)	*39.9%*	*39.8%*	*39.1%*	*38.0%*	*38.0%*	*37.8%*

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

[2] The treatment of spending on Research and Development (R&D) has been updated to align with the revised treatment in the National Accounts. It is now treated as capital, rather than resource, spending. This adjustment was made in AME in the OBR's March forecast. In the current forecast R&D spending has moved from AME to DEL. More detail can be found in the OBR's Economic and Fiscal Outlook.

[3] In 2016-17 the Scottish Government resource DEL block grant has been adjusted by £5.5bn to reflect the devolution of SDLT and Landfill tax and the creation of the Scottish Rate of Income Tax. The resource DEL block grant has been adjusted by £12.4bn, £13.2bn, and £13.8bn from 2017-18 to 2019-20. This reflects the implementation of the Fiscal Framework agreed with the Scottish Government alongside the devolution of further Income Tax powers, Air Passenger Duty and revenues from Scottish courts. Resource DEL numbers for 2020-21 and 2021-22 are indicative as budgets have not been set.

[4] The OBR has revised the treatment of capital grants from central government to housing associations. In effect this switches spending from capital DEL to capital AME, so is neutral for overall capital spending. More detail can be found in the OBR's Economic and Fiscal Outlook.

Source: Office for Budget Responsibility and HM Treasury calculations.

Welfare cap

1.59 The government introduced the welfare cap at Budget 2014 to strengthen control and improve Parliamentary accountability of welfare spending. This followed the trebling of spending on working-age welfare in real terms between 1980 and 2014.[7] A full list of the benefits and tax credits that are within the scope of the welfare cap is set out at Annex B.

1.60 As a result of previous announcements on changes to tax credits and the PIP, the government has reassessed the level of the welfare cap. To maintain control of welfare spending the government is introducing a new medium-term welfare cap. The cap is based on the OBR forecast in the Autumn Statement of the benefits and tax credits in scope as set out in Annex B, and will apply to welfare spending in 2021-22. To manage unavoidable fluctuations in welfare spending there will be a margin rising to 3% above the cap; the cap will only be breached if spending exceeds the cap plus the margin at the point of assessment.

[7] https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2016.

1.61 Performance against the cap will be formally assessed by the OBR in 2020-21. In the interim years, progress towards the cap will be managed internally, based on the OBR's monitoring of forecasts of welfare spending. 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 are set out in the revised draft Charter for Budget Responsibility, published alongside the Autumn Statement.

Table 1.6: New welfare cap (in £ billion, unless otherwise stated)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Cap	–	–	–	–	–	126.0
Interim pathway	119.8	119.6	120.1	120.5	123.2	–
Margin (%)	0.5	1.0	1.5	2.0	2.5	3.0

Source: HM Treasury.

Devolved Administrations

1.62 The devolved administrations' block grants will be adjusted in line with the Barnett formula, as set out in the Statement of Funding Policy. As a result of spending decisions taken by the UK government at the Autumn Statement, the application of the Barnett formula will provide each of the devolved administrations with additional funding to be allocated according to their own priorities. The Scottish Government's block grant will be further adjusted to reflect its tax powers as agreed in the Scottish Government's Fiscal Framework.

Financial transactions

1.63 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 the PSND. Table 1.7 shows the effect of the financial transactions announced at the Autumn Statement on CGNCR.

Table 1.7: Financial transactions from 2016-17 to 2021-22[1] (£ million)

		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
i	British Business Bank Venture Capital	0	15	35	55	75	*
ii	Northern Powerhouse Investment Fund	10	20	15	30	20	*
iii	Midlands Engine Investment Fund	5	35	25	40	25	*
iv	Digital Infrastructure Investment Fund	0	100	100	100	100	*
Total policy decisions		**15**	**170**	**175**	**225**	**220**	*****

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

Source: HM Treasury.

Financial assets

1.64 The government is committed to returning the financial sector assets acquired in 2008-09 to the private sector in a way that maximises value for taxpayers. To date, the government has recovered over £80 billion of proceeds from these assets.[8] Subject to market conditions the plan for asset disposals is as follows:

- **Lloyds** – the government launched a trading plan on 7 October 2016, with a view to returning Lloyds Banking Group fully to the private sector by the end of 2017-18. The trading plan involves gradually selling shares in the market over time in an orderly and measured way

[8] 'Economic and fiscal outlook', OBR, November 2016.

- **RBS** – the government will continue to seek opportunities for disposals, but the need to resolve legacy issues makes it unlikely that disposals will occur in the near term
- **UK Asset Resolution (UKAR)** – UKAR has launched a programme of sales of Bradford & Bingley (B&B) mortgage assets, expected to raise sufficient proceeds for B&B to repay the £15.65 billion debt to the Financial Services Compensation Scheme, who in turn will repay the corresponding loan from the Treasury. The programme of sales is expected to conclude in full before the end of 2017-18. UKAR will also look to make sales of other assets over the course of the Parliament, currently expected to total £5 billion

1.65 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. The government is continuing to pursue the sale of the pre-2012 income contingent repayment student loan book, and subject to market conditions intends to launch the first sale in early 2017. The process to transfer the Green Investment Bank to private ownership is ongoing.

1.66 Following consultation the government has decided that HM Land Registry should focus on becoming a more digital data-driven registration business, and to do this will remain in the public sector. Modernisation will maximise the value of HM Land Registry to the economy, and should be completed without a need for significant Exchequer investment.

Debt management

1.67 The government's revised financing plans for 2016-17 are summarised at Annex A.

2 Policy decisions

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

2.2 Table 2.1 shows the cost or yield of all new Autumn Statement decisions with a direct effect on PSNB in the years up to 2021-22. This includes tax measures, changes to allocated DEL and measures affecting AME.

2.3 The government is also publishing the methodology underlying the calculation of the fiscal impact of each policy decision. This is included in the supplementary document 'Autumn Statement 2016 policy costings' published alongside the Autumn Statement.

Table 2.1: Autumn Statement 2016 policy decisions (£ million)[1]

	Head	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22[2]
Changes to Inherited Policy							
1 Personal Independence Payment: not implementing Budget 2016 measure	Spend	-15	-605	-1,250	-1,400	-1,390	-1,410
2 Universal Credit: reprofile	Spend	-20	-295	-445	-185	-110	-425
3 Disability benefits: eligibility test change	Spend	-20	-20	-20	-20	-15	-15
4 Social Sector Rent downrating: exemptions	Spend	0	-5	-10	-15	-15	-15
5 Pay to Stay: do not implement	Spend	0	-280	-15	-100	-100	-105
6 Local Housing Allowance: adjusted roll-out and supported housing fund	Spend	0	0	-305	-265	+160	+125
Public Spending							
7 Efficiency Review: reinvestment	Spend	0	0	0	-1,000	–	–
National Productivity Investment Fund							
8 Housing	Spend	-10	-1,465	-2,060	-2,490	-2,145	–
9 Transport	Spend	0	-475	-790	-705	-1,050	–
10 Telecoms	Spend	0	-25	-150	-275	-290	–
11 Research and Development	Spend	0	-425	-820	-1,500	-2,000	–
12 Long-term investment	Spend	0	0	0	0	0	-7,000
An economy that works for everyone							
13 Fuel Duty: freeze in 2017-18	Tax	0	-845	-845	-860	-885	-910
14 Universal Credit: reduce taper to 63%	Spend	0	-35	-175	-400	-570	-700
15 NS&I Investment Bond	Spend	0	-45	-85	-90	-45	0
16 Right to Buy: expand pilot	Spend	0	-25	-90	-110	-25	0
17 National Living Wage: additional enforcement	Spend	0	-5	-5	-5	–	–
Tax reform							
18 Insurance Premium Tax: 2ppt increase from June 2017	Tax	0	+680	+840	+840	+845	+855
19 National Insurance contributions: align primary and secondary thresholds	Tax	0	+170	+145	+145	+145	+145
20 Salary Sacrifice: remove tax and NICs advantages	Tax	-10	+85	+235	+235	+235	+260
21 Money Purchase Annual Allowance: reduce to £4,000 per annum	Tax	0	+70	+70	+70	+75	+75
22 Company Car Tax: reforms to incentivise ULEVs	Tax	0	0	0	0	+25	+5

	Head	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22[2]
Avoidance, Evasion, and Imbalances							
23 VAT Flat Rate Scheme: 16.5% rate for businesses with limited costs	Tax	0	+195	+130	+130	+125	+115
24 Disguised Remuneration: extend to self-employed and remove company deduction	Tax	+10	+25	+180	+310	+40	+65
25 Adapted motor vehicles: prevent abuse	Tax	0	+20	+15	+15	+15	+15
26 Employee Shareholder Status: abolish tax advantage for new schemes	Tax	*	+10	+15	+15	+25	+50
27 HMRC: administration and operational measures	Tax	-115	-20	+50	+170	+215	+180
28 Offshore Tax: close loopholes and improve reporting	Tax	0	+10	+25	+15	+60	+70
29 Money Service Businesses: bulk data gathering	Tax	0	0	+5	+5	+10	+10
Other Tax and Spending							
30 Overseas Development Assistance: meet 0.7% GNI target	Spend	0	+80	+210	0	–	–
31 MoJ: prison safety	Spend	0	-125	-245	-185	–	–
32 Grammar Schools expansion	Spend	0	-60	-60	-60	-60	–
33 Tax credits: correcting awards	Spend	-95	-80	-65	-55	-40	-25
34 Biomedical catalysts and Technology Transfers	Spend	0	-40	-60	-60	-60	–
35 DCMS Spending	Spend	-10	-10	-20	-15	-10	–
36 Midlands Rail Hub	Spend	0	-5	-5	0	–	–
37 Scotland City Deals and Fiscal Framework	Spend	0	-25	-60	-75	-50	-25
38 Mayfield Review of Business Productivity	Spend	0	-5	-5	-5	–	–
39 Business Rates: support for broadband and increase Rural Rate Relief	Tax	0	-10	-15	-15	-20	-25
40 Gift Aid: reforms	Tax	0	*	-10	-15	-15	-20
41 Museums and Galleries tax relief	Tax	0	-5	-30	-30	-30	-30
42 Social Investment Tax Relief: implement with a £1.5m cap	Tax	0	+10	+5	+5	*	-5
43 Offpayroll working: implement consultation reforms	Tax	0	+25	+20	+20	+25	+25
Total policy decisions		**-285**	**-3,555**	**-5,695**	**-7,960**	**-6,925**	**-8,715**
Total policy decisions excluding NPIF and inherited policy[3]		**-220**	**+40**	**+170**	**-5**	**+30**	**+130**
Total tax policy decisions		*+25*	*+375*	*+640*	*+720*	*+565*	*+555*
Total spending policy decisions		*-310*	*-3,930*	*-6,335*	*-8,680*	*-7,490*	*-9,270*

** negligible.*

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

[2] At Spending Review 2015, the government set departmental spending plans for RDEL for years up to 2019-20 and CDEL for years up to 2020-21. RDEL budgets have not been set for most departments for 2020-21 and beyond and CDEL for 2021-22. Given this, RDEL figures are not set out for 2020-21 and beyond and specific measures of CDEL are not set out for 2021-22.

[3] Excluding measures 1-12 on the scorecard.

3 Productivity

Introduction

3.1 Raising productivity is the central long-term economic challenge facing the UK and will be a key area of focus for the forthcoming Industrial Strategy. Productivity determines living standards in the long term and improving it is the key to increasing wages. If the UK raised its productivity by one percentage point every year, within a decade it would add £240 billion to the size of the economy; £9,000 for every household in Britain. The government's approach to raising productivity, set out in the 2015 Productivity Plan, is based on:

- encouraging long-term investment in economic capital, such as technology, innovation, infrastructure, and skills
- creating a dynamic economy which ensures resources are put to their best use

3.2 The fundamentals that underpin this plan have not changed. There has been a sustained worldwide slowdown in productivity since the financial crisis, which has exacerbated a long-standing gap between the UK and the most productive nations.[1] The vote to leave the EU presents new opportunities and challenges, in particular to maintain and take advantage of openness to trade, investment, and competition. The government will continue to focus on driving up productivity and taking action to close the UK's productivity gap over the long term through promoting increased investment, particularly in innovation and infrastructure; a more flexible planning system; an open, trading economy; and a skilled workforce.

3.3 The Autumn Statement provides the financial backbone for the government's forthcoming Industrial Strategy. The strategy will set out the broader framework for government and business to work together to address key economic challenges such as building the skills base the economy needs and turning great ideas into commercial success.

National Productivity Investment Fund

3.4 Improving productivity requires targeted and sustained investment. The government prioritised capital spending at Spending Review 2015 and is now setting out plans to go further. The Autumn Statement announces a new NPIF which will be targeted at 4 areas that are critical for improving productivity: housing, transport, digital communications, and research and development (R&D).

3.5 The NPIF will provide for £23 billion of spending between 2017-18 and 2021-22. This builds on existing plans for major investment over this Parliament, including the biggest affordable house building programme since the 1970s, resurfacing 80% of the strategic road network, the largest investment in the railways since Victorian times,[2] and prioritising science and innovation spending. The NPIF will take total spending on housing, economic infrastructure, and R&D to £170 billion over the next 5 years.

[1] 'International Comparisons of Productivity – First Estimates 2015', ONS, October 2016.
[2] 'Largest Investment in railways since Victorian times will continue', Network Rail, November 2015.

3.6 As a result of measures taken at Spending Review 2015 and the Autumn Statement, Public Sector Gross Investment is forecast to be at least 4% of GDP in each year of this Parliament and higher than in every year from 1993-94 until the financial crash.[3, 4]

3.7 This new investment will fund projects that demonstrate a clear and strong contribution to economic growth.

3.8 The NPIF will provide additional support in order to:

- accelerate new housing supply
- tackle congestion on the roads and ensure the UK's transport networks are fit for the future
- support the market to roll out full-fibre connections and future 5G communications, delivering a step change in broadband speed, security, and reliability
- enhance the UK's position as a world leader in science and innovation

3.9 The Autumn Statement sets out the priority areas for this new investment. Specific projects will be decided in due course, using value for money assessments, following HM Treasury standards. Where relevant, expert sector bodies such as Highways England, the Homes and Communities Agency, and UK Research and Innovation (UKRI) will make this assessment. There are no set departmental budgets for 2021-22, so allocations within the package for that year will be made in due course.

Table 3.1: National Productivity Investment Fund (£ million)[1]

	2017-18	2018-19	2019-20	2020-21	2021-22[4]
Housing					
Accelerated construction	285	635	665	380	*
Affordable housing[2]	1,120	1,125	880	340	*
Housing Infrastructure Fund	60	300	945	1,425	*
Transport					
Roads and local transport	365	500	430	650	*
Next generation vehicles	75	100	110	115	*
Digital railways enhancements	30	55	165	285	*
Cambridge-Milton Keynes-Oxford corridor	5	135	0	0	*
Digital Communications[3]					
Fibre and 5G investment	25	150	275	290	*
Research and Development					
Research and Development funding	425	820	1,500	2,000	*
Total	**2,390**	**3,820**	**4,970**	**5,485**	**7,000**

[1] Figures represent the total costs associated with the funding allocations announced at the Autumn Statement, including the impact on Devolved Administration budgets through the application of the Barnett formula.

[2] The affordable housing line includes the impact on Housing Association spending of £1.4 billion extra capital grant from central government to fund 40,000 new homes, and introducing tenure flexibility across the Affordable Homes Programme.

[3] Figures show PSGI impact of policies only, and do not include funding for the Digital Infrastructure Investment Fund.

[4] Capital budgets have not yet been set for 2021-22. Allocation of the £7 billion will be made in due course alongside wider capital budgets.

Source: HM Treasury.

3.10 The government is investing UK-wide in sectors for which it retains responsibility under the devolution settlements. The Barnett formula will be applied in the usual way, and where responsibility sits with the devolved administrations they will be able to use this significant funding boost to invest according to their own priorities for productivity and growth.

[3] 'Public finances databank', OBR.
[4] 'Economic and Fiscal Outlook', OBR, November 2016.

Housing

3.11 The government will publish a Housing White Paper shortly, setting out a comprehensive package of reform to increase housing supply and halt the decline in housing affordability. To help deliver this, the Autumn Statement announces:

- **Housing Infrastructure Fund** – a new Housing Infrastructure Fund of £2.3 billion by 2020-21, funded by the NPIF and allocated to local government on a competitive basis, will provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest. This will deliver up to 100,000 new homes. The government will also examine options to ensure that other government transport funding better supports housing growth (8)
- **Affordable homes** – the government will relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost ownership, to meet the housing needs of people in different circumstances and at different stages of their lives. The NPIF will provide an additional £1.4 billion to deliver an additional 40,000 housing starts by 2020-21 (8)

3.12 Accelerated construction – In early October, the government announced that it would pilot accelerated construction on public sector land, backed by up to £2 billion of funding. To meet this commitment, the government will invest £1.7 billion by 2020-21 through the NPIF to speed up house building on public sector land in England through partnerships with private sector developers. The devolved administrations will receive funding through the Barnett formula in the usual way. (8)

3.13 Right to Buy – The government will fund a large-scale regional pilot of the Right to Buy for housing association tenants. Over 3,000 tenants will be able to buy their own home with Right to Buy discounts under the pilot. (16)

Economic infrastructure

National Infrastructure Commission

3.14 Economic infrastructure (transport, energy, flood defences, water, waste, and digital communications) is crucial for the economy and for people's daily lives. The government has put infrastructure at the heart of its economic strategy and has set up the National Infrastructure Commission (NIC) to provide expert advice on the country's strategic infrastructure needs and independent recommendations on how to meet them. At Spending Review 2015, the government announced it would increase transport spending by 50% to invest £61 billion in this Parliament. Including the additional investment provided by the NPIF, annual central government investment in economic infrastructure will increase by almost 60% from £14 billion in 2016-17 to £22 billion in 2020-21.[5]

3.15 The government's long-term investment decisions will be informed by the NIC to ensure they are targeted at the UK's most critical infrastructure needs. To ensure the NIC's recommendations are affordable, the government has set the NIC a fiscal remit. Government investment in the areas the NIC covers will rise to over 1% of GDP by 2020-21. The fiscal remit invites the NIC to set out recommendations on the assumption that spending on infrastructure will lie between 1% and 1.2% of GDP each year from 2020 to 2050. This would mark a sustained, long-term increase in infrastructure investment. The government will take all final spending decisions.

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[5]This includes the new Housing Infrastructure Fund which will provide infrastructure targeted at unlocking new private sector house building.

3.16 NIC study on Cambridge-Milton Keynes-Oxford corridor – The government welcomes the NIC's interim report into the Cambridge-Milton Keynes-Oxford growth corridor, accepts the recommendation for an Oxford-Cambridge expressway,[6] and will provide £27 million in development funding. The government will also bring forward £100 million to accelerate construction of the East-West Rail line western section and allocate £10 million in development funding for the central rail section. The government welcomes the NIC's work looking at a range of delivery models for housing and transport in the corridor, including development corporations, and will carefully consider its final recommendations. Following a successful public call for ideas, the government has also asked the NIC to undertake a new study on how emerging technologies can improve infrastructure productivity. (9)

Transport

3.17 Roads and local transport – The NPIF will provide an additional £1.1 billion by 2020-21 in new funding to relieve congestion and deliver much-needed upgrades on local roads and public transport networks. On strategic roads, an extra £220 million will be invested to tackle key pinch-points. The government will recommit to the National Roads Fund announced at Summer Budget 2015. (9)

3.18 Future transport – The NPIF will invest a further £390 million by 2020-21 to support ultra-low emission vehicles (ULEVs), renewable fuels, and connected and autonomous vehicles (CAVs). This includes £80 million for ULEV charging infrastructure, £150 million in support for low emission buses and taxis, £20 million for the development of alternative aviation and heavy goods vehicle fuels, and £100 million for new UK CAV testing infrastructure. In addition to the tax incentives for ULEVs in company tax and salary schemes set out in the tax chapter, from today to the end of March 2019 the government will also offer 100% first-year allowances to companies investing in charge-points for electric vehicles. (9)

3.19 Rail: capacity and smart ticketing – From 2018-19 to 2020-21, the NPIF will allocate an additional £450 million to trial digital signalling technology, to expand capacity, and improve reliability. Around £80 million will be allocated to accelerate the roll out of smart ticketing including season tickets for commuters in the UK's major cities. Construction of High Speed 2 Phase 1 will start next year, the government has announced its preferred route for Phase 2b of High Speed 2,[7] and is looking forward to receiving a business case for Crossrail 2. The government is also investing £5 million in development funding for the Midlands Rail Hub, a programme of rail upgrades in and around central Birmingham that could provide up to 10 additional trains per hour. (9) (36)

Digital communications

3.20 The government will invest over £1 billion by 2020-21, including £740 million through the NPIF, targeted at supporting the market to roll out full-fibre connections and future 5G communications. This will bring faster and more reliable broadband for homes and businesses across the UK, boost the next generation of mobile connectivity and keep the UK in the forefront of the development of the Internet of Things. This will be delivered through:

- £400 million for a new Digital Infrastructure Investment Fund, at least matched by private finance, to invest in new fibre networks over the next 4 years, helping to boost market ambitions to deploy full-fibre access to millions more premises by 2020
- a new 100% business rates relief for new full-fibre infrastructure for a 5 year period from 1 April 2017; this is designed to support roll out to more homes and businesses (39)

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[6] 'Cambridge Milton Keynes Oxford Interim Report', National Infrastructure Commission, November 2016.
[7] 'High Speed 2: From Crewe to Manchester, the West Midlands to Leeds and Beyond', Department for Transport, November 2016.

- providing funding to local areas to support investment in a much bigger fibre 'spine' across the UK, prioritising full-fibre connections for businesses and bringing together public sector demand. The government will work in partnership with local areas to deliver this, and a call for evidence on delivery approaches will be published shortly after the Autumn Statement (10)
- providing funding for a coordinated programme of integrated fibre and 5G trials, to keep the UK at the forefront of the global 5G revolution; further detail will be set out at Budget 2017 as part of the government's 5G Strategy (10)

Energy and flooding

3.21 Over the next 15 years, more than £100 billion of private investment is expected in the UK's energy sector, providing new cleaner generating capacity, upgrading to a smarter energy system, and developing new resources such as shale.

3.22 Levy Control Framework – The government is committed to decarbonising the economy while limiting costs on bills, and will continue to engage stakeholders as it develops an emissions reduction plan. The government is considering the future of the Levy Control Framework which it will set out at Budget 2017.

3.23 Carbon Price Support – To provide certainty to businesses, the government confirms it is maintaining the cap on Carbon Price Support rates at £18 t/CO_2, uprating this with inflation in 2020-21. The government will continue to consider the appropriate mechanism for determining the carbon price in the 2020s.

3.24 Shale Wealth Fund – Following a consultation to ensure local communities share in the benefits of shale production, the Shale Wealth Fund will provide up to £1 billion of additional resources to local communities, over and above industry schemes and other sources of government funding. Local communities will benefit first and determine how the money is spent in their area.

3.25 Flood defence and resilience – The government will invest £170 million in flood defence and resilience measures. £20 million of this investment will be for new flood defence schemes, £50 million for rail resilience projects, including Dawlish, and £100 million to improve the resilience of roads to flooding.

Infrastructure financing and delivery

3.26 Treasury-backed infrastructure bonds – The Autumn Statement recommits to the UK Guarantees Scheme, and commits to extend it beyond the life of this Parliament, to at least 2026. The UK Guarantees Scheme has to date issued 9 guarantees that have delivered £1.8 billion of Treasury-backed infrastructure bonds and loans, supporting over £4 billion worth of investment.[8] The government is working with industry to understand the demand for construction-only guarantees.

3.27 Private Finance 2 (PF2) – The government will develop a new pipeline of projects that are suitable for delivery through the PF2 Public Private Partnership scheme. A list of projects to make up the initial pipeline, covering both economic and social infrastructure, will be set out in early 2017.

3.28 Infrastructure performance – The Chief Secretary to the Treasury will chair a new ministerial group that will oversee the delivery of priority infrastructure projects. The Infrastructure and Projects Authority will lead a review to identify ways government, working with industry, can improve the quality, cost and performance of UK infrastructure. The review will report in summer 2017.

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[8] 'Infrastructure (Financial Assistance) Act 2012: annual report for year ending 31 March 2016', HM Treasury, July 2016; HM Treasury calculations.

Research and development

3.29 Research and development – Research and development (R&D) is a key driver of economic growth and is a vital part of the government's Industrial Strategy. To help boost UK productivity the NPIF will provide an additional £4.7 billion by 2020-21 in R&D funding. This extra £2 billion a year by the end of this Parliament is an increase of around 20% to total government R&D spending, and more than any increase in any Parliament since 1979.[9] Through the NPIF the government will fund:

- **Industrial Strategy Challenge Fund** – a new cross-disciplinary fund to support collaborations between business and the UK's science base, which will set identifiable challenges for UK researchers to tackle. The fund will be managed by Innovate UK and research councils. Modelled on the USA's Defense Advanced Research Projects Agency programme the challenge fund will cover a broad range of technologies, to be decided by an evidence-based process (11)
- **Innovation, applied science and research** – additional funding will be allocated to increase research capacity and business innovation, to further support the UK's world-leading research base and to unlock its full potential. Once established, UKRI will award funding on the basis of national excellence and will include a substantial increase in grant funding through Innovate UK (11)

3.30 R&D tax environment – To ensure the UK tax system is strongly pro-innovation, the government will review the tax environment for R&D to look at ways to build on the introduction of the 'above the line' R&D tax credit to make the UK an even more competitive place to do R&D.

3.31 Tech transfer and R&D facilities – In October the government committed an additional £100 million until 2020-21 to extend and enhance the Biomedical Catalyst. These funds will be allocated to Innovate UK. Funding of £100 million will also be provided until 2020-21 to incentivise university collaboration in tech transfer and in working with business, with the devolved administrations receiving funding through the Barnett formula in the usual way. (34)

3.32 Science and Innovation Audits – The government has selected 8 areas for the second wave of Science and Innovation Audits: Bioeconomy of the North of England; East of England; Innovation South; Glasgow Economic Leadership; Leeds City Region; Liverpool City Region +; Offshore Energy Consortium; and Oxfordshire Transformative Technologies. The government is also announcing a further opportunity to apply to participate in a third wave of audits.

Trade

3.33 UK Export Finance (UKEF) – The government will provide additional support through UKEF to ensure that no viable UK export should fail for lack of finance or insurance from the private sector, by:

- doubling its total risk appetite to £5 billion, and increasing capacity for support in individual markets by up to 100%; this will be supported by an improved risk management framework and the use of private insurance markets to reduce Exchequer exposure
- increasing the number of pre-approved local currencies in which UKEF can offer support from 10 to 40, enabling more overseas buyers of UK exports to pay in their own currency

[9] 'Gross Domestic Expenditure on Research and Development time series dataset', Office for National Statistics, March 2016.

3.34 Supporting trade policy and exiting the EU – Additional resource will be provided to strengthen trade policy capability in the Department for International Trade (DIT) and Foreign and Commonwealth Office, totalling £26 million a year by 2019-20. There will also be additional resource of up to £51 million in 2016-17 for the Department for Exiting the European Union to support the re-negotiation of the UK's relationship with the European Union. Up to £94 million a year of additional resource will be allocated from 2017-18 until the UK's exit is complete. In total this will mean up to £412 million of additional funding over the course of this Parliament.

Enterprise and finance

3.35 The government will take a series of actions to ensure businesses have the skills, finance, and stable framework within which to invest.

3.36 Patient capital – HM Treasury will lead a review to identify barriers to access to long-term finance for growing firms, supported by an advisory panel led by Sir Damon Buffini. The British Business Bank will also invest an additional £400 million in venture capital funds to unlock up to £1 billion of new investment in innovative firms planning to scale up.

3.37 Insurance Linked Securities – The government is consulting on a new regulatory and tax framework for Insurance Linked Securities. Alongside this the Prudential Regulatory Authority and Financial Conduct Authority (FCA) will consult on their approach to the authorisation and supervision of Insurance Special Purpose Vehicles. This will help to maintain London's position as the most important global hub for reinsurance business. The government will place final regulations before Parliament in the spring.

3.38 FinTech – To support investment in UK FinTech, the DIT will provide £500,000 a year for FinTech specialists and the government has commissioned an annual 'State of UK FinTech' report on key metrics for investors. The government will also launch a network of regional FinTech envoys, and has agreed with the Joint Money Laundering Steering Group that they will modernise their guidance on electronic ID verification to support the use of technology to access financial services.

3.39 Supporting management skills – The government will provide £13 million to support firms' plans to improve their management skills by implementing Sir Charlie Mayfield's review of business productivity. (38)

Competition and consumers

3.40 Competitive markets benefit consumers by giving them more choice and low prices. In the UK, consumers enjoy strong protections and an effective consumer regime to help them to get the best deal. However, where markets fail and competition isn't strong, consumers may not get a good deal. Where this is the case, this government will not hesitate to step in to strengthen competition. The government will bring forward a green paper in Spring 2017 that will closely examine markets which are not working fairly for consumers.

3.41 Letting agent fees – The government will ban letting agents' fees to tenants, to improve competition in the private rental market and give renters greater clarity and control over what they will pay. The Department for Communities and Local Government (DCLG) will consult ahead of bringing forward legislation.

3.42 Pension scams – The government will shortly publish a consultation on options to tackle pension scams, including banning cold calling in relation to pensions, giving firms greater powers to block suspicious transfers and making it harder for scammers to abuse 'small self-administered schemes'.

3.43 Whiplash reform – The Ministry of Justice is consulting on proposals which will reduce the unacceptably high number of whiplash claims and allow insurers to cut premiums. The government will bring forward supporting legislation in the Justice Bill and expects insurers to pass on savings which average around £40 for drivers in England and Wales, worth a total of £1 billion.[10]

3.44 Consumer insurance market – New FCA rules on consumer insurance policy renewals, being introduced in April 2017, will encourage consumers to shop around instead of renewing their policy automatically. The FCA will monitor the effect of the rules and the government will ask the FCA to consider further intervention if necessary.

3.45 Credit unions – From 2018, the government will expand an existing scheme which incentivises credit union membership in communities at risk of being targeted by loan sharks. This will use funds recovered under the Proceeds of Crime Act from convicted loan sharks.

Employment

3.46 National Living Wage and National Minimum Wage rates – Following the recommendations of the independent Low Pay Commission, the government will increase the National Living Wage (NLW) by 4.2% from £7.20 to £7.50 from April 2017. This is estimated to mean a pay rise for over a million workers.[11] In total, earnings for a full-time worker on the National Minimum Wage (NMW) will have increased by over £1,400 a year since the introduction of the NLW in April 2016.[12] The government's target is for the NLW to reach 60% of median earnings by 2020 subject to sustained economic growth.

3.47 The government will also accept all of their recommendations for the other NMW rates (which were last increased in October 2016) to apply from April 2017, including:

- increase the rate for 21 to 24 year olds from £6.95 to £7.05 per hour
- increase the rate for 18 to 20 year olds from £5.55 to £5.60 per hour
- increase the rate for 16 to 17 year olds from £4.00 to £4.05 per hour
- increase the rate for apprentices from £3.40 to £3.50 per hour

3.48 National Minimum Wage enforcement – The government will invest an additional £4.3 million per year to strengthen NMW enforcement. This will fund new HM Revenue and Customs teams to proactively review those employers considered most at risk of non-compliance with the NMW. The government will also provide additional support targeted at small businesses to help them to comply; and a campaign aimed at raising awareness amongst workers and employers of their rights and responsibilities. (17)

[10] 'Reforming the Soft Tissue Injury ('Whiplash') Claims Process: A consultation on arrangements concerning personal injury claims in England and Wales', Ministry of Justice, November 2016.
[11] 'Economic and Fiscal Outlook', OBR, March 2016.
[12] HM Treasury calculations: A full-time worker is assumed to work 35 hours a week for the 52.1 weeks in a year. The National Minimum Wage was £6.70 in April 2016, so the April 2017 National Living Wage rate of £7.50 is an 80p/hour increase. In total, this marks a £1,459 increase in earnings per year for a full-time worker on the NLW.

Cities, regions, and nations

3.49 Local infrastructure – The government will award £1.8 billion to Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals. £556 million of this will go to the North of England, £392 million to LEPs in the midlands, £151 million to the east of England, £492 million to London and the south east, and £191 million to the south west. Awards to individual LEPs will be announced in the coming months. This funding of local infrastructure will improve transport connections, unlock house building, boost skills, and enhance digital connectivity. The government will give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury. The government will also consult on lending local authorities up to £1 billion at a new local infrastructure rate of gilts + 60 basis points for three years to support infrastructure projects that are high value for money.

3.50 English devolution – The government remains committed to devolving powers to support local areas to address productivity barriers. The government will continue to work towards a second devolution deal with the West Midlands Combined Authority and will begin talks on future transport funding with Greater Manchester. The government will transfer to London, and to Greater Manchester, the budget for the Work and Health Programme, subject to the two areas meeting certain conditions, including on co-funding. The government has also confirmed the Greater London Authority's (GLA) affordable housing settlement, under which the GLA will receive £3.15 billion to deliver over 90,000 housing starts by 2020-21, and will devolve the adult education budget to London from 2019-20 (subject to readiness conditions). The government will continue to work with London to explore further devolution of powers over the coming months.

3.51 Regional productivity – The government has published a strategy setting out an overall approach to building the Northern Powerhouse, through addressing the key barriers to productivity that the region faces. The government will also publish a Midlands Engine strategy shortly.

3.52 Northern Powerhouse Investment Fund and Midlands Engine Investment Fund – The Autumn Statement confirms the arrangements for these funds, and the British Business Bank will make its first investments from the Northern Powerhouse Investment Fund in early 2017 to support local SMEs and its first investments from the Midlands Engine Investment Fund shortly after.

3.53 Scotland – The government will work with local partners and the Scottish Government towards a city deal for Stirling. The government has confirmed funding for city deals in Aberdeen and Inverness, is making progress towards a deal with Edinburgh, and will consider proposals for a deal with the Tay cities once they are brought forward, meaning all Scottish cities have the opportunity to agree a city deal. The government is also continuing to work with the Scottish Government to implement the Scottish Government's fiscal framework and new powers set out in the Scotland Act 2016. (37)

3.54 Wales – The government is making good progress in discussions with local partners and the Welsh Government on a city deal for the Swansea Bay City Region. It will also consider options for a growth deal in north Wales and looks forward to receiving proposals from local partners. The government is also continuing to support the implementation of the £1.2 billion city deal for the Cardiff Capital Region, which was agreed in March.

3.55 Northern Ireland – The government continues to work closely with the Northern Ireland Executive towards the introduction of a Northern Ireland rate of Corporation Tax, subject to the Northern Ireland Executive demonstrating it has placed its finances on a sustainable footing.

4 Tax

4.1 To promote certainty and simplicity within the tax system, the government intends to move towards having a single major fiscal event each year. Following the spring 2017 Budget and Finance Bill, Budgets will be delivered in the autumn, with the first one taking place in autumn 2017. The OBR will produce a spring forecast from spring 2018 and the government will make a Spring Statement responding to that forecast. The Statement will review wider economic and fiscal challenges and launch consultations. The government will retain the option to make changes to fiscal policy at the Spring Statement if the economic circumstances require it.

4.2 This will improve both external and Parliamentary scrutiny of proposed tax measures.

4.3 The government remains committed to the tax policy framework and will consult on tax changes in the spring and draft legislation in the summer, before they are introduced as Finance Bills.

Personal tax

4.4 Since 2010 the government has made significant progress on reducing taxes so that working families can take home more of what they earn. As a result of increases to the personal allowance announced in Summer Budget 2015 and Budget 2016, a typical basic rate taxpayer will pay £1,005 less income tax in 2017-18 than in 2010-11. This change, together with the changes to the higher rate threshold announced at Budget 2016, means that 31 million people will see their income tax bill reduced in 2017-18 compared to 2015-16.

Income tax & National Insurance

4.5 Personal allowance and higher rate threshold – The government will meet its commitment to raise the income tax personal allowance to £12,500 and the higher rate threshold to £50,000, by the end of this Parliament. Next year, the personal allowance will rise to £11,500 and the higher rate threshold to £45,000. Increases to the personal allowance over the last Parliament took 4 million of the lowest paid out of income tax altogether.[1]

4.6 Once the personal allowance reaches £12,500, it will then rise in line with CPI as the higher rate threshold does, rather than in line with the NMW. This will lock in the increases the government has made to the personal allowance over the past 6 years, so they are not eroded by inflation, while increasing the sustainability of the public finances in the long term.

4.7 National Insurance thresholds – As recommended by the Office of Tax Simplification (OTS),[2] the National Insurance secondary (employer) threshold and the National Insurance primary (employee) threshold will be aligned from April 2017, meaning that both employees and employers will start paying National Insurance on weekly earnings above £157. This will simplify the payment of National Insurance for employers. (19)

[1] HMRC analysis based on Survey of Personal Incomes (SPI) 2013-14 data and Budget 2016 OBR forecasts.
[2] 'The closer alignment of income tax and national insurance', OTS, 7 March 2016:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/505610/PU1909_cover___prelims_web.pdf

4.8 Class 2 NICs – As announced at Budget 2016, Class 2 NICs will be abolished from April 2018, simplifying National Insurance for the self-employed. The Autumn Statement confirms that, following the abolition of Class 2 NICs, self-employed contributory benefit entitlement will be accessed through Class 3 and Class 4 NICs. All self-employed women will continue to be able to access the standard rate of Maternity Allowance. Self-employed people with profits below the Small Profits Limit will be able to access Contributory Employment and Support Allowance through Class 3 NICs. There will be provision to support self-employed individuals with low profits during the transition.

4.9 Removing National Insurance from the effects of the Limitation Act – From April 2018, the government will remove NICs from the effects of the Limitation Act 1980 and Northern Ireland equivalent. This will align the time limits and recovery process for enforcing National Insurance debts with other taxes. The government will consult on the details.

4.10 Termination payments – As announced at Budget 2016, from April 2018 termination payments over £30,000, which are subject to income tax, will also be subject to employer NICs. Following a technical consultation, tax will only be applied to the equivalent of an employee's basic pay if their notice is not worked, making it simpler to apply the new rules. The government will monitor this change and address any further manipulation. The first £30,000 of a termination payment will remain exempt from income tax and National Insurance.

4.11 Off-payroll working rules – Following consultation, the government will reform the off-payroll working rules in the public sector from April 2017 by moving responsibility for operating them, and paying the correct tax, to the body paying the worker's company. The government believes public sector bodies have a duty to ensure that those who work for them pay the right amount of tax. This reform will help to tackle the high levels of non-compliance with the current rules and means that those working in a similar way to employees in the public sector will pay the same taxes as employees. In response to feedback during the consultation, the 5% tax-free allowance will be removed for those working in the public sector, reflecting the fact that workers no longer bear the administrative burden of deciding whether the rules apply. (43)

4.12 Legal support – From April 2017, all employees called to give evidence in court will no longer need to pay tax on legal support from their employer. This will help support all employees and ensure fairness in the tax system, as currently only those requiring legal support because of allegations against them can use the tax relief.

4.13 The taxation of different forms of remuneration – Employers can choose to remunerate their employees in a range of different ways in addition to a cash salary. The tax system treats these different forms of remuneration inconsistently and sometimes more generously. The government will therefore consider how the system could be made fairer between workers carrying out the same work under different arrangements and will look specifically at how the taxation of benefits in kind and expenses could be made fairer and more coherent. The government will take the following action:

- **Salary sacrifice** – following consultation, the tax and employer National Insurance advantages of salary sacrifice schemes will be removed from April 2017, except for arrangements relating to pensions (including advice), childcare, Cycle to Work and ultra-low emission cars. This will mean that employees swapping salary for benefits will pay the same tax as the vast majority of individuals who buy them out of their post-tax income. Arrangements in place before April 2017 will be protected until April 2018, and arrangements for cars, accommodation and school fees will be protected until April 2021 (20)

- **Valuation of benefits in kind** – the government will consider how benefits in kind are valued for tax purposes, publishing a consultation on employer-provided living accommodation and a call for evidence on the valuation of all other benefits in kind at Budget 2017
- **Employee business expenses** – the government will publish a call for evidence at Budget 2017 on the use of the income tax relief for employees' business expenses, including those that are not reimbursed by their employer

4.14 New tax allowance for property and trading income – As announced at Budget 2016, the government will create two new income tax allowances of £1,000 each, for trading and property income. Individuals with trading income or property income below the level of the allowance will no longer need to declare or pay tax on that income. The trading income allowance will now also apply to certain miscellaneous income from providing assets or services.

Non-domiciled individuals

4.15 Reforms to the taxation of non-domiciled individuals – Individuals who live in the UK and make use of public services should pay their fair share of tax. The following reforms to the taxation of non-domiciled individuals make the tax system fairer for everybody:

- as previously announced, the government will end the permanency of non-domiciled tax status. From April 2017, non-domiciled individuals will be deemed UK-domiciled for tax purposes if they have been UK resident for 15 of the past 20 years, or if they were born in the UK with a UK domicile of origin. As previously announced, non-domiciled individuals who have a non-UK resident trust set up before they become deemed-domiciled in the UK will not be taxed on income and gains arising outside the UK and retained in the trust
- from April 2017, inheritance tax will be charged on UK residential property when it is held indirectly by a non-domiciled individual through an offshore structure, such as a company or a trust. This closes a loophole that has been used by non-domiciled individuals to avoid paying inheritance tax on their UK residential property
- the government will change the rules for the Business Investment Relief (BIR) scheme from April 2017 to make it easier for non-domiciled individuals who are taxed on the remittance basis to bring offshore money into the UK for the purpose of investing in UK businesses. The government will continue to consider further improvements to the rules for the scheme to attract more capital investment in British businesses by non-domiciled individuals

Inheritance tax

4.16 Inheritance tax reliefs – From Royal Assent of the Finance Bill 2017-18, inheritance tax relief for donations to political parties will be extended to parties with representatives in the devolved legislatures, as well as parties that have acquired representatives through by-elections. This will ensure consistent and fair treatment for all national political parties with elected representatives.

Charity tax

4.17 Gift Aid digital – As announced at Budget 2016, the government will give intermediaries a greater role in administering Gift Aid, simplifying the Gift Aid process for donors making digital donations. (40)

Pensions and savings tax

4.18 The government has provided considerable support to savers in recent years, with the result that 98% of adults currently pay no savings tax.[3] As previously announced, the government will continue to support saving by increasing the ISA limit from £15,240 to £20,000 in April 2017.

4.19 Starting rate for savings – The band of savings income that is subject to the 0% starting rate will remain at its current level of £5,000 for 2017-18.

4.20 Money Purchase Annual Allowance – The Money Purchase Annual Allowance will be reduced to £4,000 from April 2017. The government does not consider that earners aged 55 and over should be able to enjoy double pension tax relief, such as relief on recycled pension savings, but does wish to offer scope for those who have needed to access their savings to subsequently rebuild them. The government will consult on the detail. (21)

4.21 Foreign pensions – The tax treatment of foreign pensions will be more closely aligned with the UK's domestic pension tax regime by bringing foreign pensions and lump sums fully into tax for UK residents, to the same extent as domestic ones. The government will also close specialist pension schemes for those employed abroad ("section 615" schemes) to new saving, extend from 5 to 10 years the taxing rights over recently emigrated non-UK residents' foreign lump sum payments from funds that have had UK tax relief, align the tax treatment of funds transferred between registered pension schemes, and update the eligibility criteria for foreign schemes to qualify as overseas pensions schemes for tax purposes. (28)

Business tax

4.22 The government believes the best way to support business is through a strong, stable economic climate that supports investment and growth. The government's decision at the Autumn Statement to prioritise high value infrastructure and innovation will support businesses across the UK. The government is also taking significant steps to support businesses to grow and create jobs through the regulatory and tax systems. Since 2010, the government has eased the regulatory burden on businesses and reduced the corporation tax rate from 28% to 20% with onshore tax receipts increasing by over 20% over the same period.[4]

4.23 Business tax road map – To continue providing the certainty that businesses need to make their long-term investments, the government is recommitting to the business tax road map and the principles that it sets out.[5] This includes cutting the rate of corporation tax to 17% by 2020 and reducing the burden of business rates by £6.7 billion over the next 5 years.

Corporate tax

4.24 Tax deductibility of corporate interest expense – Following consultation, the government will introduce rules that limit the tax deductions that large groups can claim for their UK interest expenses from April 2017. These rules will limit deductions where a group has net interest expenses of more than £2 million, net interest expenses exceed 30% of UK taxable earnings and the group's net interest to earnings ratio in the UK exceeds that of the worldwide group. The government will widen the provisions proposed to protect investment in public benefit infrastructure. Banking and insurance groups will be subject to the rules in the same way as groups in other industry sectors.

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[3] HMRC internal analysis
[4] 'Corporation Tax Statistics', HMRC, August 2016.
https://www.gov.uk/government/statistics/analyses-of-corporation-tax-receipts-and-liabilities-document-august-2015
[5] 'Business tax road map', HM Treasury, March 2016.
https://www.gov.uk/government/publications/business-tax-road-map

4.25 Reform of loss relief – Following consultation, the government will legislate for reforms announced at Budget 2016 that will restrict the amount of profit that can be offset by carried-forward losses to 50% from April 2017, while allowing greater flexibility over the types of profit that can be relieved by losses incurred after that date. The restriction will be subject to a £5 million allowance for each standalone company or group. In implementing the reforms the government will take steps to address unintended consequences and simplify the administration of the new rules. The amount of profit that banks can offset with losses incurred prior to April 2015 will continue to be restricted to 25% in recognition of the exceptional nature and scale of losses in the sector.

4.26 Bringing non-resident companies' UK income into the corporation tax regime – The government is considering bringing all non-resident companies receiving taxable income from the UK into the corporation tax regime. At Budget 2017, the government will consult on the case and options for implementing this change. The government wants to deliver equal tax treatment to ensure that all companies are subject to the rules which apply generally for the purposes of corporation tax, including the limitation of corporate interest expense deductibility and loss relief rules.

4.27 Bank levy reform – As announced at Summer Budget 2015, the bank levy charge will be restricted to UK balance sheet liabilities from 1 January 2021. Following consultation, the government confirms that there will be an exemption for certain UK liabilities relating to the funding of non-UK companies and an exemption for UK liabilities relating to the funding of non-UK branches. Details will be set out in the government's response to the consultation, with the intention of legislating in Finance Bill 2017-18. The government will continue to consider the balance between revenue and competitiveness with regard to bank taxation, taking into account the implications of the UK leaving the EU.

4.28 Substantial Shareholding Exemption (SSE) reform – Following consultation, the government will make changes to simplify the rules, remove the investing requirement within the SSE and provide a more comprehensive exemption for companies owned by qualifying institutional investors. The changes will take effect from April 2017.

4.29 Authorised investment funds: dividend distributions to corporate investors – The government will modernise the rules on the taxation of dividend distributions to corporate investors in a way which allows exempt investors, such as pension funds, to obtain credit for tax paid by authorised investment funds and will publish proposals in draft secondary legislation in early 2017.

4.30 Museums and galleries tax relief – The government will broaden the scope of the museums and galleries tax relief announced at Budget 2016 to include permanent exhibitions so that it is accessible to a wider range of institutions across the country. The rates of relief will be set at 25% for touring exhibitions and 20% for non-touring exhibitions and the relief will be capped at £500,000 of qualifying expenditure per exhibition. The relief will take effect from 1 April 2017, with a sunset clause which means the relief will expire in April 2022 if not renewed. In 2020, the government will review the tax relief and set out plans beyond 2022. (41)

Capital Gains Tax

4.31 Employee Shareholder Status (ESS) – The tax advantages linked to shares awarded under ESS will be abolished for arrangements entered into on, or after, 1 December 2016. The status itself will be closed to new arrangements at the next legislative opportunity. This is in response to evidence suggesting that the status is primarily being used for tax planning instead of supporting a more flexible workforce. (26)

4.32 Offshore funds – UK taxpayers invested in offshore reporting funds pay tax on their share of a fund's reportable income, and Capital Gains Tax (CGT) on any gain on disposal of their shares or units. The government will legislate to ensure that performance fees incurred by such funds, and which are calculated by reference to any increase in the fund's value, are not deductible against reportable income from April 2017 and instead reduce any tax payable on disposal gains. This equalises the tax treatment between onshore and offshore funds. (28)

Property tax

4.33 Business rates – To remove the inconsistency between rural rate relief and small business rate relief the government will double rural rate relief to 100% from 1 April 2017. (39)

Tax-advantaged investment schemes

4.34 Social Investment Tax Relief (SITR) – From 6 April 2017, the amount of investment social enterprises aged up to 7 years old can raise through SITR will increase to £1.5 million. Other changes will be made to ensure that the scheme is well targeted. Certain activities, including asset leasing and on-lending, will be excluded. Investment in nursing homes and residential care homes will be excluded initially, however the government intends to introduce an accreditation system to allow such investment to qualify for SITR in the future. The limit on full-time equivalent employees will be reduced to 250. The government will undertake a review of SITR within two years of its enlargement. (42)

Energy and transport taxes

4.35 Fuel duty – The fuel duty rate will remain frozen for the seventh successive year, saving motorists around £130 a year compared to what they would have been paying under the pre-2010 escalator.[6] (13)

4.36 Company Car Tax (CCT) bands and rates for 2020-21 – To provide stronger incentives for the purchase of ULEVs, new, lower bands will be introduced for the lowest emitting cars. The appropriate percentage for cars emitting greater than 90g CO_2/km will rise by 1 percentage point. (22)

4.37 Air Passenger Duty (APD): regional review – The government is publishing a summary of responses to the consultation on how to support regional airports in England from the potential effects of APD devolution. Given the strong interaction with EU law, the government does not intend to take specific measures now, but intends to review this area again after the UK has exited from the EU.

4.38 Oil and gas – To ensure a stable tax regime that maximises economic recovery from the North Sea, the government recommits to *Driving Investment*,[7] the long-term plan for the oil and gas ring-fence fiscal regime, and will simplify the reporting process and reduce the administrative costs of Petroleum Revenue Tax for oil and gas companies.

Indirect tax

4.39 Soft Drinks Industry Levy – The government will publish draft legislation for the Soft Drinks Industry Levy on 5 December.

4.40 Insurance Premium Tax (IPT) – The standard rate of IPT will rise to 12% from 1 June 2017. IPT is a tax on insurers and so any impact on premiums depends on insurers' commercial decisions. (18)

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[6] HMT calculations based on OBR Retail Prices Index (RPI) forecasts.
[7] 'Driving investment', HM Treasury, December 2014.
https://www.gov.uk/government/consultations/review-of-the-oil-and-gas-fiscal-regime-a-call-for-evidence

4.41 Value Added Tax (VAT) – The government will consult on VAT grouping and provide funding with a view to digitising fully the Retail Export Scheme to reduce the administrative burden to travellers.

Tax administration

4.42 Making Tax Digital – In January 2017, the government will publish its response to the Making Tax Digital consultations and provisions to implement the previously announced changes.

4.43 Tax simplification – The government welcomes and has responded to the reviews the OTS has published this autumn,[8] including on the alignment of income tax and NICs. The government has now asked the OTS to carry out reviews on aspects of the VAT system and on Stamp Duty on share transactions.

4.44 Tax Enquiries: Closure Rules – The government will legislate to provide HMRC and customers earlier certainty on individual matters in large, high risk and complex tax enquiries. (27)

Avoidance and Evasion

4.45 The government believes that all individuals and businesses have a responsibility to pay the tax they owe. Since 2010, the government has secured around £130 billion in additional tax revenue as a result of tackling avoidance, evasion and non-compliance.[9] The UK's tax gap, the difference between the amount of tax due and the amount collected, remains one of the lowest in the world.[10] The UK has played and continues to play a leading role in Europe, the G20 and through the 2013 G8 Presidency in bringing about a step change in international tax transparency and ensuring that profits are taxed where the economic activity takes place. Following the publication of the OECD Base Erosion and Profit Shifting outputs in October 2015[11] and the endorsement by G20 leaders in November 2015, the business tax road map set out a comprehensive package to take further action, to modernise the tax rules in the UK and to ensure these rules are applied effectively to multinationals.[12]

Avoidance

4.46 Disguised remuneration schemes – Budget 2016 announced changes to tackle use of disguised remuneration schemes by employers and employees. The government will now extend the scope of these changes to tackle the use of disguised remuneration avoidance schemes by the self-employed. This will ensure that self-employed users of these schemes pay their fair share of tax and National Insurance. (24)

4.47 Further, the government will take steps to make it less attractive for employers to use disguised remuneration avoidance schemes, by denying tax relief for an employer's contributions to disguised remuneration schemes unless tax and National Insurance are paid within a specified period. (24)

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[8] OTS. https://www.gov.uk/government/organisations/office-of-tax-simplification
[9] 'Annual report and accounts', HMRC. https://www.gov.uk/government/collections/hmrcs-annual-report-and-accounts and https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/89199/annual-report-accounts-1011.pdf
[10] 'Measuring tax gaps', HMRC, October 2012. https://www.gov.uk/government/statistics/measuring-tax-gaps
[11] 'Base Erosion and Profit Shifting', OECD. http://www.oecd.org/ctp/beps-actions.htm
[12] 'Business tax road map', HM Treasury, March 2016. https://www.gov.uk/government/publications/business-tax-road-map

4.48 Strengthening tax avoidance sanctions and deterrents – As signalled at Budget 2016, to provide a strong deterrent to those enabling tax avoidance, the government will introduce a new penalty for any person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC. This new regime will reflect an extensive consultation and input from stakeholders and details will be published in draft legislation shortly. The government will also remove the defence of having relied on non-independent advice as taking 'reasonable care' when considering penalties for any person or business that uses such arrangements.

4.49 HMRC counter avoidance – The government is investing further in HMRC to increase its activity on countering avoidance and taking cases forward for litigation, which is expected to bring forward over £450 million in scored revenue by 2021-22. (27)

4.50 Tackling exploitation of the VAT relief on adapted cars for wheelchair users – The government will clarify the application of the VAT zero-rating for adapted motor vehicles to stop the abuse of this legislation, while continuing to provide help for disabled wheelchair users. (25)

4.51 VAT Flat Rate Scheme – The government will introduce a new 16.5% rate from 1 April 2017 for businesses with limited costs, such as many labour-only businesses. This will help level the playing field, while maintaining the accounting simplification for the small businesses that use the scheme as intended. Guidance which has the force of law, published today, will introduce anti-forestalling provisions. (23)

Evasion and compliance

Non-compliance

4.52 HMRC support for emerging insolvency risks – HMRC will develop its ability to identify emerging insolvency risk, using external analytical expertise. HMRC will use this information to tailor its debt collection activity, improve customer service and provide support to struggling businesses. (27)

Offshore tax evasion

4.53 Requirement to correct – The government will introduce a new legal requirement to correct a past failure to pay UK tax on offshore interests within a defined period of time, with new sanctions for those who fail to do so. (28)

4.54 Requirement to register offshore structures – The government will consult on a new legal requirement for intermediaries arranging complex structures for clients holding money offshore to notify HMRC of the structures and the related client lists.

Hidden economy

4.55 Hidden economy and money service businesses – The government will legislate to extend HMRC's data-gathering powers to money service businesses in order to identify those operating in the hidden economy. (29)

4.56 Tackling the hidden economy – Following consultation, the government will consider the case for making access to licences or services for businesses conditional on them being registered for tax. It will also develop proposals to strengthen sanctions for those who repeatedly and deliberately participate in the hidden economy. Budget 2017 will set out further details.

5 Public spending

Introduction

5.1 Securing sustainable public finances and a growing economy is the best way to create jobs and raise living standards across the UK. Over the last 6 years the deficit has been cut by almost two-thirds from its 2009-10 post-war peak of 10.1% of GDP to 4% last year.[1] But the deficit remains high and the outlook for the public finances has deteriorated since Budget 2016. The government therefore remains committed to delivering overall spending plans set at Spending Review 2015. All new announcements in the Autumn Statement, apart from the NPIF, are fully funded.

5.2 The government also intends to deliver on its aim of creating a sustainable welfare system, and will deliver the welfare savings already identified. Between 1980 and 2014 spending on working-age welfare trebled in real terms.[2] The government has no plans to introduce further welfare savings measures in this Parliament beyond those already announced.

Welfare

5.3 Universal Credit taper – Universal Credit ensures that work always pays. Under the legacy welfare system individuals at certain income levels would not be financially incentivised to work an additional hour, but Universal Credit operates a constant withdrawal rate on net earnings – the taper rate. The current rate of 65% means that once claimants earn above the work allowances in Universal Credit, their income will be withdrawn at a rate of 65 pence for every extra £1 earned. From April 2017, the taper rate that applies in Universal Credit will be reduced from 65% to 63%. This will let individuals keep more of what they earn and strengthen the incentive for individuals to progress in work. The government estimates that 3 million households will benefit from this change. (14)

5.4 Universal Credit roll out – The Autumn Statement provides funding for the welfare announcement made by the Secretary of State for the Department for Work and Pensions (DWP) on 20 July 2016, which included policy changes and revisions to the Universal Credit roll out schedule. (2)

5.5 Other welfare changes – The Secretary of State for DWP has previously announced the following changes:

- **Support for refugees** – refugees and their family members will be exempted from the Past Presence Test, meaning that they will no longer have to be resident in the UK for 2 years before they can receive disability benefits (3)

[1] 'Public Sector Finances', ONS, September 2016 http://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/sept2016
[2] 'Benefit Caseload and Expenditure Tables', DWP, 2016 https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2016

- **Local Housing Allowance (LHA) rates in social housing** – the implementation of the cap on Housing Benefit and LHA rates in the social rented sector will be delayed by 1 year, to April 2019. The cap will be applied to all supported housing tenancies from April 2019, and the government will provide additional funding to Local Authorities, so that they can meet the additional costs of supported housing in their area. For general needs housing, the cap will now apply from April 2019 for all tenants on Universal Credit, and to Housing Benefit tenants whose tenancies began or were renewed since April 2016 (6)
- **Social rent downrating** – refuges, almshouses, Community Land Trusts and co-operatives will be exempt from the policy to reduce social sector rents by 1% a year for 4 years from 2016-17 (4)

5.6 Personal Independence Payment (PIP) – The Autumn Statement accounts for the government's previously announced decision not to go ahead with changes proposed at Budget 2016 to PIP. (1)

5.7 Pay to Stay – As announced by DCLG on 21 November 2016, the government has decided not to implement Pay to Stay, under which local authority tenants with taxable incomes over £31,000 (or £40,000 in London) would have been required to pay a market, or near market, rent. The government will work to deliver its commitment to ensure that social housing is occupied by those who need it most through other measures. (5)

5.8 Digital services – HMRC will allow new Tax Credit claims to be made using digital devices from April 2017.

5.9 Child Tax Credit – HMRC will make in-year award adjustments so the disability elements of Child Tax Credit will be paid to a group of recipients who are eligible, but not currently receiving this entitlement. (33)

Departmental spending

5.10 NS&I Investment Bond – To provide support to savers NS&I will offer a new market leading 3-year savings bond. The indicative rate is 2.2% but this may be adjusted to reflect market conditions when the product is launched. The bond will be open to those aged 16 and over, subject to a minimum investment limit of £100 and a maximum investment limit of £3,000. The product will be available for 12 months from spring 2017. (15)

5.11 Tax-Free Childcare – Tax-Free Childcare will be introduced gradually from early 2017, with roll out beginning upon completion of the trial. Once the scheme is fully rolled out, the government will review its operation to ensure it is delivering as intended and to assess the benefit it is delivering for working parents.

5.12 Rough Sleeping Fund – The government is committing a further £10 million over two years to the Rough Sleeping Fund. This will double the size of the fund, which will support and scale up innovative approaches to preventing and reducing rough sleeping, particularly in London.

5.13 Grammar schools capital – As part of the government's ambitious plans to ensure every child has access to a good school place, the Prime Minister has announced plans to allow the expansion of selective education in England. The government will provide £50 million of new capital funding to support the expansion of existing grammar schools in each year from 2017-18, and has set out proposals for further reforms in the consultation document 'Schools that Work for Everyone'. The devolved administrations will receive funding through the Barnett formula in the usual way. (32)

5.14 The use of banking fines – The government has committed a further £102 million of banking fines over the next 4 years to support Armed Forces and Emergency Services charities and other related good causes. This includes £20 million to support the defence related capital costs of the Defence and National Rehabilitation Centre at Stanford Hall in Nottinghamshire.

5.15 Tampon Tax Fund for women's charities – The government will award £3 million to Comic Relief to distribute to a range of women's charities. The government will also invite applications from charities from 1 December 2016 for the next round of Tampon Tax funding to support women's charities, including those running programmes that tackle violence against women and girls.

5.16 Expanding medical training places – The Autumn Statement includes the additional student loan outlay expected following the announcement made by the Secretary of State for Health on 4 October 2016 that the government will fund up to 1,500 additional medical training places each year, from the 2018-19 academic year onwards.

5.17 Prison safety and wider reforms to the justice system – The government will provide up to £500 million of additional funding across the period to the Ministry of Justice. As announced by the Lord Chancellor and Secretary of State for Justice, as part of the Prison Safety and Reform white paper, this will enable the recruitment of 2,500 extra prison officers to improve prison safety. It will also fund wider reforms to the justice system. (31)

5.18 Gift Aid Small Donations Scheme – Following the review announced at Autumn Statement 2015, the government is amending the Gift Aid Small Donations Scheme to make it more accessible and flexible, and to ensure fairer treatment between charities that are structured in different ways.[3] (40)

5.19 Sovereign Grant Review 2016 – The Royal Trustees intend to increase temporarily the percentage used to determine the Sovereign Grant from 15% to 25% of the Crown Estate annual profits from 2 years previously, to allow for the significant reservicing work of Buckingham Palace. The government will bring forward legislation to reset the level of the Grant in time for when the works are complete.

5.20 Investing in culture – £7.6 million will be provided for urgent repairs at Wentworth Woodhouse, subject to approval of a sustainable business case for the Grade I listed country house. The government will also be supporting a new creative media centre in Plymouth, the development of the new Studio 144 arts complex in Southampton, and a Royal Society of the Arts pilot to promote cultural education in schools. (35)

5.21 Investing in sport – The Autumn Statement confirms the government's contribution of up to £15 million towards the costs of hosting the 2021 Rugby League World Cup, and £10 million towards legacy infrastructure. It also confirms the government's contribution of £9 million towards the cost of hosting the Cycling Road World Championships in Yorkshire in 2019, and £15 million towards a legacy fund to pay for cycling infrastructure. (35)

5.22 Official Development Assistance – The government will continue to meet the commitment to spend 0.7% of Gross National Income on Official Development Assistance (ODA) in every year of the Parliament. In line with this commitment, the ODA budget will be reduced by £80 million in 2017-18 and £210 million in 2018-19, to reflect the latest economic forecasts. (30)

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[3] The government's response to the consultation was published at 'Gift Aid Small Donations Scheme: Summary of Responses', HMRC, August 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/544955/Gift_Aid_Small_Donations_Scheme-summary_of_responses.pdf
Reforms are being legislated via the Small Charitable Donations and Childcare Payments Bill, 2016, http://services.parliament.uk/bills/2016-17/smallcharitabledonationsandchildcarepayments.html

A Financing

A.1 This annex sets out revisions to the government's financing plans for 2016-17, which were previously updated on 21 April 2016. Further details of the revised remit for 2016-17, including progress against the remit to date, can be found on the Debt Management Office's (DMO) website at www.dmo.gov.uk. The government's debt management framework remains as set out in the Debt Management Report 2016-17.

Financing arithmetic

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

A.3 The OBR's November 2016 'Economic and fiscal outlook' forecast for the 2016-17 central government net cash requirement (excluding NRAM plc, Bradford and Bingley and Network Rail) (CGNCR (ex NRAM, B&B and NR)) is £85.7 billion. 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 2016 'Economic and fiscal outlook'.

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

A.5 The DMO's NFR for 2016-17 is therefore projected to be £152.1 billion, an increase of £20.6 billion relative to the figure forecast in April 2016. This change reflects:

- an upward revision to CGNCR (ex NRAM, B&B and NR) of £23.6 billion to £85.7 billion
- less an upward revision to NS&I's net financing target of £3.0 billon to £9.0 billion

A.6 The increase to the DMO's NFR will be delivered by an increase in gilt issuance this year (£15.0 billion) and an increase in the planned stock of Treasury bills (£5.6 billion).

Gilt issuance by maturity, type and method

A.7 The maturity skew and split of type of gilt issuance were previously set out at Budget 2016. Total gilt sales in 2016-17 are now forecast to increase by £15.0 billion to £146.5 billion. This increase will be accommodated through a broad mix of short, medium, long-dated and index-linked gilts.

A.8 The financing plans at Budget 2016 included £8.0 billion of initially unallocated gilt issuance. It was anticipated that gilts of any maturity or type would be issued from this unallocated portion, in response to evolving market conditions. £6.4 billion of this flexibility has been used so far. The unallocated amount will not increase any further.

A.9 Auctions will remain the government's primary method of gilt issuance. It is anticipated that £110.2 billion (75.2%) of total issuance will be issued by auction in 2016-17, and a minimum of £32.1 billion (21.9%) will be issued by syndication. The government will continue to use gilt tenders to supplement issuance by auction and syndication.

Treasury bills

A.10 Treasury bills constituted £66.0 billion of the total debt stock at the end of 2015-16, as reported in the government's updated financing plans on 21 April 2016. It was anticipated at Budget 2016 that Treasury bill issuance would not make a net contribution to debt financing in 2016-17. However, in light of the increase in the NFR, the total stock of Treasury bills used for debt management purposes will increase by £5.6 billion to £71.6 billion.

NS&I

A.11 At Budget 2016, NS&I was set a net financing target of £6.0 billion for 2016-17, within a range of £4.0 billion to £8.0 billion. This target is being increased by £3.0 billion to £9.0 billion, within a range of £7.0 billion to £11.0 billion.

Reserves

A.12 The financing arithmetic provides for £6.0 billion of sterling financing for the Official Reserves in 2016-17. The government is planning on the basis of sterling financing for the Official Reserves at a similar level on average over the three years from 2017-18 up to, and including, 2019-20.

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

	Budget 2016-17	April 2016-17[1]	Autumn Statement 2016-17
CGNCR (ex NRAM, B&B and NR)[2]	**62.1**	**62.1**	**85.7**
Gilt redemptions	69.9	69.9	69.9
Planned financing for the reserves	6.0	6.0	6.0
Financing adjustment carried forward from previous financial years	-2.5	-0.4	-0.4
Gross financing requirement	**135.6**	**137.7**	**161.3**
less:			
NS&I net financing	6.0	6.0	9.0
Other financing[3]	0.2	0.2	0.2
Net financing requirement (NFR) for the Debt Management Office (DMO)	**129.4**	**131.5**	**152.1**
DMO's NFR will be financed through:			
Gilt sales, through sales of:			
Short conventional gilts	30.4	31.0	37.8
Medium conventional gilts	24.8	25.2	28.7
Long conventional gilts	36.2	36.8	43.0
Index-linked gilts	30.0	30.5	35.4
Unallocated amount of gilts	8.0	8.0	1.6
Total gilt sales for debt financing	**129.4**	**131.5**	**146.5**
Total net contribution of Treasury bills for debt financing	**0.0**	**0.0**	**5.6**
Total financing	**129.4**	**131.5**	**152.1**
DMO net cash position	0.5	0.5	0.5

Figures may not sum due to rounding.

[1] Following the Budget, the financing arithmetic is updated in April of each financial year. This reflects the outturn of the previous financial year's CGNCR (ex NRAM, B&B and NR), which changes the financing adjustment and the gross financing requirement.

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

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

Source: HM Treasury, OBR, DMO and NS&I.

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

	2017-18	2018-19	2019-20	2020-21	2021-22
CGNCR (ex NRAM, B&B and NR)[1]	**48.3**	**52.9**	**30.1**	**41.8**	**38.8**
Gilt redemptions	79.5	67.3	93.2	97.2	79.3
Planned financing for the reserves	6.0	6.0	6.0	0.0	0.0
Total illustrative gross financing requirement	**133.8**	**126.1**	**129.2**	**139.0**	**118.1**

Figures may not sum due to rounding.

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

Source: HM Treasury, OBR and DMO.

B Welfare cap

B.1 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[2]	Transfers within government (e.g. Over 75s TV licences)
Christmas Bonus	Universal Credit payments to claimants subject to full conditionality and on zero income
Disability Living Allowance	
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	
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.*
[2] *Includes Guardian's Allowance.*

C OBR's Economic and fiscal outlook: selected tables

C.1 The OBR has published its November 2016 'Economic and fiscal outlook' alongside Autumn Statement 2016. This annex reproduces the OBR's key projections for the economy and public finances. Further detail and explanation can be found in the OBR's report.

Table C.1: Detailed summary of forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2015	2016	2017	2018	2019	2020	2021
UK economy							
Gross domestic product (GDP)	2.2	2.1	1.4	1.7	2.1	2.1	2.0
GDP per capita	1.4	1.3	0.7	1.0	1.4	1.4	1.4
GDP level (2015=100)	100.0	102.1	103.5	105.2	107.4	109.7	111.9
Nominal GDP	2.6	3.3	2.8	3.8	4.0	4.0	4.1
Output gap (per cent of potential output)	-0.3	-0.2	-0.6	-0.6	-0.3	-0.1	0.0
Expenditure components of GDP							
Domestic demand	2.5	1.9	1.1	1.4	2.1	2.1	2.0
Household consumption[1]	2.5	2.8	1.2	1.1	2.1	2.0	2.0
General government consumption	1.5	1.0	0.6	0.5	0.3	0.6	0.8
Fixed investment	3.4	-0.1	1.2	3.6	4.0	4.5	3.3
Business	5.1	-2.2	-0.3	4.1	5.3	4.1	3.6
General government[2]	-2.0	2.3	3.3	2.1	1.9	8.8	3.3
Private dwellings[2]	2.8	2.8	2.8	3.7	2.4	2.9	3.0
Change in inventories[3]	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	4.5	2.3	2.7	3.2	1.6	0.6	0.5
Imports of goods and services	5.4	2.8	1.5	2.1	1.6	0.8	0.6
Balance of payments current account							
Per cent of GDP	-5.4	-5.7	-5.0	-4.2	-3.4	-2.8	-2.7
Inflation							
CPI	0.0	0.7	2.3	2.5	2.1	2.0	2.0
RPI	1.0	1.8	3.2	3.5	3.2	3.1	3.2
GDP deflator at market prices	0.4	1.3	1.3	2.1	1.9	1.9	2.0
Labour market							
Employment (millions)	31.3	31.7	31.8	31.9	32.0	32.2	32.3
Productivity per hour	0.8	0.9	1.3	1.4	1.8	2.0	2.0
Wages and salaries	3.9	3.2	2.7	3.0	3.8	4.1	4.1
Average earnings[4]	1.8	2.2	2.4	2.8	3.3	3.6	3.7
LFS unemployment (% rate)	5.4	5.0	5.2	5.5	5.4	5.4	5.4
Claimant count (millions)	0.80	0.76	0.82	0.87	0.86	0.86	0.87
Household sector							
Real household disposable income	3.3	2.4	0.1	1.0	1.3	1.8	1.9
Saving ratio (level, per cent)	6.1	4.4	3.8	4.2	4.2	4.3	4.4
House prices	6.0	7.8	4.0	4.1	4.6	4.7	4.7
World economy							
World GDP at purchasing power parity	3.2	3.1	3.4	3.5	3.6	3.7	3.7
Euro area GDP	1.9	1.7	1.5	1.6	1.5	1.5	1.5
World trade in goods and services	2.8	2.3	3.4	3.7	4.0	4.1	4.1
UK export markets[5]	4.2	2.9	3.7	4.0	4.3	4.3	4.3

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

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

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

[4] *Wages and salaries divided by employees.*

[5] *Other countries' imports of goods and services weighted according to the importance of those countries in the UK's total exports.*

Table C.2: Fiscal aggregates

	Per cent of GDP						
	Outturn	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Receipts and expenditure							
Public sector current receipts (a)	36.1	36.4	36.9	36.9	37.0	37.0	37.1
Total managed expenditure (b)	40.1	39.9	39.8	39.1	38.0	38.0	37.8
of which:							
Public sector current expenditure (c)	36.3	35.9	35.6	35.0	34.0	33.5	33.3
Public sector net investment (d)	1.8	1.9	2.0	1.9	1.9	2.3	2.3
Depreciation (e)	2.1	2.1	2.2	2.2	2.2	2.2	2.2
Proposed fiscal mandate and supplementary target							
Cyclically adjusted net borrowing	3.8	3.3	2.6	1.8	0.8	0.8	0.7
Public sector net debt[1]	84.2	87.3	90.2	89.7	88.0	84.8	81.6
Deficit							
Public sector net borrowing (b-a)	4.0	3.5	2.9	2.2	1.0	0.9	0.7
Current budget deficit (c+e-a)	2.3	1.6	0.9	0.3	-0.9	-1.4	-1.6
Cyclically adjusted current budget deficit	2.0	1.4	0.5	-0.1	-1.1	-1.5	-1.6
Primary deficit	2.4	1.7	1.1	0.5	-0.6	-0.6	-0.8
Cyclically adjusted primary deficit	2.2	1.5	0.7	0.1	-0.9	-0.7	-0.8
Financing							
Central government net cash requirement	3.2	4.2	2.4	2.4	1.4	1.8	1.7
Public sector net cash requirement	2.8	6.3	5.7	2.7	1.5	0.5	-0.6
Alternative balance sheet metrics							
Public sector net debt exc. Bank of England	82.0	82.4	82.4	82.0	80.4	78.9	77.7
Public sector net financial liabilities	76.9	77.7	77.8	76.5	74.3	71.9	69.5
Stability and Growth Pact							
Treaty deficit[2]	4.0	3.6	2.9	2.2	1.1	1.0	1.0
Cyclically adjusted Treaty deficit	3.8	3.4	2.5	1.8	0.9	0.9	1.0
Treaty debt ratio[3]	87.8	88.7	89.2	88.7	87.2	85.5	84.2
	£ billion						
Public sector net borrowing	76.0	68.2	59.0	46.5	21.9	20.7	17.2
Current budget deficit	42.6	30.8	18.4	6.7	-18.5	-31.1	-37.4
Cyclically adjusted net borrowing	71.6	64.9	51.4	37.9	16.6	18.5	16.7
Cyclically adjusted current budget deficit	38.2	27.5	10.7	-1.9	-23.9	-33.4	-38.0
Public sector net debt	1610	1725	1840	1904	1945	1950	1952
Memo: Output gap (per cent of GDP)	*-0.2*	*-0.2*	*-0.7*	*-0.6*	*-0.3*	*-0.1*	*0.0*

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

[2] *General government net borrowing on a Maastricht basis.*

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

Table C.3: Changes in public sector net debt since March

	Outturn					
	2015-16	2016-17	2017-18	2018-19	2019-20	
March forecast	83.7	82.6	81.3	79.9	77.2	74.7
November forecast	84.2	87.3	90.2	89.7	88.0	84.8
Change	**0.5**	**4.7**	**8.9**	**9.8**	**10.8**	**10.1**
of which:						
Change in nominal GDP[1]	-0.5	0.3	0.9	0.9	0.8	1.0
Change in cash level of net debt	1.0	4.4	8.0	8.9	10.0	9.2
			£ billion			
March forecast	1591	1638	1677	1715	1725	1740
November forecast	1610	1725	1840	1904	1945	1950
Change in cash level of net debt	**19**	**86**	**163**	**189**	**220**	**210**
of which:						
Pre-measures borrowing changes	4	16	33	54	78	100
Effect of Government decisions on borrowing	0	1	3	8	16	26
Pre measures asset sales changes	0	13	5	6	8	8
Effect of Government decisions on asset sales	0	6	8	7	11	11
APF Term Funding Scheme	0	33	85	85	85	52
APF gilt holdings	-1	13	17	20	23	22
APF corporate bond holdings	0	3	10	10	10	10
Gilt premia	1	-8	-11	-14	-18	-24
Other factors[2]	16	10	12	13	9	6

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

[2] *Includes the estimated impact of the reclassification of Scottish, Welsh and Northern Irish housing associations to the public sector.*

Table C.4: Public sector net borrowing since March

	£ billion						
	Outturn	Forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
November forecast	**72.2**	**55.5**	**38.8**	**21.4**	**-10.4**	**-11.0**	
Classification changes		0.5	0.4	0.5	6.4	4.1	
March forecast post-classification change[1]	**72.2**	**56.0**	**39.2**	**21.9**	**-4.1**	**-6.9**	
Total forecast changes	**3.9**	**11.2**	**17.2**	**20.1**	**17.7**	**18.1**	
of which:							
Receipts	2.0	6.7	9.3	13.1	15.2	15.3	
CG debt interest spending	-0.7	0.8	-0.8	-3.4	-4.5	-4.3	
Other spending	2.5	3.7	8.7	10.4	6.9	7.0	
November forecast pre-policy decisions	**76.0**	**67.2**	**56.4**	**42.0**	**13.6**	**11.2**	**11.6**
Total effect of Government decisions	**0.0**	**0.9**	**2.5**	**4.5**	**8.4**	**9.6**	**5.6**
of which:							
Scorecard receipts measures	0.0	0.0	-0.4	-0.6	-0.7	-0.6	-0.6
Scorecard AME spending measures	0.0	0.2	2.3	3.3	2.7	2.2	2.4
Changes to RDEL spending[2]	0.0	2.4	0.5	0.1	1.7	1.6	-5.0
Changes to CDEL spending[2]	0.0	-1.7	0.3	1.6	3.5	4.8	5.8
Non-scorecard measures	0.0	0.0	-0.3	0.0	0.9	0.9	0.9
Indirect effect of Government decisions	0.0	0.1	0.1	0.1	0.3	0.7	2.1
November forecast	**76.0**	**68.2**	**59.0**	**46.5**	**21.9**	**20.7**	**17.2**
Memo items:							
Overall change since March	*3.9*	*12.7*	*20.2*	*25.1*	*32.4*	*31.8*	
Overall like-for-like change since March	*3.9*	*12.2*	*19.8*	*24.6*	*26.0*	*27.7*	

[1] *2015-16 reflects outturn data and has not been adjusted for ONS classification decisions that have been announced but not yet implemented.*

[2] *The change in 2021-22 is relative to a baseline that assumes spending by departments would otherwise have remained constant as a share of GDP.*

Note: This table uses the convention that a negative figure means a reduction in PSNB, i.e. an increase in receipts or a reduction in spending will have a negative effect on PSNB.

Table C.5: Current receipts

	£ billion						
	Outturn	**Forecast**					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Income tax (gross of tax credits)[1]	168.9	173.7	175.4	183.5	192.6	201.9	213.1
of which: Pay as you earn	*146.2*	*147.2*	*151.0*	*157.0*	*164.2*	*172.2*	*181.0*
Self assessment	*24.3*	*28.7*	*27.3*	*29.4*	*31.6*	*33.0*	*35.1*
National insurance contributions	114.1	124.4	129.1	133.0	138.8	145.4	152.1
Value added tax	116.4	120.0	124.7	129.9	136.1	142.0	147.6
Corporation tax[2]	44.4	46.1	50.6	51.6	53.3	54.2	54.3
of which: Onshore	*43.9*	*45.9*	*48.9*	*49.4*	*51.0*	*52.0*	*52.3*
Offshore	*0.5*	*0.2*	*1.7*	*2.2*	*2.4*	*2.2*	*2.0*
Petroleum revenue tax	-0.6	-0.8	-0.8	-0.7	-0.6	-0.6	-0.5
Fuel duties	27.6	27.9	27.4	27.9	28.5	29.2	30.0
Business rates	28.8	29.0	29.3	30.3	31.2	31.8	32.3
Council tax	29.0	30.4	31.8	33.2	34.6	35.6	36.7
VAT refunds	14.1	13.9	14.1	14.2	14.1	14.6	15.0
Capital gains tax	7.1	7.3	7.4	8.3	10.3	10.0	11.0
Inheritance tax	4.7	4.7	4.9	4.9	5.1	5.4	5.7
Stamp duty land tax[3]	10.9	11.3	12.2	13.2	14.3	15.6	16.8
Stamp taxes on shares	3.3	3.5	3.3	3.4	3.6	3.7	3.9
Tobacco duties	9.1	9.2	9.2	9.4	9.4	9.4	9.3
Spirits duties	3.1	3.4	3.5	3.6	3.8	3.9	4.1
Wine duties	4.0	4.2	4.3	4.6	4.9	5.2	5.4
Beer and cider duties	3.6	3.6	3.8	4.0	4.1	4.1	4.2
Air passenger duty	3.0	3.2	3.4	3.5	3.7	3.8	4.0
Insurance premium tax	3.7	4.9	5.8	6.0	6.0	6.0	6.1
Climate change levy	1.8	1.9	1.9	2.0	2.2	2.2	2.2
Other HMRC taxes[4]	7.1	7.3	7.4	7.5	7.6	7.7	7.7
Vehicle excise duties	5.7	5.8	6.0	6.1	6.2	6.5	6.7
Bank levy	3.4	2.9	2.7	2.6	2.5	2.4	1.3
Bank surcharge	0.0	1.0	1.3	1.2	1.2	1.2	1.2
Apprenticeship levy	0.0	0.0	2.6	2.7	2.8	2.9	3.0
Licence fee receipts	3.1	3.1	3.2	3.3	3.4	3.4	3.5
Environmental levies	4.6	7.0	9.7	11.4	11.7	12.2	13.0
EU ETS auction receipts	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Scottish taxes[5]	0.6	0.6	0.7	0.7	0.8	0.8	0.9
Diverted profits tax	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Soft drinks industry levy	0.0	0.0	0.0	0.5	0.5	0.5	0.5
Other taxes	6.7	7.7	7.7	7.8	8.1	8.4	8.7
National Accounts taxes	**628.6**	**657.7**	**683.2**	**710.3**	**741.1**	**770.0**	**800.4**
Less own resources contribution to EU	-3.1	-3.3	-3.4	-3.4	-3.5	-3.5	-3.5
Interest and dividends	6.1	5.5	5.9	7.1	8.6	10.0	11.2
Gross operating surplus	45.4	48.6	50.4	52.0	53.5	56.2	59.1
Other receipts	2.7	2.1	2.0	2.0	2.0	2.1	1.9
Current receipts	**679.8**	**710.6**	**738.0**	**768.0**	**801.8**	**834.8**	**869.2**
Memo: UK oil and gas revenues[6]	*0.0*	*-0.5*	*0.9*	*1.5*	*1.8*	*1.6*	*1.5*

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

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

[3] *Forecast for SDLT is for England, Wales and Northern Ireland from 2015-16.*

[4] *Consists of landfill tax (excluding Scotland from 2015-16), aggregates levy, betting and gaming duties and customs duties.*

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

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

Table C.6: Total managed expenditure

	£ billion						
	Outturn	**Forecast**					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Public sector current expenditure (PSCE)							
PSCE in RDEL	**309.0**	**315.4**	**316.9**	**319.6**	**319.8**	**326.0**	**332.7**
PSCE in AME	**373.7**	**384.5**	**396.1**	**409.8**	**416.3**	**428.5**	**447.5**
of which:							
Welfare spending	216.1	218.4	221.2	224.6	227.5	233.2	241.8
of which:							
Inside welfare cap	*120.0*	*119.8*	*119.6*	*120.1*	*120.5*	*123.2*	*126.0*
Outside welfare cap	*96.2*	*98.5*	*101.6*	*104.6*	*107.0*	*110.0*	*115.9*
Company and other tax credits	2.8	3.2	3.3	3.4	3.5	3.6	3.7
Net public service pension payments	11.4	11.1	12.1	13.6	13.4	14.6	16.1
National lottery current grants	1.3	1.4	1.4	1.4	1.4	1.5	1.5
BBC current expenditure	3.6	3.9	3.8	3.9	3.7	3.5	3.7
Network Rail other current expenditure[1]	0.8	0.9	0.6	0.0	-0.2	-0.2	-0.3
Other PSCE items in departmental AME	1.4	0.8	0.7	0.7	0.7	0.6	0.7
Expenditure transfers to EU institutions	10.5	10.7	10.2	12.5	-	-	-
Assumed domestic spending in lieu of EU transfers[2]	-	-	-	-	13.0	13.4	13.9
Locally financed current expenditure	41.7	42.2	44.3	45.8	47.4	48.7	50.2
Central government debt interest, net of APF[3]	33.4	36.3	38.0	39.2	39.3	39.6	42.7
Public corporations' debt interest	2.8	3.9	4.0	4.1	4.2	4.2	4.3
General government depreciation	29.4	31.0	32.7	34.3	36.0	37.9	40.0
Current VAT refunds	11.9	11.8	12.0	12.2	12.2	12.5	12.7
Environmental levies	4.2	6.9	9.9	11.8	12.1	13.3	14.2
Local authority imputed pensions	1.9	2.0	2.1	2.2	2.3	2.4	2.5
Other National Accounts adjustments	0.2	-0.1	0.0	0.0	-0.1	-0.1	-0.2
Total public sector current expenditure	**682.7**	**699.8**	**713.0**	**729.4**	**736.2**	**754.5**	**780.1**
Public sector gross investment (PSGI)							
PSGI in CDEL	**43.0**	**46.1**	**49.9**	**52.7**	**54.4**	**64.8**	**68.2**
PSGI in AME	**30.0**	**32.9**	**34.1**	**32.4**	**33.2**	**36.2**	**38.1**
of which:							
Tax litigation	0.0	0.2	1.5	1.5	1.5	1.5	1.5
Network Rail capital expenditure	6.4	6.6	6.1	5.1	6.4	6.5	6.7
Other PSGI items in departmental AME	0.5	1.0	1.4	1.6	1.9	2.4	2.7
Locally financed capital expenditure	7.0	7.7	7.3	6.2	6.8	6.9	7.2
Public corporations' capital expenditure	17.1	17.1	17.5	17.5	16.2	18.1	19.0
Other National Accounts adjustments	-0.9	0.4	0.3	0.5	0.5	0.8	0.9
Total public sector gross investment	**73.1**	**79.0**	**84.0**	**85.1**	**87.5**	**101.1**	**106.3**
Less public sector depreciation	-39.7	-41.5	-43.4	-45.3	-47.1	-49.2	-51.6
Public sector net investment	**33.4**	**37.4**	**40.6**	**39.8**	**40.4**	**51.8**	**54.6**
Total managed expenditure	**755.8**	**778.8**	**797.0**	**814.5**	**823.7**	**855.6**	**886.4**

Note: Forecasts from 2016-17 reflect the ONS classification change to include housing associations in Scotland, Wales and N Ireland.

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

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

[3] *Includes reductions in debt interest payments due to the APF. For further detail, see Table 4.31.*

List of abbreviations

APD	Air Passenger Duty
B&B	Bradford and Bingley
BIR	Business Investment Relief
CAVs	Connected and Autonomous Vehicles
CCT	Company Car Tax
CGNCR	Central Government Net Cash Requirement
CGT	Capital Gains Tax
CPI	Consumer Price Index
DARPA	Defense Advanced Research Projects Agency
DCLG	Department for Communities and Local Government
DEL	Departmental Expenditure Limits
DIT	Department for International Trade
DMO	Debt Management Office
DWP	Department for Work and Pensions
ESS	Employee Shareholder Status
EU	European Union
FCA	Financial Conduct Authority
GDP	Gross Domestic Product
GLA	Greater London Authority
GNI	Gross National Income
HGV	Heavy Goods Vehicle
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
IMF	International Monetary Fund
IPT	Insurance Premium Tax
LEP	Local Enterprise Partnership
LFS	Labour Force Survey
LHA	Local Housing Allowance
MPC	Monetary Policy Committee
NFR	Net Financing Requirement
NIC	National Infrastructure Commission
NICs	National Insurance Contributions
NLW	National Living Wage
NMW	National Minimum Wage
NPIF	National Productivity Investment Fund
NR	Network Rail
NS&I	National Savings & Investment

OBR	Office for Budget Responsibility
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
OTS	Office of Tax Simplification
PAYE	Pay As You Earn
PF2	Private Finance 2
PIP	Personal Independence Payment
PRA	Prudential Regulation Authority
PSGI	Public Sector Gross Investment
PSNB	Public Sector Net Borrowing
PSND	Public Sector Net Debt
R&D	Research and Development
RHDI	Real Household Disposable Income
RPI	Retail Prices Index
SITR	Social Investment Tax Relief
SPI	Survey of Personal Incomes
SSE	Substantial Shareholding Exemption
UKEF	UK Export Finance
ULEVs	Ultra-Low Emission Vehicles
UKRI	UK Research and Innovation
VAT	Value Added Tax

LIST OF TABLES

LIST OF CHARTS

Chapter 1 – Economy and public finances

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